



Reimagining Invoice to Cash (ITC)

ITC trends and aspirations
in a digital world

September 2022

Facing new finance realities

Organisations are aspiring to become exponential enterprises in the face of internal and external disruptions. These forces are shaping the future of finance, necessitating the finance function to become more dynamic. “No regrets tech” is an important principle of dynamic finance, which requires it to operate with a digital and flexible core. Considering the dynamic finance needs of today, CFOs are increasingly focusing on cloud solutions, Artificial Intelligence (AI), Machine Learning (ML), and predictive analytics to make processes more efficient and streamlined, enhance customer experience, and support effective business partnering.

It was our endeavour to understand the impact of such emerging trends on finance leaders, and we are pleased to share the findings from our recently concluded study on ITC processes. The study was jointly conducted by Deloitte Touche Tohmatsu India (‘DTTILLP’) and HighRadius Corporation (‘HighRadius’) and aims to provide insights into the current ways of working, digital transformation initiatives, and the challenges that remain unaddressed within ITC processes. The focus of this study is credit management, collections management, cash application, and deduction/disputes management processes across industries in the domestic market. We hope that the insights from this report will help you plan your transformation initiatives in ITC.

Table of contents

Current state of ITC processes	03
Views from finance leaders	05
Maturity of ITC in the domestic market	06
Credit management	08
Collections management	09
Cash application	10
Deductions/disputes	11
The art of possible in ITC	12
About the report	13
Connect with us	14
Contributors	14



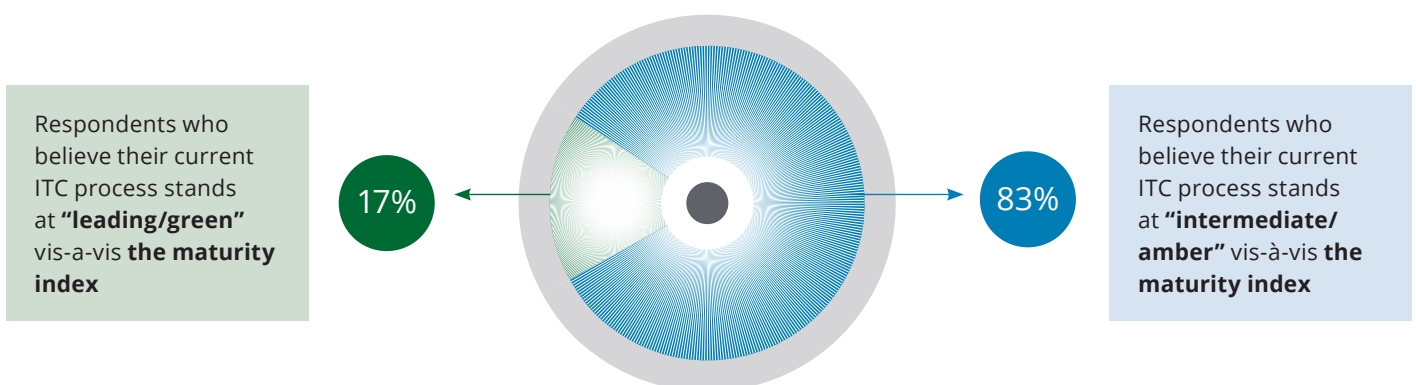
Current state of ITC processes

We are living in the times of **“dynamic finance”**. CFOs want the finance function to be able to address what the future holds. This requires **simplified and standardised processes** with a **foundation of innovative** and **enabling technologies**, and a **skilled and technically fluent workforce**.

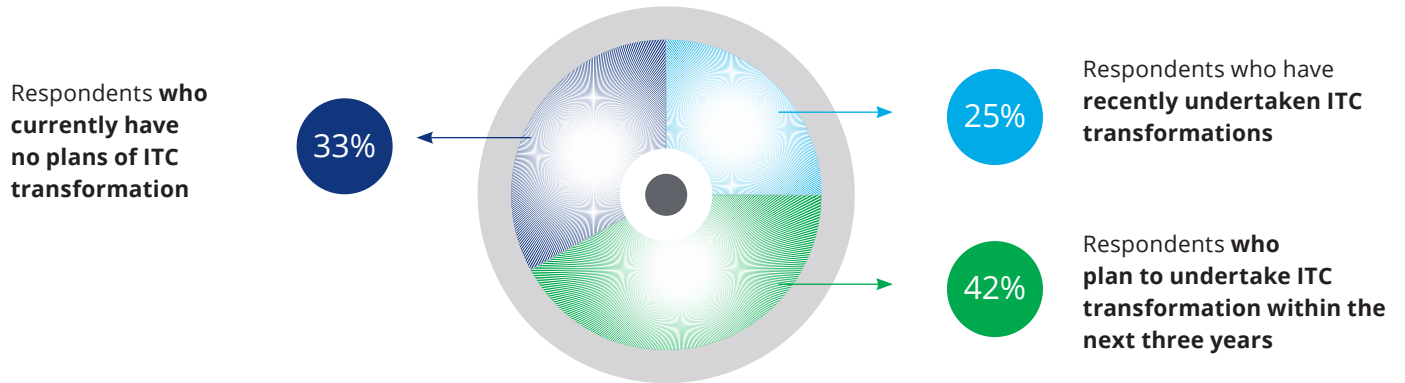
The finance function needs to accept and adapt to this change, and our recent ITC study highlights this too. **Sixty-seven percent respondents have recently transformed or are planning on transforming ITC.**

However, there are **significant opportunities to bring efficiencies** within ITC.

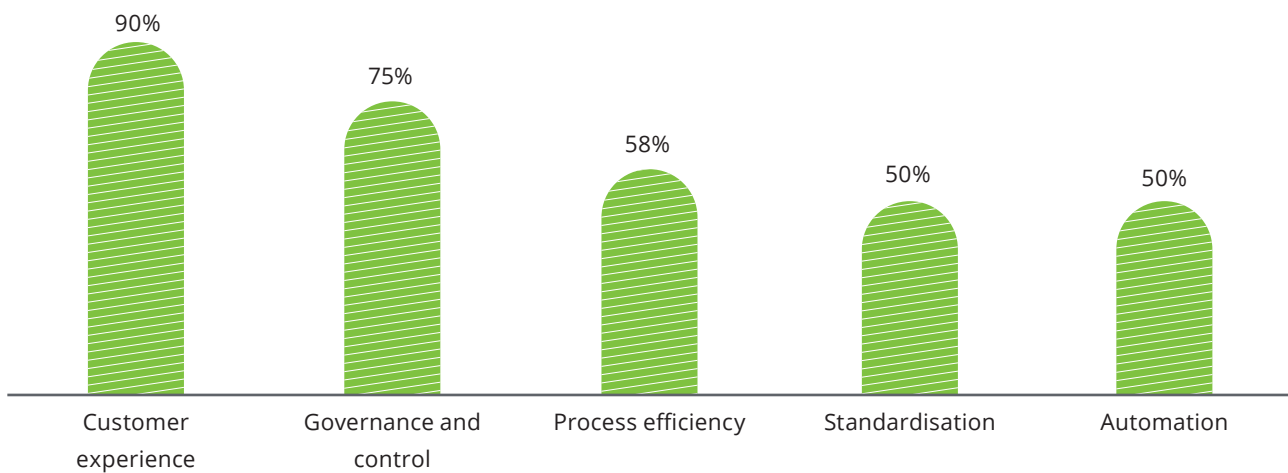
Maturity assessment of current ITC process



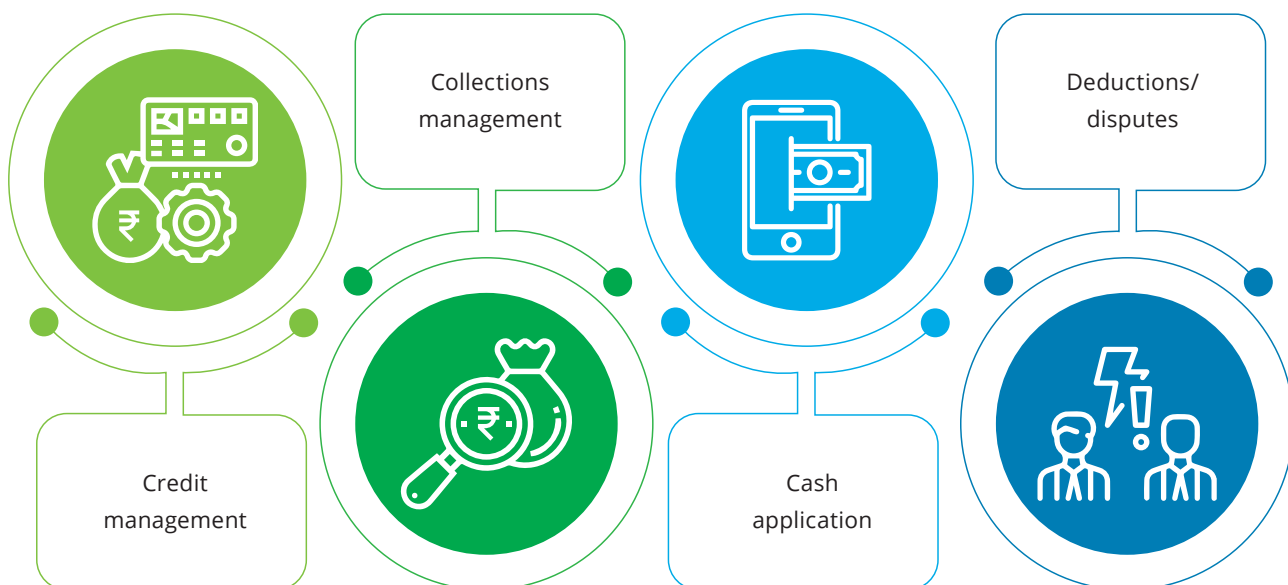
ITC transformation initiatives



ITC transformation levers



Key focus areas in ITC transformation





Views from finance leaders

Finance transformation is a critical agenda for the next couple of years, and ITC is a crucial area for the changes envisaged.

Commercial head, consumer goods company

A critical change we made was to make credit control proactive instead of reactive.

EVP, financial planning, fertiliser and chemicals company

Significant amount of time is spent in applying cash and managing collections data. Would like team to rather invest this time in other value-add tasks.

Commercial lead, textile manufacturer

There should be some level of personal connection with customers for effective collections.

ITC lead, consumer goods company



Process discipline required for realising benefits from transformat.

Order to cash head, digital technology provider

We propose to adopt a non-conventional approach for building an ITC CoE in India.

CFO, infrastructure company

Enabling solutions have been deployed but measures need to be taken for increased adoption.

AR head, technology provider


Credit assessment rules need to be simplified and streamlined.

Head - sales commercial, consumer appliances manufacturing company



Maturity of ITC in the domestic market


ITC best practices




Auto-reading of remittances and auto application of cash




AI/ML for prioritisation of overdue receivables



ML for identification and application of deductions



Rule-based credit assessment within the system




Automated credit controls and proactive measures for optimal credit management



Workflow-driven reporting and resolution of disputes

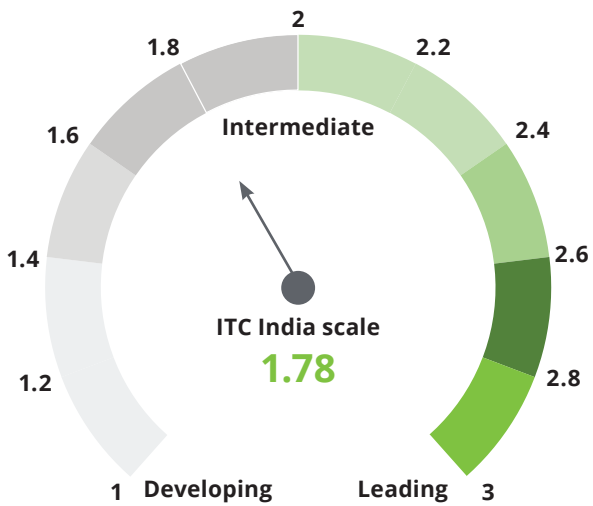


Auto reminders for tasks and auto escalations






Actionable reporting capabilities and complete transparency

Current maturity of ITC in the domestic market



Based on the results of our study, the **key characteristics of ITC in India** are as follows:

- 
Manual in nature
- 
Limited use of analytics
- 
Distributed delivery model

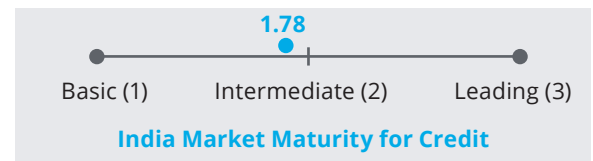


Credit management

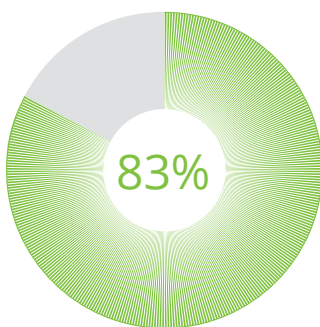
Effective **management of customer credit** is pivotal to maintaining a **healthy balance sheet**.

Most participants extended credit to customers, and many participants enabled **auto order block functionality** where customers exceeded defined credit limits. Although no major credit-related losses were observed, participants strongly believed **that stringent controls, with minimum exceptions, must be adhered to**, to avoid any future breaches.

It was, however, observed that credit assessments **were largely performed manually**. The use of external credit rating agencies was limited, and credit management was **mostly reactive**. Select respondents found it challenging to separately **monitor credit for group entities**. Many participants believe that there is a **need for system-based credit scoring and proactive alerts** on credit controls.

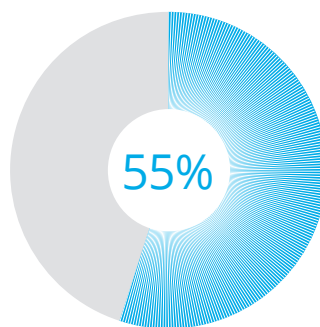


Respondents with defined credit policies and procedures



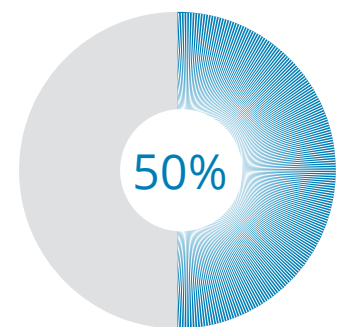
- While most organisations do have credit policies in place, **compliance is low**. Several exceptions to policy are regularly approved.
- Participants believed that **rule-based, system-driven credit calculation** is required.

Respondents who use ERP for credit monitoring and approvals



- Most respondents **populate credit limit within ERP**; however, **assessments are offline** and based on **limited parameters only**.
- **Lack of analytics** (e.g., blocked order prediction) for improved credit management and avoiding **loss in sales**.

Respondents who review credit on a pre-defined basis



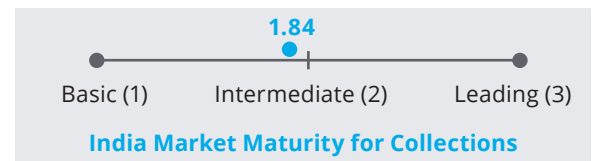
- **Fifty percent** respondents do not have a **pre-defined frequency for credit review**. Reviews were either made on an ad-hoc basis or not performed at all.
- Credit reviews are mostly **performed on spreadsheets** and **approved via e-mails**.

Collections management

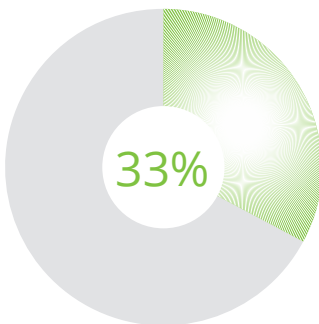
Collections form an important part of I2C, owing to its **impact on the working capital cycle including Days Sales Outstanding (DSO)**.

The **average DSO** of respondents was **44 days versus the 34.25 days** identified as the leading global metric.¹ Our findings suggest that **payments are mostly collected on time. Bad debts constitute less than 1 percent of total sales.** Organisations utilise **ERP-generated overdue AR reports** to plan and manage collections.

While ERP-based **automated dunning** is enabled for most participants, it was **used for select customers** as templates could not be customised. The prioritisation of customers to be contacted is **based on judgement, where** the process is **mostly manual** in nature.

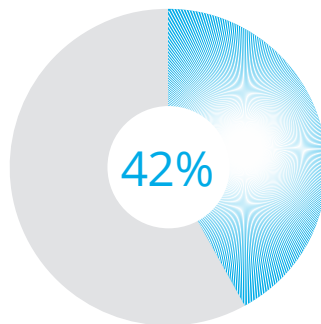


Respondents where finance is responsible for collections



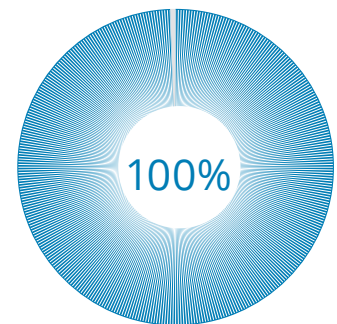
- In most cases, **sales/commercials** teams typically **perform the collection activities**.
- The finance function's role is primarily limited to **providing overdue reports** to the sales/commercial teams.
- Limited monitoring of **collector's efficiency**.

Respondents who prioritise customers before reaching out to customers



- For respondents who prioritise customers before making the collections call, the **process is largely human centric** and uses **basic prioritisation parameters**.
- **ERPs provide limited analytics** (e.g., historical payment behaviour) to **support effective prioritisation**.

Respondents who maintain manual records for collection activities



- Most respondents use **spreadsheets** for **recording actions from customer calls** and **tracking them to closure**, leading to **delays and errors**.
- There is **limited awareness and adoption of enabling AI/ML technologies** to assist collections.

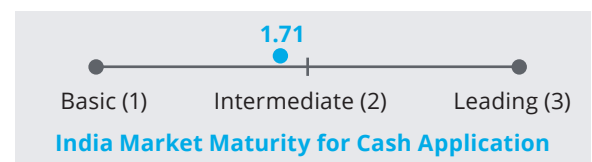
¹ Source: APQC OSBsm Data

Cash application

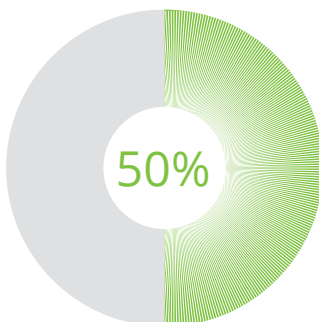
Cash application is one of the most critical areas within ITC. Effective cash application processes lead to accurate visibility on invoice payments and better credit management.

A section of the study participants have enabled **digital interventions** to streamline the cash application. These interventions support automated reading of remittance documents and subsequent cash application in the ERP.

However, in many cases, AR departments receive **unstructured data and/or incomplete/no remittance information**. Manual interventions and multiple follow-ups required to identify payment information leads to delays in the cash application.

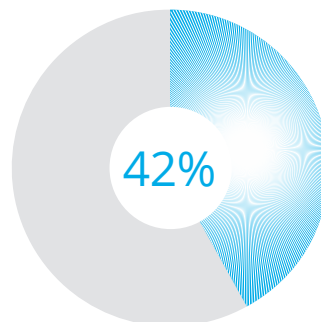


Respondents who have automated cash application



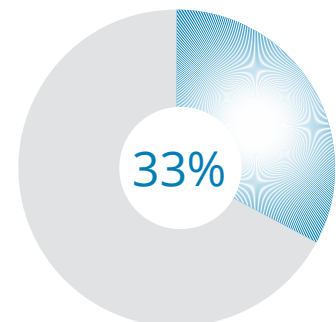
- **Fifty percent** respondents still apply cash **manually**.
- Amongst respondents with tools for cash application, the **auto invoice hit rate ranges from 50 to 80 percent**. This metric is, however, not often monitored.

Respondents who apply cash on an invoice basis



- **Fifty-eight percent** respondents apply cash on a **FIFO basis**. The leading practice is to map payments to invoices.
- **Process discipline** on sharing complete **remittance information** was observed to be **low**. This has led to more organisations opting for FIFO.

Respondents who use virtual accounts for cash application



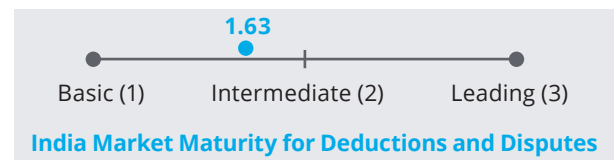
- Virtual customer accounts have been created for **ease of cash application**.
- Select participants, however, face challenges in auto applying cash in scenarios where the **incorrect virtual account** was selected.

Deductions/disputes

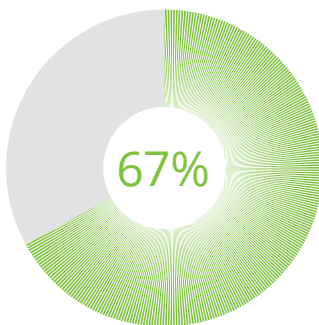
Deductions and disputes management have a significant **impact on customer experience**, making it a critical area in ITC.

Our findings suggest that many participants have a **defined process for maintaining schemes/discount masters**. A few participants also use **ERP-integrated third-party solutions** for calculating and processing customer discounts.

Limited technology adoption was found in the areas of **deduction identification, and coding**. Logging and monitoring is **manual** through central mailboxes or spreadsheets. **A customer dispute redressal mechanism** is in place for most participants; however, the use of **workflow-enabled solutions** for dispute resolution is limited.

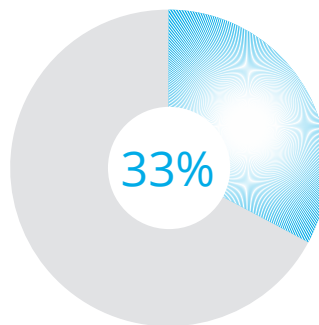


Respondents with defined deductions/dispute management processes



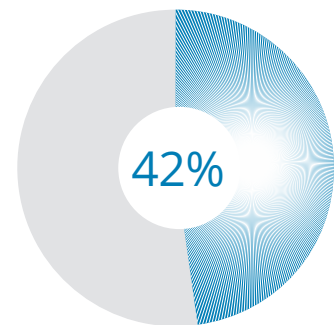
- Most participants have a **well-laid SOP** for deductions and disputes management; however, **roles and responsibilities are not clearly identified/defined**.
- **Thirty-three percent** participants manage deductions/disputes on an **ad-hoc basis**, where the **process varies from case to case**.

Respondents with a dedicated portal for customers to raise disputes



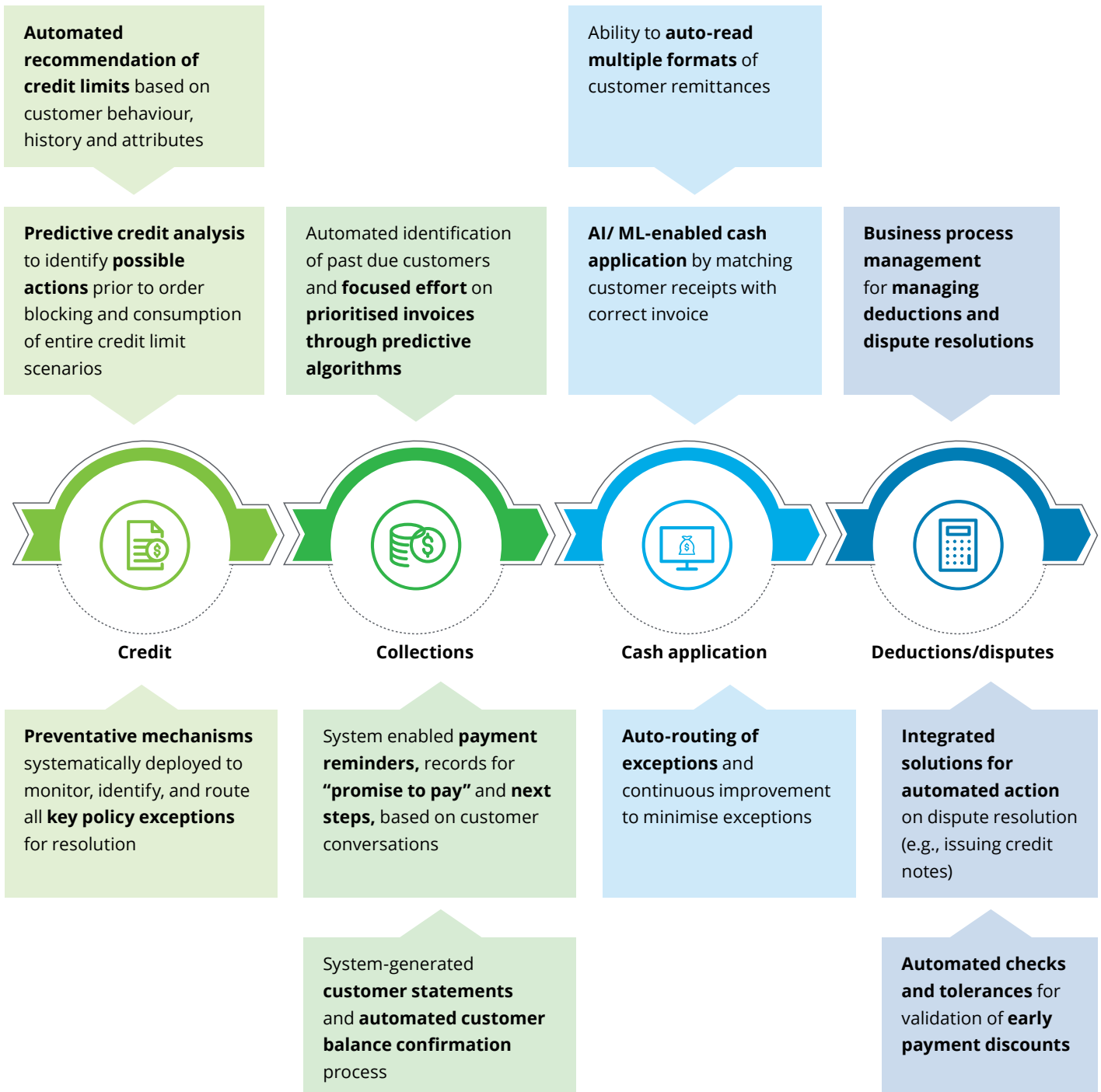
- **Sixty-seven percent** participants utilise a **dedicated central mailbox** for disputes.
- Most participants could not track the **amount under dispute on a real-time basis** owing to the absence of enabling technology.

Respondents who manage deductions/disputes through workflow



- **Fifty-eight percent** respondents manage disputes offline. This requires **coordination between several teams**, leading to longer turnaround time. Participants have **limited data** to assess disputes.
- Respondents who use workflows have **detailed audit trails** on processing each dispute.

The art of possible in ITC



About the report

Average annual revenue of participants



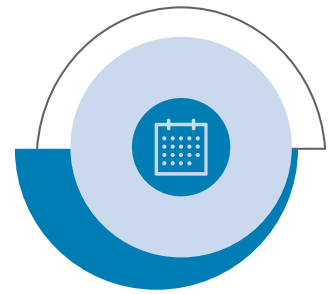
INR 19,000 crore

Average annual invoice volume of participants



~2,00,000

Study duration



3 months

Industries covered

- Automotive
- Construction and building materials
- Industrial chemicals and fertilisers
- Consumer goods
- Consumer electronics
- Retail apparel
- Alcoholic beverages
- Technology
- Mining and metals
- Pharmaceuticals



Representative audience

20+ industry leaders

- CFOs
- ITC heads
- Finance controllers
- Commercial heads



Connect with us

Dhiraj Bhandary

Partner, Consulting
dbhandary@deloitte.com

Rahul Kalla

Partner, Consulting
rkalla@deloitte.com

Contributors

Sumdisha Gulati

Karan Shukla

Shikha Gupta





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