

Cosourcing the Invoice Cycle – The Searce Way

Table of Contents

Outsourcing vs. Cosourcing	1
Cosourcing and the Invoice Cycle.....	1
Benefits on Offer	3
Performance Parameters.....	3
Results from Oct 2008 Progress Report.....	4
References	5

Outsourcing vs. Cosourcing

Outsourcing has redefined the modern organization in ways few people could have envisioned even at the beginning of the Information Age. It is unlocking novel ways of doing business both nationally and globally by enabling companies to focus on their core businesses and to achieve operational excellence by leveraging the expertise of their business partners.

Ever increasingly even the core business components are being evaluated as possible outsourcing candidates for better value and increased efficiency to retain and attain the organizational competitive advantage. Truly as Thomas Friedman would put it ‘Geography is History’ now.

Outsourcing is essentially subcontracting a process, such as product design or manufacturing, to a third-party company that specializes in that particular process. However, there are some basic limitations in the fundamental paradigm of outsourcing. A frequent criticism of outsourcing is that it fails to realize the business value that the outsourcing partner promised the client. Lack of direct control over the project teams is often cited as another problem. A third major criticism is that outsourcing partners are not concerned with the client’s business results but merely with delivering a specific service or functionality; that is, a lack of holistic view or partnership-oriented approach

A Cosourcing or Shared Services approach has been put forward as an answer to these problems. Both of these diametrically opposite approaches have their supporters and detractors. Drawing from the analysis by various agencies over the years, one can safely say that both approaches depend upon good governance for their success. Further, the correct approach to use depends upon the nature of the function being sourced. [1], [2]

Searce as an organization firmly believes in a Cosourcing approach for the services it renders. We will see why in the subsequent sections.

Cosourcing and the Invoice Cycle

So how can Cosourcing help the Invoice Cycle? The Invoice Cycle consists primarily of two functions – Billing and Accounts Receivable (AR). The purpose of the Billing function is to generate invoices for services rendered to the customer and deliver the same to the customer in

an agreed format. The primary purpose of the Accounts Receivable function in an organization is to optimize the inward flow of cash by bringing in the receivables that are due. The other objectives are to identify accounts needing documentation; to identify disputes; to identify problem accounts; and to identify unapplied cash.

While specific proportions of AR to assets will vary by company and industry, the accounts receivable portfolio is usually the largest asset of companies who sell on credit. On average, these portfolios can amount to 21 percent to 34 percent of a company's assets. Naturally, managing the AR is a high priority activity for such companies. However, as this activity is essentially an overhead (and not the company's core business i.e. a non- revenue generating activity) it tends to get less attention than it deserves. The result usually is a piling up of the AR.

The carrying cost of receivables is often equated with the time cost of money, calculated using the discounted cash flow method. But the time cost calculation of a receivable actually is only one of seven elements of cost. To understand the real cost of carrying accounts receivable, the influence of the other six cost elements must be considered. These include administrative, opportunity, predictability, financing, and bad debt costs as well as a more subtle but nevertheless real cost--morale cost.

The following analysis is for a Hospital [3]:

Cost elements of accounts receivable

Percentage carrying cost to receivable dollar

Cost element	30 days	60 days	90 days	120 days
1. Time	0.82	1.63	2.44	3.22
2. Administrative	0.00	0.50	1.50	2.00
3. Opportunity	0.00	2.50	7.50	12.50
4. Predictability	0.00	1.00	1.00	1.00
5. Financing	0.00	0.66	1.30	1.99
6. Bad debt	1.00	4.00	6.00	10.00
Total cost	1.82%	10.29%	19.74%	30.71%

Assumptions: Discount rate, 10%; Credit line, 8%; Hurdle rate, 15%

Very often companies do not have concrete policies, procedures or performance objectives re Accounts Receivable. Even when they exist, they are often not adhered to. The main reason cited for not following through on both policies and procedures or performance objectives is that there is not enough manpower to address these issues. This is not surprising as Billing and Accounts Receivable, while central to an organization's operation, are usually not their core business.

It is at this point where the value of a Shared Services or Cosourcing model as offered by Searce can be demonstrated. Through Cosourcing, Searce leverages the use of high- end technology to deliver significant improvements in the Client's complex business processes such as Billing and AR. The reason for a Cosourcing approach is that it enables the clients of Searce to retain a great degree of direct control over the operation without having to invest into developing the expertise in- house. Even more significantly, this model lends itself very well to the kind of partnership-oriented approach, firmly addressing the client's business needs that is necessary to manage a function so central to an organization's operations as the Invoice Cycle thus creating a win- win situation.

Benefits on Offer

- **Expertise**— Accounts are less likely to become delinquent when a staff of professionals handles advance screening and customer contact. Fewer delinquencies within the accounts receivable portfolio translate into increased company profits. Searce offers a staff that is highly trained and experienced in managing the Invoice Cycle. Combine this with extensive domain knowledge especially of the Freight forwarding, Logistics and Supply Chain Industry and you have a formula that guarantees Business Process Improvement and a continuously controlled AR overdue.
- **Technology**— Improvements in business processes usually involves better, more streamlined Process as well better Systems to support the Process. The first part usually involves a re-look at the fundamental paradigms of a business, often by an outside consultant. The second part involves significant investments in software as well as hardware. Searce operates with a technology- agnostic model, leveraging the use of state- of- the- art technology while interfacing with the client's existing technical infrastructure. Further, a Shared Services approach means that there is a firm commitment to deliver business results.
- **Bottom Line**— Increased recoveries – not cost savings – is the number one promise of Searce. In accounts receivable, this is fairly easy to measure by looking at the percentage overdue invoices and the reduction in bad debt. The quicker and more efficiently the accounts receivable portfolio is collected, the better the company's bottom line. At the same time, the business model also inevitably means a direct reduction in the client's Invoice Cycle management cost.
- **Consistency**— Searce promises consistency on two fronts. First, there is a dedicated staff to ensure that invoices are followed up on in a timely and professional manner. Second, a volume increase or decrease will not affect performance.
- **Core Business Focus**— Searce allows a company to concentrate on its business—its products or services—and the reason its customers are there. The data management, customer follow-up and technology required to manage receivables can consume vast resources. These functions can be managed more efficiently through our Cosourcing model. This efficiency leads to tangible results. Prompt and efficient follow-ups significantly reduce the number of accounts that become delinquent, thereby maintaining a company's core client base, which in turn leads to increased sales.

There are many benefits to be derived from partnering with Searce. These benefits include, but are not limited to, increased cash flow; reduced operating costs; improved control over accounts receivable management; increased sales to slow paying accounts; fewer delinquencies resulting in lower collection costs; and improved customer service.

Performance Parameters

We measure the success of our partnerships in terms of the following parameters:

Billing/ Invoicing:

- Reduced Cycle Time (order to invoice delivery)
- Improved Right First Time (Number of invoices per 1000 delivered that are completely error- free the first time around)

Accounts Receivable

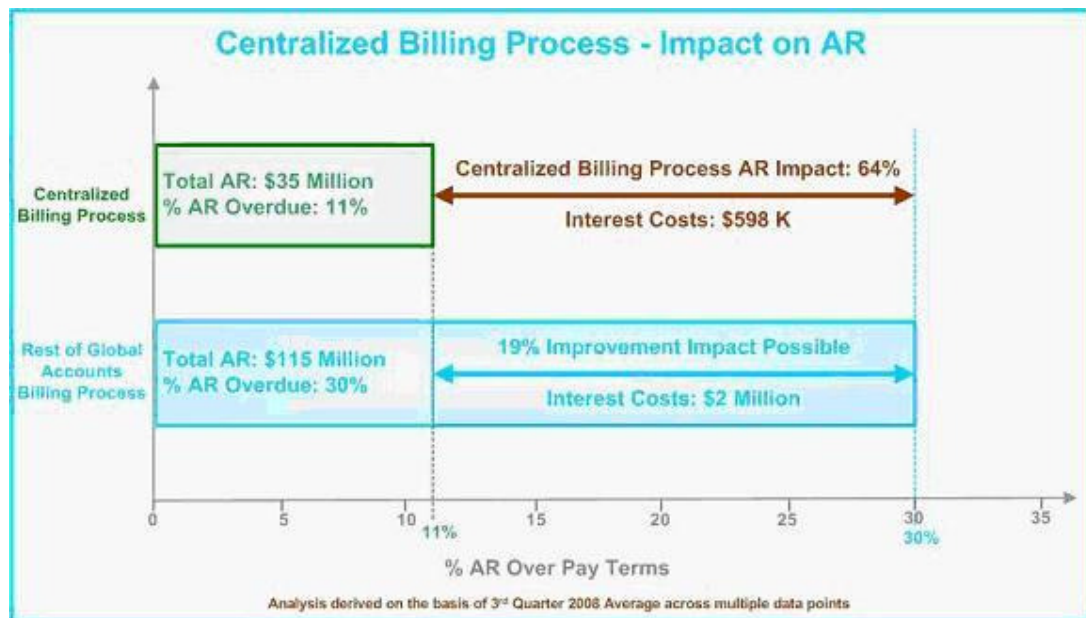
- Reduction in % AR Overdue
- Reduction in Amount Overdue
- Reduction in Days Sales Outstanding
- Reduced Cost to Collect

Does it work?

Below are the actual results **delivered by Searce** to **one of the Top 5** Logistics and Freight Forwarding companies in the world:

Results from Oct 2008 Progress Report

- AR improvement due to the centralized Billing process: We have compared the statistics on the basis of 2008 3rd Quarter average compiled across multiple distributed data points. There are those Accounts where the Billing and AR is being managed under Searce's **Centralized Billing Process** and those are compared here to the rest of the Global Accounts. The total direct annual impact delivered when compared to non-centralized accounts (assuming 9% cost of capital) is close to **\$600K**.



- Collections Improvement & Actual Savings (AR): The below table depicts AR comparison for Phase 1 accounts versus the baseline AR data averaged over a 9 month pre-transition period. Baseline has been fixed as a 9-month Average measured during the pre-transition period from Jul-2007 to Mar-2008. Baseline Total AR was \$41.9 Million and Overdue AR was \$8.4 Million (20% of AR above payment terms). A significant improvement of 48% is observed on overdue AR within a short timeframe. AR Overdue at end of September is 10% as compared to 20% observed during the 9-month pre-transition period.

Month	Current AR (Post-Transition Monthly Average)			AR Improvement	
	Total AR	Amount Overdue	% AR Overdue	Reduction in Overdue AR	Net Savings Realized @ 9%
Apr-08	\$35,794,032	\$5,099,916	14.25%	\$3,254,053	\$24,405
May-08	\$37,506,262	\$4,205,440	11.21%	\$4,148,529	\$31,114
Jun-08	\$39,509,725	\$4,123,894	10.44%	\$4,230,075	\$31,726
Jul-08	\$30,044,631	\$3,957,938	13.17%	\$4,396,030	\$32,970
Aug-08	\$38,165,879	\$3,678,343	9.64%	\$4,675,626	\$35,067
Sep-08	\$34,618,600	\$3,579,292	10.34%	\$4,774,677	\$35,810
Total AR Savings					\$191,092

References

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