

BUSINESS CREDIT MANAGEMENT ASSOCIATION

15755 West Rogers Drive, Suite 200, P.O. Box 510157 * New Berlin WI 53151-0157

(262) 827-2880 * FAX (262) 827-2899

www.wcacredit.org

Order to Cash Process

In any process you need to look at four items: Organization, people, systems and processes.

Organization: Need to look at the organization regarding any conflict of interest and process interference. Does the organization have the right number of people relative to the function these people are responsible. Is the organization reporting to the right level in the company?

People: Need to evaluate all people in the organization for the “right fit”. People also need to have the correct tools and resources available to them to do the job expected of them. Remember people like processes can be “re-engineered”.

System: Systems are part of the tools need to have a successful process. System can be both automated or manual depending on the financial resources. Regardless the systems need to support the process.

Processes: The Company needs to define, develop and approve processes in the company.

Order to Cash Process (This is also the collection process)

Order to cash process can be as detail as the Company wants or makes it. The following is an example of a generic Order to Cash Process.

- ❖ **Sales call to the customer:** The salesmen needs to make sure that the goods and services the company has are what the customer wants. The salesmen also need to make sure the customer knows the Company's payment terms and conditions.
- ❖ **Credit check:** The Company needs to perform due diligence on the potential customer regarding offering credit or cash before deliver. This can be done inside or using an outside agency, Dun and Bradstreet or the Credit Exchange. The Company also needs an official credit and collection company policy approved by senior management.
- ❖ **Contract terms and conditions:** The Company needs to establish standard payment terms and condition for all contracts. If the standard payment terms and conditions need changing, then the approval of the change needs to be the responsible of the finance department.
- ❖ **Order Entry:** Once the order is placed with the Company the Order Entry Department needs to check every aspect of the order to ensure compliance with the Company's policies. I.e. prices, ship to address, billing address, etc.
- ❖ **Shipping:** Shipping or delivery of services needs to conform to the contract and order placed with the Company.



BUSINESS CREDIT MANAGEMENT ASSOCIATION

15755 West Rogers Drive, Suite 200, P.O. Box 510157 * New Berlin WI 53151-0157

(262) 827-2880 * FAX (262) 827-2899

www.wcacredit.org

Order to Cash Process (Continued)

- ❖ **Billing:** Billing needs to conform to the Customers' requirements and Company's policies. I.e. Ship to address, billing address, prices, discounts, etc.
- ❖ **Collections:** The Company needs to have the correct number of collectors for its volume of sales. The Collectors need to be trained on the Art of Collections. Accurate customer statements need to be available to the collectors and organized approach to making collection calls.
- ❖ **Legal action (if necessary):** When all possible options are used to make timely collections, then the Company needs to have a reputable collection agency or legal firm to help. The collection agency or legal firm cannot be a "one time collector" meaning that the money is collected but the customer goes elsewhere the next time they need your goods or services. This assumes the customer is a going concern. If the customer is not a viable going concern then the credit decision is made.
- ❖ **Cash application:** Cash application can be done in house or by a banking institution. If preformed in house then there is always the possibility of internal control not to mention the manual effort with or without systems. If done by a banking institution then lock box and remittances submitted by the bank, manually or electronic, depending on the Company's systems.
- ❖ **Mailing customer statements:** Cash application needs to be timely and accurate at all time. Once cash application is complete timely customer statements needs to be mailed the first or second working day of the subsequent month.
- ❖ **Customer History:** Once the above is completed the Company's records need to be available to access any information regarding a specific customer for future business.

By Bart Frankel whose career has spanned over 33 years. Most recently, he spent 22 years with United Technologies, Inc, (UTC) as Manager of Financial Services for the Pratt & Whitney Division. In that role, he was responsible for a \$7 billion Order-to-Cash process. Bart also served on the UTC board of Credit & Collection forum. He has also been an instructor in accounting and finance at Bloomfield College in NJ and Iona College in NY. Currently, he has a consulting practice helping companies teaching "Phone Power Collections" and analyzing the Order to Cash Process.

