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## Outsourcing: Reasons to Take this Innovative Step

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Domestic outsourcing of functions within the order-to-cash process is a simple concept. It extends the reach of limited resources, adding productivity and profitability to an organization. The benefits to bottom line, process improvement and customer service are numerous. It provides in-house staff with more time to focus on and improve results of core business functions, while assigning a service provider more difficult and time consuming tasks. It clearly enables companies to improve their overall results.

### **Good Reasons to Outsource**

Time is always at a premium, and outsourcing provides time where there previously was none, addressing issues that otherwise would not be addressed. The pressure to “do more with less” is difficult in good times and excruciating in difficult economic periods. Outsourcing enables creativity and process improvement, since it allows departments time to address process issues and root causes, rather than focusing on the necessity of putting out the inevitable fires. More time allows for proactive collaboration within companies with the goal of improved process and, in turn, improved results.

Headcount pressure is universal and all good managers are looking for methods to get better results with limited resources. Outsourcing provides an opportunity to do just that, and most often, cost is incurred in proportion to results. ***Productivity based pricing*** makes sense, since service providers are motivated to produce more, and the benefit goes directly to the company utilizing their service. In this case, staffing is scalable, available and paid for only on success.

A further advantage is that outsourcing provides experts to deal with short term issues that divert departmental attention away from day to day functions. Examples of such issues are software implementations, acquisitions and consolidations. The learning curve is minimal with these experienced analysts, and when the project is over so is the assignment without any of the hassles associated with staff reductions. By utilizing a service provider during these short term periods, nothing falls through the cracks. All claims and customers are addressed and backlogs are averted.

Since outsourcing provides in-house staffs with additional time, improved customer service is an ancillary benefit. One has time to recognize and respond to the dynamics of customer requirements. Questions are answered expeditiously and issues are addressed promptly. Companies avoid being targets of repetitive disputes and deductions and, as a result, customers are treated equally (big or small).

Additionally, service providers help reduce open balances, provide a safety net for write-offs that are offset and reduced. They generally enable companies to improve aging of their A/R. There is time to address bad corporate habits both internally, as well as with customers, and, as a result, deduction prevention becomes a reality and A/R dilution is minimized. Once again, the concept is to extend the reach of limited resources, which adds to productivity and improved profitability.

### **Unfounded Assumptions and Questionable Arguments**

Outsourcing is not a miracle cure. One must consider the fact that A/R departments do not create the problems, but they have the responsibility of dealing with them. One credit manager mentioned that his department is the janitor of the company. It cleans up the messes created by customers, logistics, sales, marketing, pricing, in fact all other departments involved in the order-to-cash process. Customer practices and company processes are at issue, and while outsourcing may give individual departments time to address root causes, service providers do not solve the problems independently. In other words, outsourcing is not the sole alternative to current bad practices or unenforced company policies. Collaboration within client companies is essential for improvement.

Also it may not be a *direct* expense saving, although it most often *improves overall performance and profitability*. For instance, if aged items are assigned to a service provider, in-house staff will have more time to address, clear and collect current items. Current results will improve. The older items are the focus of outsourced activities and results there will improve as well since that is the only way that the service provider will be paid. The additional expense is more than offset by the improved departmental performance. One must also realize that functional outsourcing does not necessarily reduce the expense that elimination of in-house head count might suggest. While there may be savings based on streamlined processes, improved productivity and fewer heads utilized by the service provider, there is no guarantee that this will be the case.

We often hear arguments against outsourcing that have no basis in fact. For instance, one comment is that “My management will think I can’t handle the workload.” Most often senior people think that their management staff is stepping out of the box to deal with the directive to do more with less. Improved overall results substantiate management’s innovative thinking. Another statement is that “They’ll damage the customer relationship that we have built up over many years”. Customer service is the first priority for the best service providers. They must maintain the highest standards in that regard – often higher than their clients – since their reputations depend on that fact. If there is any antagonism growing from customers, the service provider will discuss it with the client liaison to determine how best to deal with the issue, protecting the customer relationship at hand. The concept that “They will replace us” doesn’t

make sense either. A service provider will help improve overall departmental performance by providing focus on more time consuming issues that cannot be easily addressed currently. The manager will *insure* continuity in his or her staff as a result.

Another unfounded idea is that “Our business is unique and no one can understand our customers and systems as well as we do”. This doesn’t make sense in view of the fact that all businesses are unique. Outsource service providers deal with that fact on a daily basis and must be flexible enough to assure that it is *not* an issue. “They’ll take too much of my time. I might as well do it myself,” is also not valid. If that were the case, no one would outsource. But, in fact, after a very brief learning curve, service providers *do* remove burdens from their clients’ shoulders. Once a process is learned the only client involvement should occur when an issue is significant enough to be escalated for client attention (e.g. big dollars, customer stonewalling, relationship issues, etc.) The key element is that service providers should manage their own staff, and take no time from their client. Both the company and the service provider benefit from this approach.

### **What should be outsourced?**

The toughest challenges, the biggest problems, the most difficult customers, the most time consuming deduction types, and aged issues are just a few assignments that can be outsourced. Very often an assignment is to address specific challenges that are not now being addressed. In fact, all or any part of the accounts receivable function may make sense to outsource. Each client company has its own unique needs and goals, and therefore each solution must be unique as well. No two assignments are ever exactly alike. Flexibility in responding to client challenges is an essential ingredient to success both for clients and service providers. It is *not* necessary to outsource everything in a category. Below is a list of deduction types that can be selectively outsourced:

|                           |                                |
|---------------------------|--------------------------------|
| Post audits               | Unearned/excessive discounts   |
| Write offs/credit reviews | Invalids/billbacks/chargebacks |
| Logistic deductions       | Specific customers             |
| Aged deductions/backlogs  | Coupons                        |
| Small dollars             | Compliance claims              |
| Damages and unsalables    | High transaction-based issues  |

In the most recent CRF Deduction Study, companies responded that in some cases only parts of the resolution process were outsourced (e.g. investigations, balance reconciliation, collection, etc.). Another A/R function in which outsourcing can improve results is the collection process for smaller customers. They are often last to receive reminders and calls, but in the aggregate may improve overall DSO when addressed. Special projects that fall into the A/R department but are not its core business may warrant consideration also. Examples of these are broker audits, sales tax exemption certificate management, unclaimed property/escheatment reconciliations, and aged issues (deductions and invoices) during software implementations, shared service consolidations or acquisitions.

## **Ancillary Benefits of Outsourcing**

There are indirect benefits to A/R outsourcing that are a result of a service provider's experience across industry lines and distribution channels, as well as with a broad spectrum of clients in similar industries. Best practice information is available from other companies in unrelated industries which may be shared to the benefit of clients. Innovative solutions arise from unaddressed challenges. Service providers have the knowledge, resources and experience to accept assignments in what may be previously untried approaches. This defines "Stepping out of the box" to achieve positive results.

### **Here's the Point**

A/R outsourcing of deductions, first party collection, cash application or, in fact, any step in the order-to-cash process has one purpose:

***To productively, effectively and profitably extend the reach of limited resources.***

It should not only support the goals of the departments involved, but should actively and significantly help to achieve these goals as an integral part of the process. It is a permanent solution to a permanent challenge. Because of the need to do more with less, staffs are often pulled in many directions. Outsourcing can provide the necessary additional resources to ease that burden, with the significant benefits of being scalable according to changing needs and paid only on success. In the order-to-cash process it is not meant to solve all the problems, but it is meant to allow the freedom and time to seek solutions.