



# **AR Optimization**

## **Unlocking Value in Working Capital Management**

In any Operating Cycle, the Accounts Receivable (AR) period, denoted by Days Sales Outstanding or DSO, is perhaps the most critical piece that CFOs pay attention to. However, not many unlock the value of AR and optimize the AR cycle by combining process improvement measures, advanced analytics, and digitization.

In fact, quite often, **DSOs** have been seen to be much higher than it ought to be primarily due to a lack of understanding on how to look at AR in an end-to-end manner and remove bottlenecks that are preventing the organization from unlocking working capital which may otherwise be “stuck” somewhere due to inefficiencies in the AR

processes. It is estimated that among some of the top US companies, around **10%** of their combined revenue remains untapped due to inefficiencies in their AR processes which translate to more than **US\$1 Trillion** of unused revenue, which can otherwise be used to further business objectives.

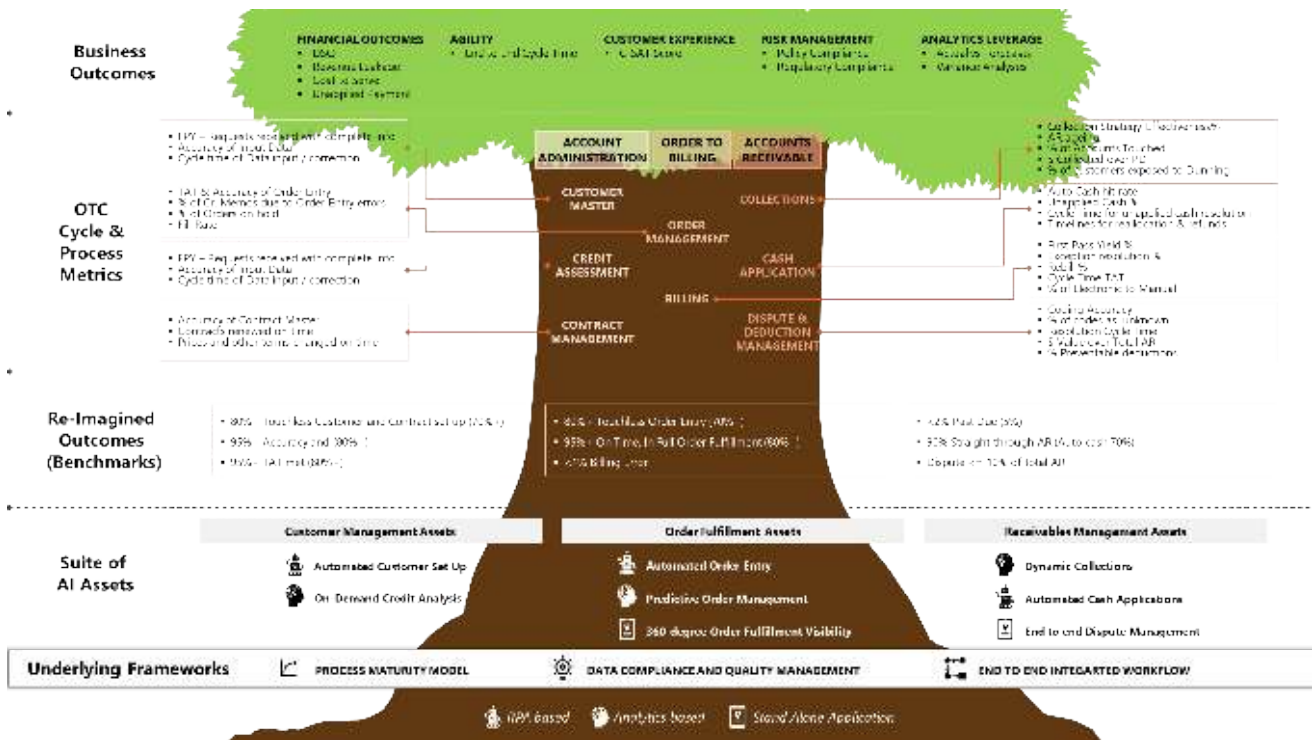
Datamatics Business Solutions Ltd. (DBSL) – over the years, has attempted to unlock this value for its Finance & Accounting (F&A) clients through its proprietary Intelligent Process Management Framework (IPM Framework<sup>®</sup>), which integrates Metrics, Best Practices, Business Analytics and Automation into one comprehensive solution suite.

## The IPM Framework:

DBSL's proprietary Intelligent Process Management Framework or IPM Framework is a combination of Processes, Metrics, Best Practices, Benchmarks, and Technology derived from its decades of F&A Services and Solutions to clients of different sizes across the globe. This Framework is simple and logically integrated so that when applied, CFOs can influence their OTC Business Outcomes – such as DSO, Cost to Serve, etc. with considerable confidence.



## DBSL's Order to Cash IPM Framework is as follows:



At the very top of the framework, we have the most common Business Outcomes (BO) that are generally looked at by any CFO while analyzing the organization's OTC cycle. And to influence these BOs, the O2C cycle is divided into three primary areas - Account Admin, Order to Bill, and Accounts Receivable. Each of these sections has its corresponding sub-processes, and each of the sub-processes has its set of key metrics.

When tracked and improved upon, these metrics would lead to an optimized O2C cycle, which in-turn would lead to optimized BOs. Hence the next question is what are the Benchmarks against which these metrics should be assessed. The answer is in the next section, which lists the "Art of the Possible" and the Best-In-Class numbers gathered from our internal process metrics and various external sources.

Now, the final and most important question is – **How does DBSL achieve at least the Best-In-Class numbers?**

Over the years, Datamatics has helped clients reach these Benchmarks, which subsequently improved the BO through Process Optimization methods using:



**Tried and Tested QMS - a combination of Lean, Six Sigma, COPC and similar methodologies**



**Platform agnostic RPA solutions**



**ML based Advanced Analytics**



**Bespoke Applications for our clients**

It is important to mention that all of DBSL's Process and Digital Solutions are designed bearing in mind the necessary compliance and risk management requirements such as Segregation of Duties, Approval protocols, Document storage rules, etc.

In a nutshell, DBSL's IPM Framework helps our clients' F&A processes reach their potential through an approach that is based on a combination of business KPIs, metrics, and a rigorous QMS along with state-of-the-art AI-oriented standards and bespoke solutions which are designed for clients of all sizes and complexities.

## Optimizing Accounts Receivable:

Once the above framework is adopted, one might assume it would become fairly simple to optimize AR. Improving the Metrics through a combination of Process Optimization methods and applying AI solutions such as RPA in Cash Apps, Predictive Analytics to forecast customer behavior, etc., should make it reasonably straightforward to accomplish the AR benchmarks.

However, it is not so simple. AR comes with its challenges and complexities, making it challenging to optimize the AR cycle. Let us look at some of those challenges and how to overcome them and optimize the AR process.

### Some typical challenges in an AR process:



**1. Upstream Issues:** Often, it has been observed that upstream issues make Collections a very tedious process. Errors in capturing customer details, contract details and order details have often delayed payments



**2. Billing Issues:** Lack of a robust Billing process that is integrated with the Order Management process often results in incorrect and/or delayed Billing which in turn has led to delay in payments



**3. Lack of a robust yet flexible Collection Strategy:** A Collection Strategy with an eye on Customer behaviour and Ageing goes a long way in efficiently collecting from customers without majorly impacting C-Sat and driving up the Cost to Collect figures



**4. Manual Cash Application:** A manual Cash Application process is not just inefficient but also prone to human errors. It leads to delay in applying cash (increasing the Unapplied %) and dissatisfaction amongst customers.



**5. Inefficient Dispute Management:** Inefficiencies around Dispute Management – such as lack of tracking complaints to their logical conclusions, learning from the disputes to fix the process, etc., often leads to bad debts, lengthy resolution cycles leading to high aging of AR, and not to mention, dissatisfied customers.

When analyzed, these challenges have been seen to have the following root causes:



Several systems which are not adequately integrated or compatible



Inadequate tracking of performance with the right metrics



Training issues amongst the AR resources



Manual processes coupled with high volumes



Inaccuracies in Billing

To overcome such challenges in a holistic and integrated manner, DBSL applies the following principles. It then carves out the best solution for its clients to take their AR to its most optimized position.

- a) **Design a robust performance measurement system:** The complexities of Accounts Receivable consisting of deductions, disputes, short-pays, broken promises, billings, payment applications, billable versus non-billable, and complex payment terms can make it challenging to determine the total amount of outstanding receivables. As shown in DBSL's IPM Framework, a metric-driven measurement system provides detailed insight into AR health and how much of AR is collectible across various aging.
- b) **Deploy an effective Collection Strategy:** AR calculations need to be accurate for every region and business unit of the client and accessible in real-time by collection teams interacting with the end customer payables departments to make the collections effort more effective and improve first-call resolutions percentage. The system needs to execute the collection strategy and guide collectors to initiate timely actions based on customer payment behaviors. Every missing piece of data reduces effectiveness in assigning tasks and tracking group and individual productivity, ultimately impeding the release of working capital in the AR process.
- c) **Design Robust IT Systems:** Most AR issues arise because the systems deployed in SMBs do not support a highly robust AR workflow and are often manual or difficult to operate and even harder to adapt to changing business needs. A targeted system specifically designed to aggregate AR information across multiple data sources provides the AR team responsible for converting cash, resolving disputes, assigning and rating risk credit, and tasking daily activity to deliver improved working capital results.



**h) Incentivise the Collections Team:** An effective Collections team is a critical asset, but few Collections teams are intelligently incentivized to improve AR metrics such as DSO, Ageing, etc. One should review historical trends to obtain a baseline for these metrics and then set up “SMART” goals and an attractive reward mechanism for collecting individuals, teams, and departments to unlock critical working capital trapped in the current OTC process. Creativity and inspiring exceptional contributions should be rewarded as well.



**Given these principles, DBSL designs be-spoke solutions that are efficient, effective, scalable, digital, compliant with SOX and other similar regulations, and user-friendly to enable the client’s AR resources and the end customers to use them with ease. Some of such bespoke Solutions DBSL proposes to clients are:**

**A) An Automated Portal Based Billing Interface:** An automated billing engine hosted on the web is a solution that aims to automate and streamline the billing presentation process through a self-service mode for customers, thereby shortening the time it takes to collect on receivables — thereby improving aging and reducing DSO. This has a direct and positive impact on working capital and reduces customer support volumes. This solution also improves customer satisfaction given the increased efficiency, broader and faster access to information, reduced time for both the end customer as well as the biller, and eventually reduces the cost of operations.

**B) Automated Cash Application:** One of DBSL’s highly popular Solutions is the Automation of Cash Application. It entails first digitizing remittances irrespective of their type – be it emails, PDFs, JPEG, etc., using state-of-the-art ML algorithms and then using RPA to enter the details into the Client’s ERP. Any exception gets captured separately for manual processing. This solution reduced manual effort by more than 70%. Still, it has also reduced unapplied cash – a critical AR metric – by more than 80% in some cases, depending on how standardized the remittances are.

**C) Collection Analytics:** DBSL's Collection Analytics Solution – based on predictive models taking several thousands of customer payment records, has always shown a very high degree of accuracy in predicting customer payments (in B2C environments) and forecasting quarterly working capital impact. This solution also helps in efficient Collection planning and reduces the cost of the collection by over 50%.

**D) Dispute Management Solution:** DBSL's Dispute Management Solution – which keeps track of all Disputes raised through both emails and calls – ensures closure only through a proper hierarchical protocol for amounts beyond a certain threshold and accurately reports out TAT, Ageing, etc., right from an Analyst level up to an Account, Department and other groups which are designed as per client's businesses. It also triggers randomly generated surveys to gauge the performance of the Dispute Management team.

**Over the last several years, DBSL has implemented these solutions across several clients, and some of the business impacts achieved were:**



**Improvement in working capital**  
~20 million USD for SMBs across the



**DSO improvement**  
of 5-8 days



**Billing cycle time reduced**  
by ~60%



**Collection cycle time reduced**  
by ~30%



**Ageing in 60+ days bucket improved**  
by ~40%



**End customer C-Sat improved**  
by 25% points



**Overall cost of operations reduced**  
by ~20%

The following two case studies will demonstrate further how DBSL helped its clients unlock the “hidden” value of their AR through its Domain Expertise, AI & Digital Solutions, and Process Improvement practices.



## CASE STUDY 1:

**Client:** A family-owned Investment Management firm in the US interested in investing in small retail outlets, golf clubs, etc.

**Business Need:** Streamline their Billing process to ensure FTR Billing and reduce re-work.

**DBSL Solution (in brief):** DBSL studied the entire end-to-end OTC cycle of the client, from customer setup to collecting cash. Much of the client's data was captured in excel over the phone or by on-standardized email. DBSL did an RCA and realized that the lack of standardized data capture at the Customer Master level was a leading cause. This was further complicated by a lack of communication concerning any business terms between the client and its customers, mainly over the phone and emails.

DBSL standardized the entire customer onboarding process and the contractual change management process by introducing standard forms, approval protocols, timelines, etc. It then introduced an RPA-based data capturing mechanism for pro-forma invoicing, which went for two levels of validation – thereby inducing both efficiency and improved control. Once the second approval was taken, the Pro-forma invoice was given a final touch and then emailed from a shared mailbox and not from personal mailboxes with a reference number for ease of tracking.

This solution improved the FTR from a mere 20% to 80%+ in 1 quarter and plugged revenue leakage by over 80%. It also brought up the customer satisfaction score by approximately 10% points (60% - 70%)

## CASE STUDY 2:

**Client:** A manufacturer of the ready-to-wear medical device.

**Business Need:** Reduce the receipts cycle and improve DSO

**DBSL Solution (in brief):** DBSL studied the entire OTC cycle, from policies to detailed standard operating procedures. The main reason that was delaying payment, as reflected in the high aging percentages, was that the Collection strategy, systems, etc., were not very streamlined and required process improvement and tactical automation.

DBSL did a complete RCA (Root Cause Analysis). After discussing with the major stakeholders, we proposed a simple yet effective collection strategy centered on customers who had the highest variance in payment behaviors instead of following the 80/20 rule. This was further complemented with training resources on “good” collection call/email techniques, and lastly, a cost-effective Tracking tool was also introduced to drive transparency in promises to pay.

Overall this reduced the aging in the 60+ days bucket by ~40%, decreased bad debts by a similar %, improved working capital, and reduced cost of operation by around 8%.



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**ABOUT DATAMATICS:**

Datamatics Business Solutions Ltd. (DBSL) is a leader in providing B2B Sales and Marketing Intelligence, Business Process Transformation, and Technology Outsourcing solutions to global enterprises. We leverage best-in-class technologies like Robotics, Artificial Intelligence, Machine Learning, Cognitive Computing, and Cloud to power human-machine collaboration and enable seamless delivery.