

CASHBOOK



How progressive companies
are automating 80% of deductions
and unlocking trapped capital





A global company seeking to use EDI files to speed up deductions

MTD, founded in 1932 and a worldwide leader in designing and building durable, easy-to-use outdoor power equipment for lawns and gardens, were struggling to manage and control the deductions and cash application processes across multiple banks and markets, namely Europe, North America, Asia, Australia and South America. They sought a solution to help speed up and improve the efficiency of their cash management processes so that they could focus resources on higher value work. They found Cashbook.



Many companies are refocusing on unlocking working capital

With the uncertain future of global credit markets as a cheap and sustainable source for working capital, many companies are refocusing on unlocking working capital from their global receivables portfolios by leveraging order-to-cash (OTC) best practices automation designed to help OTC teams optimize cash trapped in OTC processes and systems.

Chris Caparon, COO, Cforia Software

Manually processing 10,000+ deductions per day

Challenges

Redundant, repetitive manual processes incurred huge costs

Inefficient business information systems and a reliance on paper (i.e. the use of printed deduction forms) meant MTD were manually processing up to 10,000 individual deductions per day. MTD needed a dedicated team of eight full time staff to process this high volume of deductions. The team spent the majority of their time sorting through and investigating the source of deductions with an 'unknown' reason code. Each validated deduction was then handwritten in order to issue credit. An expensive resource spent on low value, mundane tasks.

As MTD expanded its reach into new markets, this labour intensive process escalated, drawing on even more company resources. As well as slowing down deductions allocation, it impacted the speed of credit collections and the ability of the sales team to develop customers and grow sales. MTD needed to find a better, faster, easier way to allocate deductions and move their teams to higher value work.

Stacks of deductions distributed to my team daily.

MTD

Working capital trapped in OTC processes

As well as exhausting resources on low value tasks, the deductions process was leaving significant sums of money on the table; deductions less than \$25 were not re-paid by some customers. For MTD, these low value amounts did not justify the significant time investment required to investigate, follow up and close off. And as smaller value items made up a huge slice of MTD product sales, this amounted to a substantial loss of cash each year. MTD needed to find a way to easily bundle deductions and allocate larger amounts to customers.



Solution

Unlocking Excel and EDI files for automation of deductions and invoices

Cashbook is a cash management solution which automates the cash application, accounts payable and bank reconciliation processes. A proven solution enabling more automation, functionality and control of cash management processes than ever before. Easily tailored to individual needs, Cashbook software integrates with all major banks and ERPs, supports over 50 languages and has been implemented in more than 25 countries.

Cashbook's Deductions Automation module provides extra capability within Cashbook's Cash Application software. **Users can easily create deductions with reason and deduction codes directly from remittance data for any ERP system.** The module can be adapted to any bank file or customer remittance format.

MTD implemented the Cashbook Deductions Automation module and within weeks they had automated 80% of deductions allocation and were releasing working capital previously trapped in their order-to-cash processes. **Cashbook Deductions Automation module automatically uploads 200 EDI customer remittances per month.** The module enabled the auto-assignment of reason codes based on customer references, deduction bundling and the auto-creation of deductions for short paid invoices.

**Customer Remittances automatically uploaded through
EDI files & Excel files include:**



Solution

1. Automated assignment of reason codes

Cashbook algorithms automatically assign deduction reason codes based on references. Assigning reason codes at the cash application stage means they are fed directly into the accounts receivable ledger when posting cash, thus eliminating the need for MTD's credit collections or deductions team to manually work with each deduction before it can be followed up.

Cashbook auto-assignment of reason codes based on references

Some typical examples

- Home Depot: starts with 'OS'= RETURN
- Sears: starts with '06'= SHORTAGE; '12'= RETURN
- Costco: starts with 'RTV'= RETURN



**Other: Suppliers such as Ace Hardware, Lowes and others have different references starting and ending with particular characters. Cashbook's deductions algorithms are configured to identify and link to the appropriate deduction reason code.*

Deductions are also taken in the form of credit memos on the EDI, which might not have a particular identifiable reference. If a particular text reference is provided in a 'note' field on the EDI file, this is also used to identify types of deductions and assign a code accordingly, further speeding up the deductions process for MTD.

Deductions taken in the form of credit memos on the EDI

A typical example

Home Depot often reference TRADE DISCOUNTS in the 'note' field on the EDI. The credit memos reference looks like an invoice number and therefore does not have an identifiable reference. Using the 'note' field from the EDI, Cashbook can identify that the credit was taken as a TRADE DISCOUNT and thus assign the relevant deduction reason code.



The Deductions Automation algorithms are configurable within Cashbook, so if customers change their references, the Cashbook Deductions Automation module itself does not require any additional programming changes.

Solution

2. Deduction bundling replacing smaller, low value deductions

The Cashbook algorithm groups deductions that fall within the configured criteria and bundles them into one total deduction. MTD posts this one large deduction to the customer account, replacing the need to post a large volume of low value deductions. And as some of MTD's larger customers do not re-pay deductions for less than \$25, this has allowed MTD to capture previously lost capital. The recouped revenue has had a significant impact on the bottom line for MTD.

Features of deductions bundling functionality within Cashbook

- Deductions that fall within the configured criteria are bundled into one total deduction amount, rather than posting a large volume of small deductions.
- Different bundling rules can be defined for different bill-to customers.
- Cashbook retains the original created deductions (prior to bundling) in its transaction history, so that the source of the bundled deduction can be traced back.

We now have the ability to work through all items including smaller deductions that received little to no attention in the past.

MTD

3. Automatic creation of deductions for short paid invoices

Cashbook algorithms automatically create a deduction if an invoice is short paid, even if the deduction itself isn't listed as a remittance. The deductions specifics are configurable by MTD and subject to a maximum amount guaranteeing that MTD have full control over the process.

Outcomes

A complete transformation of the MTD deductions process

- 1 Faster, more accurate financial reporting**

Cashbook algorithms automate much of the deductions process, significantly reducing the time for the cash application person to apply cash and close off. A streamlined process, allowing the cash application team to focus on more value added tasks.
- 2 Less work for the deductions team**

Assigning deduction codes at the cash application stage means they feed into the accounts receivable ledger when posting cash, thus eliminating the need for the deductions team to manually work with each deduction. Instead, they simply need to check codes and then 'credit' or 're-invoice'. A smoother, quicker process.
- 3 Reduced workload for the credit & collections team**

The credit collections team get their figures updated faster, meaning that they save time previously wasted by phoning customers who have already paid. Now, the team can focus on truly delinquent customers rather than being led astray due to time lags in the system.
- 4 A more active sales team**

Any delays in recording cash received directly impacts on the sales team ability to sell. The faster invoices are recognized as being paid, the more the sales team can sell to these customers. An automated deductions process helping to drive more revenue.
- 5 Unlocked trapped capital**

Working capital is directly influenced by having a more intelligent deductions process. Auto assignment of reason codes has reduced the number of unknowns within the system, while deduction bundling allows for the capture of smaller values that would have previously been written off. A smart deductions process driving more business capital.

Within the first year:

80%

Of deductions automated

A quicker, streamlined deductions process.

>40%

Increase in repaid deductions

Direct impact on the bottom line.

8 to 6

Reduced headcount in deductions team

People moved to higher value activities.

Discover a higher level of automation.

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