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## The Need For Autocash In The Collection And Deduction Process

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**A**ccounts Receivable automation rarely gets as much attention from management as higher profile enterprise resource planning (ERP) and customer relationship management (CRM) initiatives. But ignoring automation in accounts receivable (A/R) is a serious business mistake—especially given the growing sophistication of today's purchasing and payment applications. Companies that are not using auto cash application software to expedite their collection and deductions processes are giving competitors a potential advantage and leaving themselves at the mercy of their customers' payment processes and schedules.

A recent survey revealed that companies are split on the use of auto cash applications: 50 percent aren't using auto cash software, 10 percent are planning an upcoming implementation, and 40 percent already have an auto cash system in place, either in the form of a dedicated, bolt-on application or functionality provided by their ERP system (which is often limited).

If your company is among those still applying cash manually, do any of the following scenarios sound familiar?

- Payments often reference bad, truncated, or incorrect invoice numbers, purchase order numbers, etc.
- Rising levels of deductions and chargebacks are consuming increasing amounts of staff time and resources.
- Users are stuck with a non-existent or clumsy import interface for lockbox, Excel, automated clearinghouse (ACH), and electronic data interchange (EDI) deposits and invoice information.

- Multiple ERP systems and/or system migrations (often the result of mergers or acquisitions) make consolidation difficult.
- Customer number and other coding required by A/R can't map to checks encoded with Magnetic Ink Character Recognition (MICR).
- Coding, tracking and rolling up deductions or unearned discounts is impossible.
- You routinely send multiple invoices to the same customers.
- Customers take undeserved discounts that then should be disputed and collected back, but there is no visibility into the data.
- Documents attached to payments are meant to satisfy accounts payable needs, not your receivables needs.

Without an auto cash application, you are essentially allowing the payer to decide the "contents of the envelope," in which they send the remittance and accompanying data, whether electronic or paper.

In many cases, good software can identify how and where a given check is supposed to be applied better than a human, and in a fraction of the time. Integrated cash application solutions allow companies to automatically apply their cash receipts to their A/R system from a variety of sources, including lockbox, ACH, EDI, locally received cash payments, and custom file downloads from customer websites. Some immediate benefits of auto cash application software include:

- faster and more judicious clearing of invoices, resulting in accurate DSO numbers, customer agings and collections stats

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- predefined write offs—specific to customer or customer type—by amount or percentage of invoice
- automated processes that you can teach to handle 90 percent of scenarios without human intervention
- standardized, predefined rules to keep the A/R squeaky clean

### Countering The Payments Revolution

Over the past 10 years, driven by the emergence of web-based technologies, a revolution has taken place in A/P automation. E-procurement and e-payment services offer complete purchasing and payment optimization, and more and more of these services are able to send electronic advice. Compliance mandates such as Sarbanes-Oxley and the renewed focus on central audit and reporting are also driving the adoption of payment solutions that provide a more accurate audit trail. The return on investment (ROI) arguments for adopting these tools are also compelling—e.g., \$1.50 to mail a payment vs. \$.0015 to conduct the transaction via e-mail and ACH—and their proliferation poses a challenge and a tremendous opportunity to also automate A/R.

For example, payers typically use an ACH to move electronic payments and the accompanying remittance detail together. However, sometimes electronic payments arrive separate from remittance detail, in situations where the payer sends only the payment via an ACH, wire or a manual check. The remittance detail is then provided through an in-house EDI system, a value added network (VAN), or the web, via a downloadable Excel spreadsheet. To accommodate these “halfway” situations, auto cash modules can perform the task of reassociation—the process of matching a payment and its related remittance detail when the two do not flow through the payment clearing network together.

### Deductions And Disputes: A Natural For Automation

Automating the cash application function can have a huge impact on the collection and deduction management process. Auto cash software greatly speeds the process by properly identifying short-pays, deductions and disputes and can feed that data into a management system.

The most immediate benefit is the one-two punch of time saved and accuracy gained by no longer having to rely on data entry staff to key in each cash application. Where credit departments of the past were accustomed to a few days’ time-lag between payment receipt and cash application, auto cash software can substantially reduce that window. Staff that used to be burdened with significant data entry chores can be redeployed to tackle more strategic tasks, such as deduction processing and reducing days sales outstanding (DSO).

An integrated collection and deduction management system provides seamless visibility during the collection process. If a customer claims to have paid an invoice with a certain check number, it can easily be looked up to see if the manual cash application was in error and take steps to correct the error. Short-pays in the case of invalid cash dis-

counts, for example, can be consolidated for later collection. Freight and ad allowances can be established for customers, and an auto solution can automatically clear these allowances as they come in on the remittance. Deductions can be automatically coded and even cleared before creating and leaving them open on the A/R, thus cutting down the number of open transactions and keeping the A/R as clean as possible.

### An Easy ROI

Deductions management is one of the few business processes where introducing automation is not only critical to success, but also virtually guarantees a measurable return on investment in a relatively short amount of time. It’s also one of the easiest automation projects to get off the ground, since products are available that will either bolt on to a legacy accounting system or integrate with most modern ERP systems. Indianapolis-based Delta Faucet, for example, was able to realize significant gains by implementing an auto cash solution.

Delta was able to automate all EDI transactions—about 30 percent of cash—and maintain a hit rate of 94 percent, while reducing the value of open chargebacks and deductions by 33 percent. The number of people involved in the cash application process decreased from 12 to one full-time and two part-time employees. The company was also able to recoup more unearned cash discounts, and overall time dealing with application issues and research for both IT and credit staff decreased by 75 percent.

“We are most pleased with the resulting ROI,” says Carl McMaken, Credit Manager at Delta Faucet. “With a single transaction, we collected \$74,000 in excess cash discounts that normally would have slipped through the cracks. Auto cash has also helped us to meet our Sarbanes-Oxley compliance requirements for cash application.”

### The Wave Of The Future

Automation will soon be everywhere. The Check Clearing for the 21st Century Act, commonly referred to as Check 21, is changing the way checks are transferred between companies and banks. With the passing of Check 21 legislation, imaging (and thus automation) will soon be ubiquitous, causing the lockbox world to evolve and become less expensive. In the not too distant future, it will become commonplace for companies to have a remote deposit terminal on site. The A/P function is likely to respond by taking greater advantage of ACH services and automated tools which can eliminate mail float. As buyers continue to tighten controls and optimize payment processes, it will be increasingly important for A/R to respond by adopting the appropriate tools.

“The bottom line is that any tool that facilitates faster, more accurate cash application enhances the collection process as a whole,” says Dale Davis, Manager of Systems Integrations at Honeywell. “And that’s good for business.” ■