# One Size Does Not Fit All in the World of AR Best Practices.

*Written by Joshua Burnett, CEO 9ci, Inc.*

Building a strong AR department is essential for business success. In a time focused on best practices, and AR improvement strategies, many organizations are struggling to define success surrounding the entire "credit to cash" cycle.  Many businesses work to make their AR departments faster at collections or more cost effective, assuming that these steps are the keys to a best practice solution.  The "faster and cheaper" concept for AR management best practices is an incomplete thought process.  There is also no "one size fits all" blue print for a best practice solution.  What works for one company or industry is not guaranteed to be effective or economical for another. A key to succeeding with a new approach to internal AR challenges is to analyze your internal structure across departmental lines and the landscape of your current customers. Along with some core guidelines and principals, this will serve as a base for a new best practice process.

Often, management attempts a general structure or plan promoted by a recent book or article before looking internally.  As it turns out, most organizations already have a set of best practices in place, or at least a very good start.  Management, however, may not be aware of this fact because the metrics and analytics are not in place. Hence, reports are incomplete, outdated, or nonexistent while complaints and past due balances continue to mount.  Management assumes there is no process. Yet, some forms of best practices particular to an organization and its industry, generally do exist.  What these organizations need is to formalize their metrics, secure accountability, uphold expectations, and start with the understanding that there is no one handbook to follow in order to accomplish this. There are, however, some simple guidelines.

The key guideline to starting a best practices strategy is to look internally at the way your company operates in three specific areas; efficiency, analytics, and communication workflow. To be more efficient, consider what can be done to reduce unnecessary steps, as well as what can be done to replace manual steps with automated steps. Management can greatly benefit from the opportunities available to analyze their progress by gathering information in an hour versus a week long process to manually generate data. Lastly, a key objective to most companies is to find a way to improve the flow of information, specifically in the area of customer relations and communications.

**Different Approaches to Efficiency**

Efficiency was a key concern for both Heyman Corporation and Rand McNally when they implemented a best practices solution surrounding deductions and collections. In seeking out their best practice solutions the two companies have clearly chosen different approaches. Heyman's best practice solution has been created with the collection and deduction solutions kept as separate entities, whereas Rand McNally found that they would benefit more by combining the collection and deduction management efforts to improve there efficiency.

Heyman developed a solution that revolved around their existing process. This involved keeping all deductions in a subledger separate from their general Accounts Receivables. Heyman has a deduction specialist and a collection specialist where the two are regarded as separate processes and separate departments. This allows Heyman to cover more ground and allows each to be more efficient. Collections are not delayed because of disputes; and deductions are not ignored because of collection issues.

Rand McNally, on the other hand, has a comparatively low volume of disputes. They have seven analysts, and as an alternative to dividing collection and deductions into two departments they find that separating accounts and assigning one person to fully service a customer proves to be most efficient to their needs and their organizational structure. This allows one analyst to become the expert on each account creating a more personal relationship with the customer, while improving the ability to understand how an individual customer works. This in turn improved Rand McNally's efficiency handling their customers. Having the ability to communicate all of the account issues (past due invoices, deductions, credits) at once allows a company with less deduction issues to effectively manage their accounts without having to deal with separate departments.

**Agility with Business Intelligence and Analytics**

Being agile in your ability to measure, analyze, and then manage is a vital part of a solid AR strategy. The issues in AR departments are no longer a matter of picking up the phone and collecting an overdue invoice. A good business intelligence strategy can show the entire organization that many of the collection issues are closely tied to other department's decisions and customer compliance procedures.

In the instance of analysis as a means to improving best practices, Hartmarx Corporation and Hain Celestial Group, Inc. are prime examples of why different approaches lead to success for companies with diverse problems to solve. Both companies realized that they needed to address the source of their deduction and dispute issues. The separation in their approaches derived from the realization that Hartmarx's disputes were mainly created internally and Hain's deductions were created externally, between the customers and the sales force. Hartmarx implemented a best practice solution that would zero in on their internal departments to track down where deductions were being taken. Hain implemented a solution that would analyze how deductions fit

into the whole picture of a customer and the trade promotion deals that were created via the sales force. Both Hain and Hartmarx desired a process that would show accurate and timely information including, but not limited to, how many invoices are disputed, why they are disputing or deducting, the average days to pay, the amount of deductions taken, and the days deductions outstanding (DDO). This in turn gives them the ability to adjust their approaches at any given time in order to effectively manage each customer's individual issues. Hain and Hartmarx are at different organizational stages and while both companies are measuring and analyzing, they are currently looking at different metrics to keep them agile and force decisions based on procedural changes and customer communication.

## <u>Automating Workflow and Communications</u>

Optimizing and automating communication workflow is critical for a best practice strategy. This is an arena where diversity among industries and organizations is most evident. Often, AR departments must structure their collection and dispute management efforts around the operational policies of internal departments, Sarbanes Oxley requirements, and customer compliance procedures. The flow of information between the customer and the various departments in an organization can vary greatly depending on the company. Certainly entrenched procedures do not always need to change, but automation and workflow improvements are a necessary step.

Hartmarx saw this when they automated and enhanced the procedure surrounding credit memo authorization. They had previously filled out thousands of word documents and passed them around manually for signatures. Combined with changes needed for Sarbanes Oxley compliance and an effort to streamline the workflow process, they were able to set up a process where it's completely electronic, the routing is automated, and it's fully documented.

Heyman had a similar need, the workflow process is automated in much the same way as Hartmarx, however they are not a public company and the need for certain documented sign-offs are not needed. The collection and deduction department has a predefined authorization for credit memos, up to a certain dollar amount, as long as they have proper backup. Information is routed to the other departments when necessary and they are heavily involved in the collection and dispute resolution approval process.

## <u>Summary</u>

To create an effective solution for collections and dispute management, companies must address their unique challenges. Companies need not search for that ONE best practice blueprint that solves every issue. In implementing a new solution and process, may it be a new structure or software; you will want to keep an eye on flexibility with workflow, efficiency approaches, and agility with analysis. You will certainly have a set of your own custom best practices that fit your industry, your organization, and your customer base.