



# SAP Financial Supply Chain Management - Collections & Dispute Management



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# 1. Executive Summary

The most important goal of the finance department of any organization is to ensure enough working capital is available in their treasury to conduct business smoothly. In today's market scenario, considering the increasing cost of external borrowing and strained cash flows of customer, it is imperative to ensure that the financial supply chain is optimized. It is clear that the finance department needs to play a more strategic role in business operations. The bottom line is that, cash is the most important asset any organization has and thus must ensure that it is readily available for day to day activities as well as for enhancing future business growth options.

In such conditions, every strategic option for increasing capital should be capitalized. The good old saying 'Every penny saved is a penny earned' is perfect fit in today's scenario. Hence every option for increasing revenue should be utilized, an equal importance should be given for reducing cost. It is here that SAP Financial Supply Chain Management (FSCM) range of solutions comprising Biller Direct, Credit Management, Collections Management and Dispute Management solutions along with Treasury Solutions play a prime and vital role. SAP FSCM gives visibility into all aspects of business right from Credit to Cash and across the payment cycle.

It is time to integrate the overall Financial Supply Chain similar to the logistical supply chain and automate the process involved in it so that organization can start to concentrate on their core business process rather than ponder over manual activities and reduced efficiency.

The process of optimizing the Financial Supply Chain mainly has two major parts to it:

- Optimizing the business process
- Aligning the backend IT support system to the business process

With SAP FSCM, both these processes are integrated into one. Implementing FSCM solutions is re-engineering of the total business process. This paper explains in detail about the Receivable Management Process – Collections and Dispute Management.

## 1.1. Importance of Collections & Dispute Management

Collections Management means customer centric receivables management. It mainly focuses on increasing the cash flow in the Accounts Receivable area thereby increasing the working capital. It forms the crux of Financial Supply Chain.

Business benefits of an automated logistics supply chain have been proven over the years, but a similar treasure of an automated financials supply chain remains untapped, which can be seen from the below industrial estimates.

This clearly undermines the importance of an efficient Collections and Dispute Management which forms the base for an efficient Financial Supply Chain Management.

Process	1960's	2009
Process an Order	4 - 7 Days	Same Day
Process an Delivery	4 - 7 Days	Same Day/Next Day
Process a Invoice	7 - 10 Days	Same Day/Next Day
Collect Cash	45 - 60 Days	45 - 60 Days

In a recent survey among CFO's of leading organizations the following results were obtained in response to forecasting cash inflows and future areas of improvement.

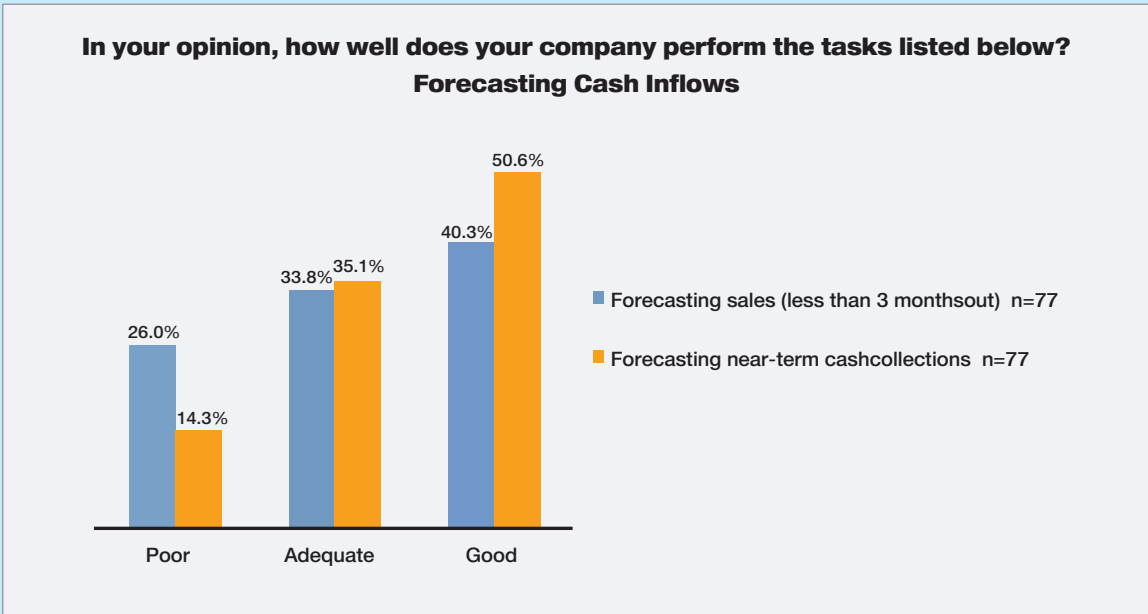


Figure 1: Forecasting Cash Inflows

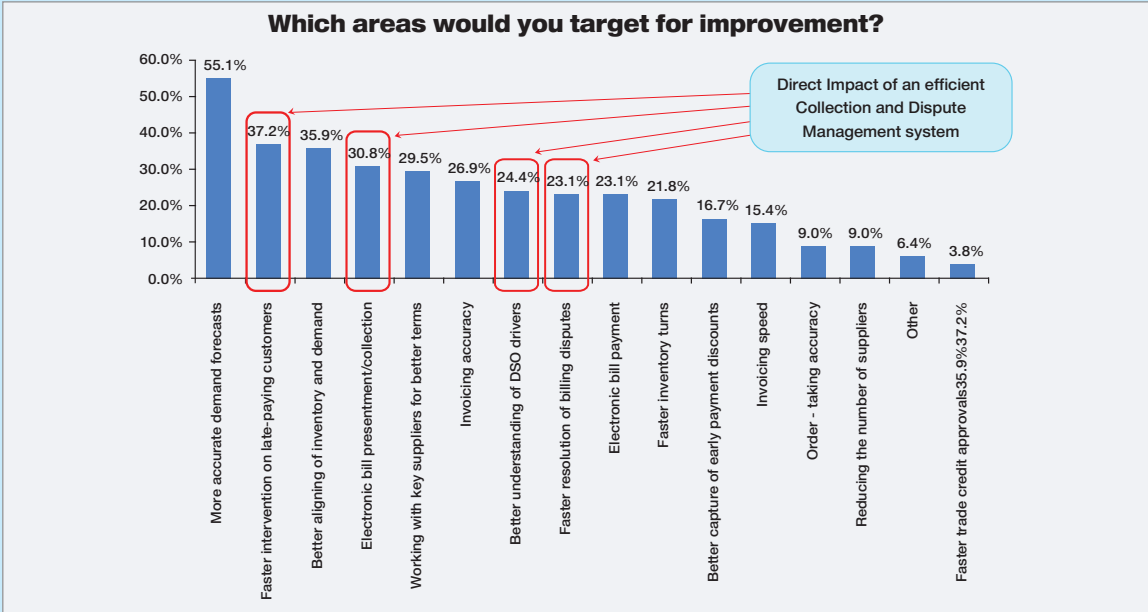


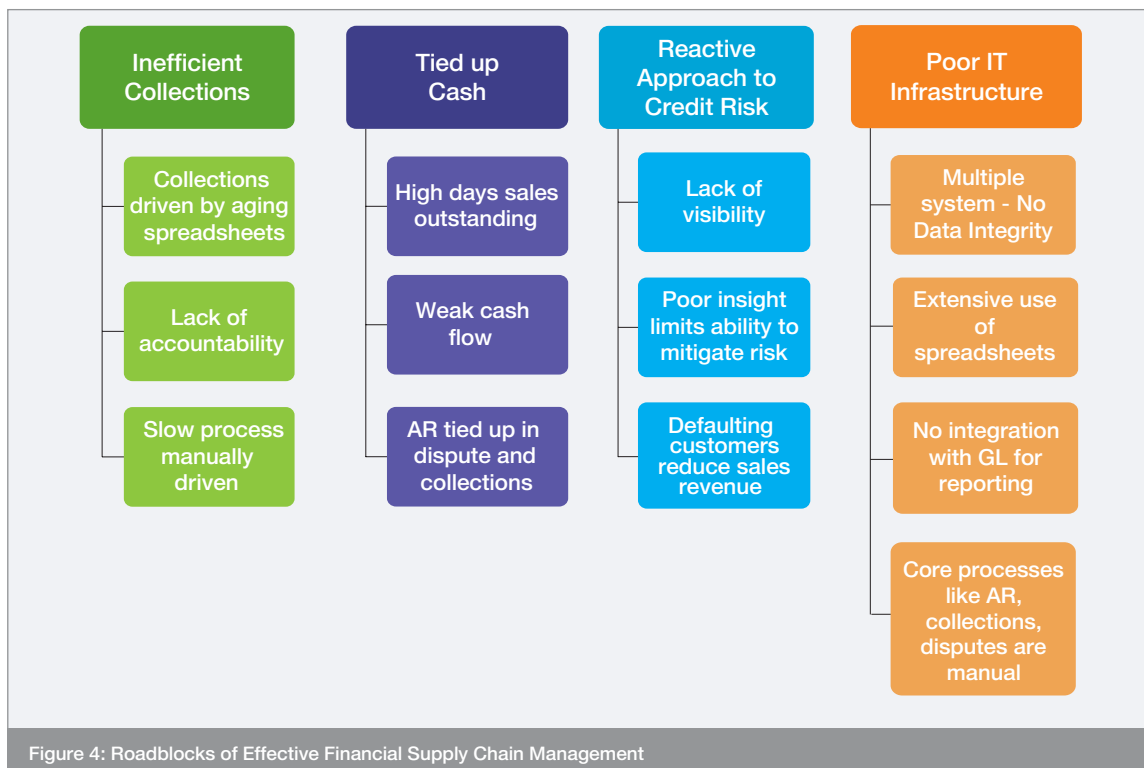
Figure 2: Target for Improvement

It is clear from the above statistics and response that an efficient collections and dispute management system, is the current business need, to improve the internal process for increased working capital. Customer payments are highly unstable and volatile in nature that it makes it difficult to predict receivables. There is renewed interest to improve working capital through efficient management of financial supply chain.

## 1.2 Business Needs of a Collections and Dispute Management system



## 1.3 Roadblocks of Effective Financial Supply Chain Management



# 2. SAP Financial Supply Chain Management

SAP FSCM helps streamline and automate the whole financial supply chain. It works in close collaboration with other SAP components like Finance, Logistics inside ERP and with SAP's range of reporting and analysis features through Business Objects.

It helps streamline the order to cash and invoice to pay processes, resulting in faster cash collections, lower operating costs and enhanced cash flow predictability.

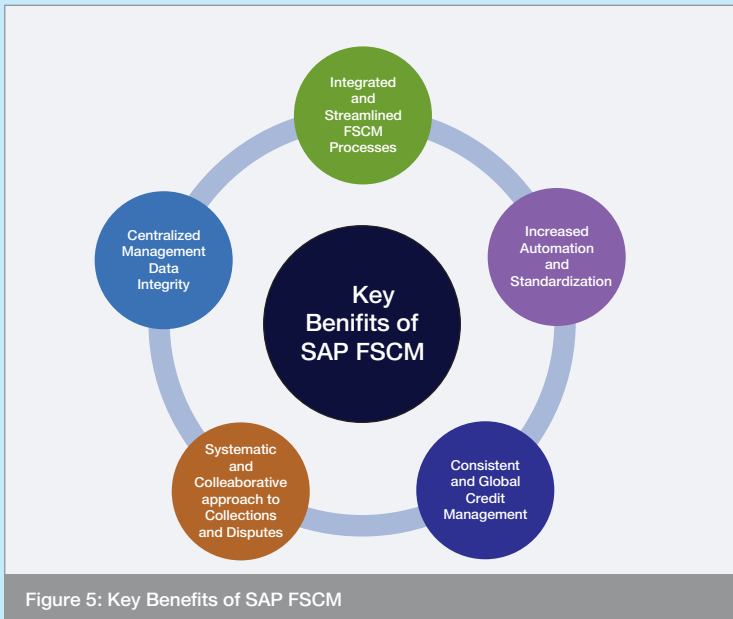


Figure 5: Key Benefits of SAP FSCM

## 2.1. SAP FSCM Collections Management

SAP Collections Management is a powerful solution for an efficient receivables management. It allows proactive management of receivables through flexible and easily adaptable strategies. Seamless integration with SAP Credit and Dispute Management along with Financial Accounting enables it to cross leverage data of a customer across the organization and maintain a centralized collection policy. It allows the flexibility of maintaining different strategies for different customers based on various factors like demography, payment behavior etc since all customers are not going to be the same. Some of the most important features of SAP Collections Management are:

**Improving collection success rates by proactively**

- Identifying
- Prioritizing
- Targeting the most critical past due accounts.

**Powerful automation helps minimize the collections workload and resource costs.**

**Support for all phases of collections**

- Creating Prioritized Worklist
- Preparing and Documenting Customer Contacts

**Seamless integration with SAP Dispute Management**

**Flexible collection strategies**

**Monitoring collections**

The figure displays three key software interfaces:

- Automated Worklists:** A table showing 'Open Items' with columns for document number, business partner, priority, currency, outstanding amount, to be collected, promised, disputed amount, cleared, and highest due date level.
- Past History & Analysis:** A bar chart showing payment history over time, with tabs for Invoices, Payments, Promise to Pay, and Dispute.
- Promise to Pay Agreements:** A form for creating a promise to pay, including fields for promised amount, date, reference, contact person, and telephone number.

Figure 6: Features of SAP Collections Management

## 2.2. SAP FSCM Dispute Management

SAP Dispute Management is used to manage and resolve customer disputes efficiently. Managing disputes is going to involve multiple departments like sales, finance, logistics etc. SAP Dispute Management allows integration between all these departments along with dispute case tracking and managing in a centralized system. The whole process of dispute case management can be automated to reduce manual intervention and easier collaboration between multiple departments.

Organizations using SAP Dispute Management have managed to reduce Days Sales Outstanding (DSO) by as much as 20%.

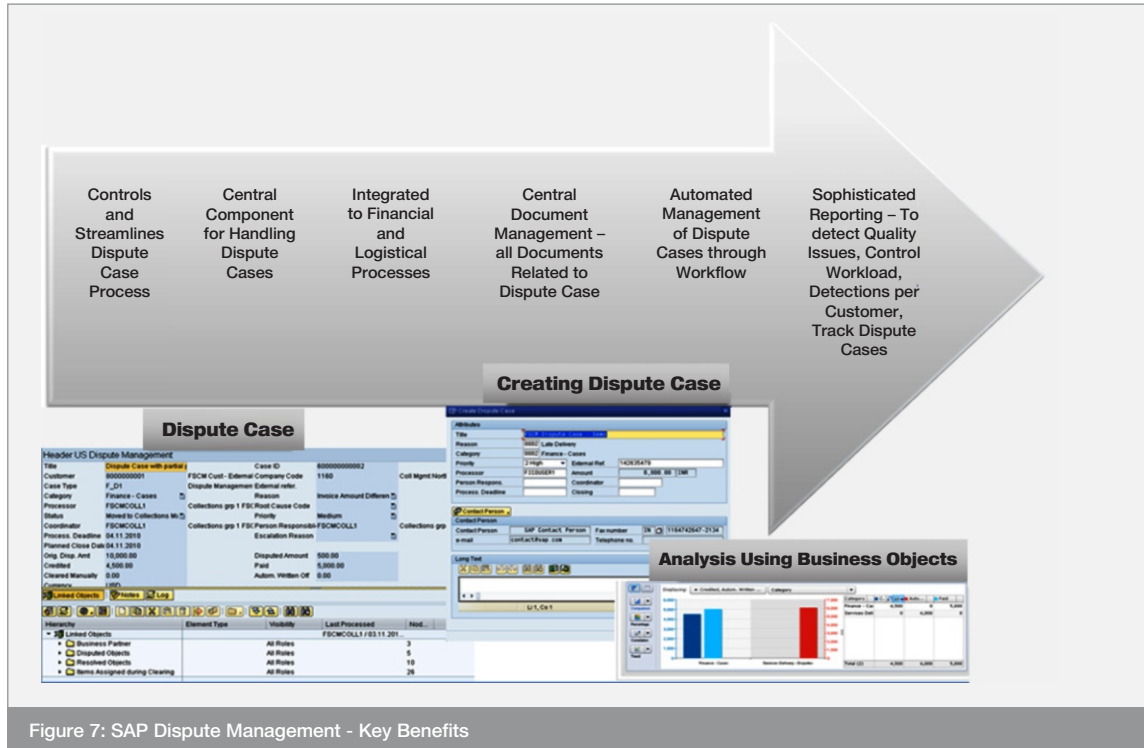


Figure 7: SAP Dispute Management - Key Benefits

SAP Dispute Management in its latest version 6.05 is enabled through Enterprise Services which will help quicken implementation of Dispute Management. Preconfigured base business processes in Dispute Management are available and can be deployed for further enhancements.

## 2.3. Business Benefits of SAP FSCM

The following graph illustrates the business benefits of implementing SAP FSCM solutions:

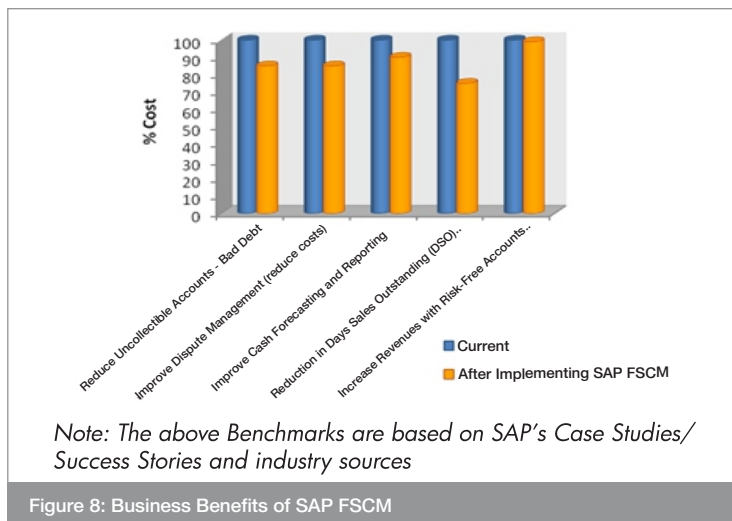


Figure 8: Business Benefits of SAP FSCM

# 3. Best Practices for FSCM Implementation

Implementing SAP FSCM is a key process and forms an integral part of the overall business process re-engineering. To leverage SAP FSCM and in order to attain comprehensive benefit of implementing SAP FSCM, best practices for implementation are given below.

## 3.1. Re-engineer Current Process

First the bad processes need to be re-engineered. Implementing SAP FSCM will not fix the bad business process. FSCM solution will aid in deriving business benefits that require to be solid and consistent. Once a good business process is in place, SAP FSCM can be utilized to automate and fine tune to meet business needs.

re-engineering process involves an all round effort from the organization and dedicating a team with responsibilities will enable a smoother transformation.

### 3.1.1. Setup a dedicated team for FSCM

A dedicated FSCM team comprising of all stakeholder like IT, credit and receivable business members under the direct purview of CFO is required from the customer side to define a clear organization wide credit policy and ensure the processes are aligned with the credit policy. The team's responsibilities are

- Review current processes and systems
- Identify value addition of implementing SAP FSCM solution
- Choosing correct SAP FSCM solution
- Responsible for overall improvement of the process

It is crucial that the Financial Supply Chain team needs to understand the importance and value of optimizing Financial Supply Chain through SAP FSCM solutions. In order to improve the overall process and identify areas of improvement, it is imperative to have data up-front.

### 3.1.2. Capture Metrics

SAP FSCM implementation will have a direct impact on the working capital. The value-addition that FSCM implementation brings is very high and hence should be captured and measured appropriately. The overall essence of the FSCM implementation should be monitored consistently, reviewed and bettered. In line with this, certain Key Performance Indicators (KPI's) should be captured and will serve as a bench mark on the quality of the receivable management processes.



Figure 9: Key Performance Indicators

In addition to KPI's, certain data metrics need to be captured in order to measure the impact of implementing SAP FSCM solutions. This will help in quantifying the benefits of implementing SAP FSCM. This will also help in defining the SAP FSCM roadmap more accurately and help in further qualitative analysis.

Some of the general metrics (not limited to) captured as a starting point for SAP FSCM receivable management implementation are given below:

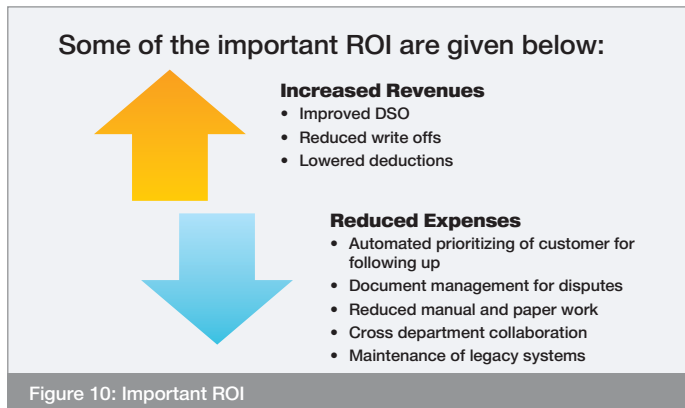
Collections	Dispute
<ul style="list-style-type: none"> <li>• Number of invoices per year</li> <li>• Annual sales revenue</li> <li>• Number of current open deductions</li> <li>• Value of current open deductions</li> <li>• Top reasons for customers not paying on time</li> <li>• Top customers that account for a significant portion of revenue</li> <li>• Top customers that are consistently delinquent</li> </ul>	<ul style="list-style-type: none"> <li>• Write-offs per year</li> <li>• Number of delinquent invoices per year</li> <li>• Value of deductions per year</li> <li>• Percentage of deductions resolved in favour</li> <li>• Top reasons for deductions in payment</li> </ul>

### 3.1.3. ROI Analysis

After capturing and measuring metrics, ROI has to be calculated in order to check the business viability for implementing SAP FSCM. Implementing a FSCM solution is an important exercise in any organizations SAP roadmap and requires a thorough analysis of the systems in place and the need for FSCM solution.

Unlike other solutions, SAP FSCM implementation is a business process re-engineering exercise. A re-engineered business process along with a highly capable system like SAP FSCM will provide the perfect platform for a best in class receivable management process which will result in reduced cost and increased revenue.

On implementation of FSCM, calculation of the ROI by high quality metrics capture and continuous monitoring will help prepare a strong business case.



### 3.2. Choosing the Right FSCM solution

Once the process is redesigned or re-engineered, the next step is to identify the right solution to manage the redefined process. Redefining is a continuous process performed by the dedicated FSCM team based on the metrics captured. SAP FSCM solution will provide the perfect platform for managing, supporting and enhancing financial supply chain processes.

Once SAP FSCM solution is finalized, the right components of SAP FSCM as well as the correct version needs to be identified for implementation. There are certain dependencies on FSCM version compatibilities with older versions and hence a thorough analysis based on existing infrastructure has to be performed in order to finalize the desired infrastructure.

In this regard, two key decisions need to be taken:

- Which version of SAP FSCM Collections & Dispute Management is to be implemented? In case of SAP ERP 6.0, which Enhancement Pack to be implemented?
- Should FSCM Collections and Dispute Management be deployed in the same system as Accounts Receivable or use a Multi System scenario?

This decision can be taken based on certain factors like

- Current Version of SAP (4.X or 5.0 or 6.0X)
- Current System Landscape and SAP system version
- Number of SAP Instances (across demography/entities)

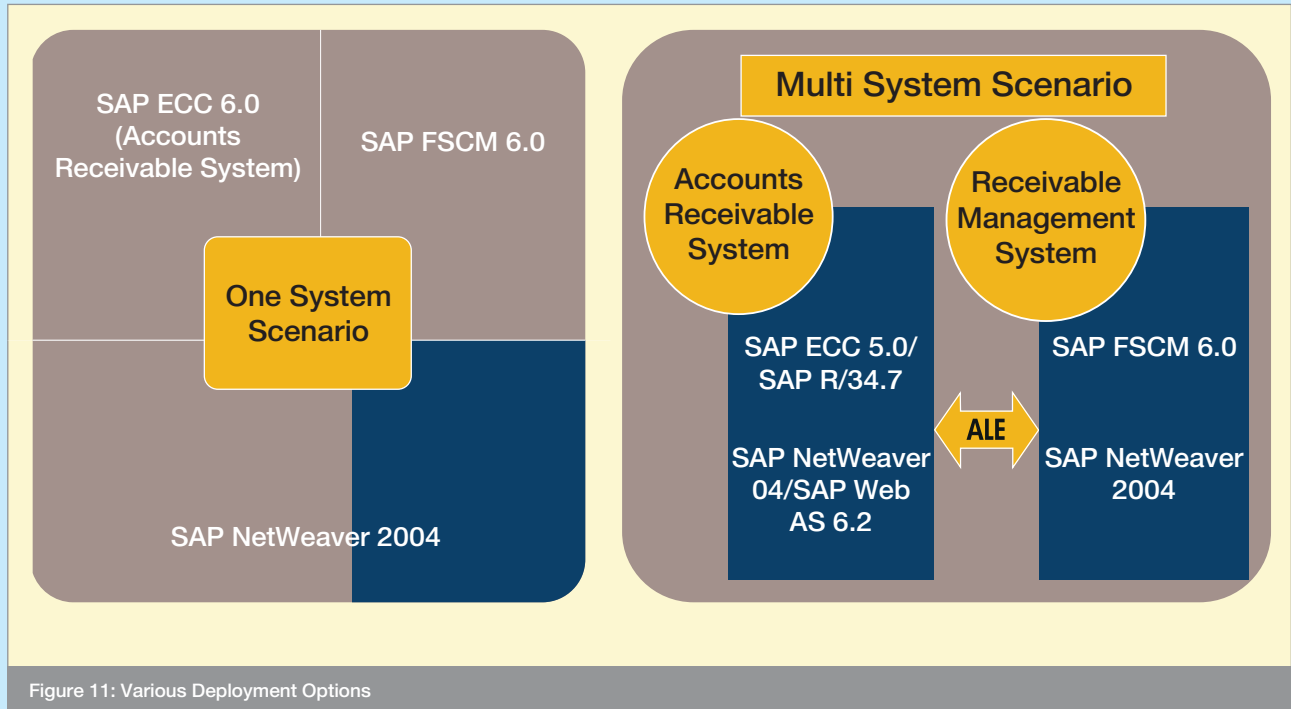


Figure 11: Various Deployment Options

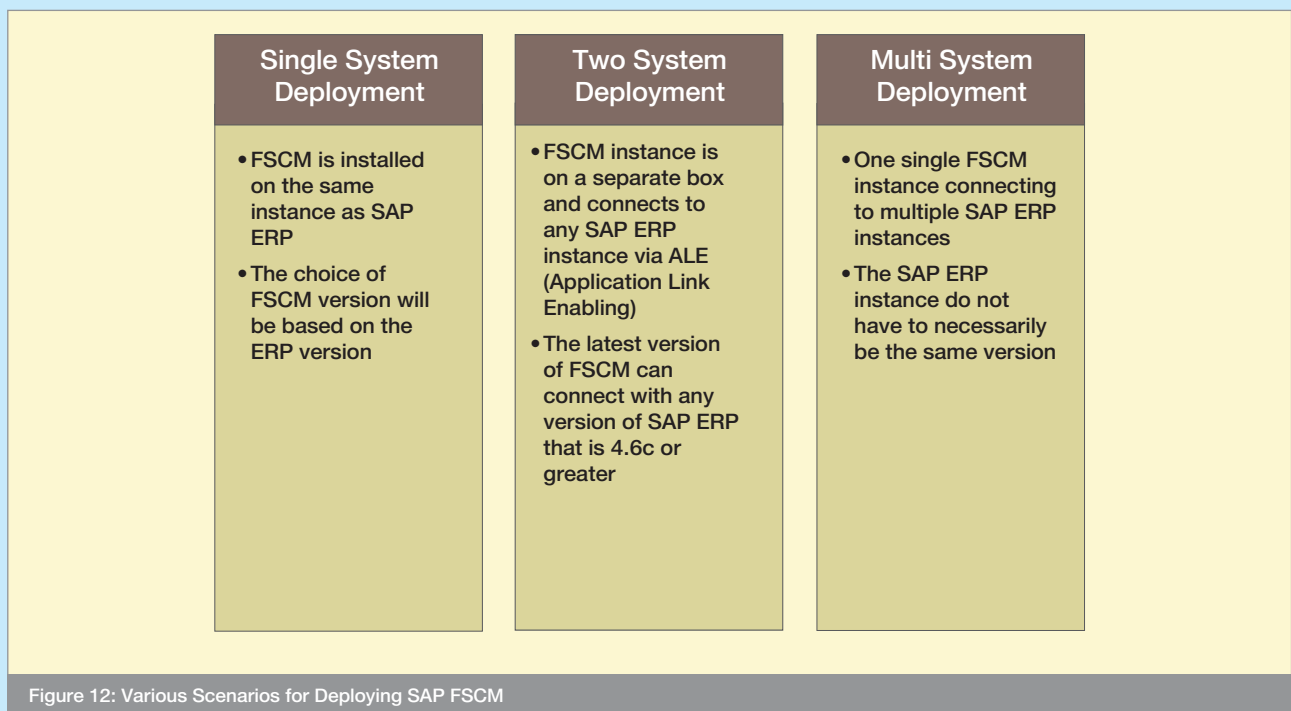


Figure 12: Various Scenarios for Deploying SAP FSCM

It is recommended to use the latest version (FSCM 6.0) for implementation to maximize value for the investment. Under extreme situations, the older versions can be deployed but this would result in significant reduction in ROI. The functionalities available in the older version will not be upgraded anymore and will not be able to support growing business needs. Also the latest version will only be able to support the new functionalities i.e. enhancement packages and hence the gap between old and new version will continuously be on the rise.

### 3.2.1. Using a Proof of Concept (PoC) Method

Insight into the solution can be gained by setting up a demo FSCM system and using the PoC method which is extremely valuable in deciding the right solution. This would also provide insight into some of the key features of FSCM will help in reducing implementation risk and also produce quality result. This is very important in order to design the solution and get management buy-in. This would also provide the platform for creating the SAP FSCM roadmap.

### 3.3. Defining Road Map for SAP FSCM solutions

Implementing SAP FSCM is a long term process with specific goals. An appropriate roadmap needs to be designed for future enhancements and changes to business processes. Data from all the solutions must be leveraged to have better control. Data from Collections and Dispute Management should be used in Credit Management when credit analysis for the customer is done and credit decisions taken accordingly.

Similarly credit data should be used when creating collections strategy.

Using FSCM capabilities, the business process has to be fine tuned continuously. Once we have FSCM solution in place, we can identify the root cause of disputes, find customer pain points etc and make suitable changes in the business process. To leverage this, it is recommended to use the SAP analytics for analysis across different parameters. SAP FSCM solutions can be easily integrated with various analytics solution from SAP.

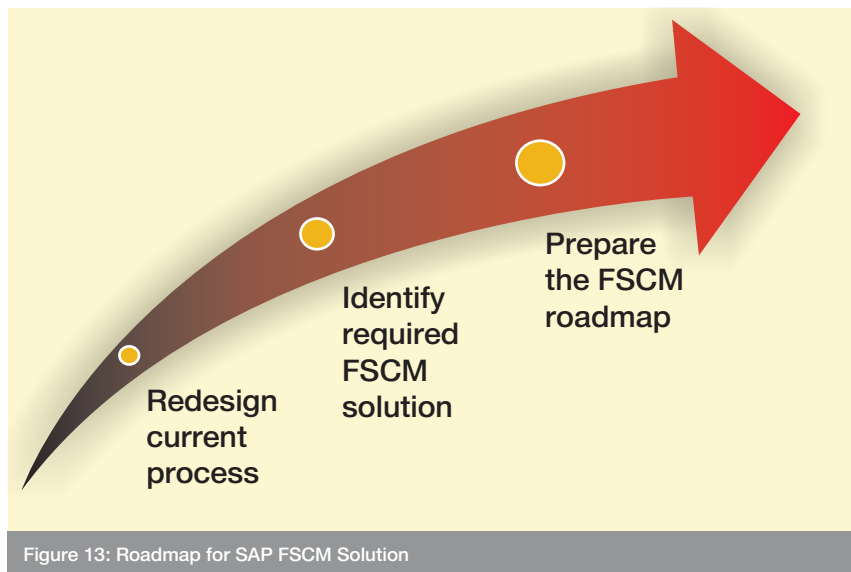


Figure 13: Roadmap for SAP FSCM Solution

A clear roadmap for FSCM solution has to be defined based on the KPI's and the current metrics. Once they are captured, visibility into current process is obtained. This should be used to redesign the process, identify the right FSCM solution and the future road map for other solutions.

Roadmap should contain the time plan for implementing different FSCM solutions. Also, it should contain in detail the changes to business processes, for example: The steps to be taken to move from reactive collections management to proactive collections management, etc. These are some of the factors which can be decided based on the quality of metrics available up front. In the absence of granular metrics, analysis of the system after implementing SAP FSCM can be carried out. Availability of better quality metrics post implementation would enable to identify opportunities to optimize the business strategy going forward.

### 3.4. Defining Requirements

The scope/requirements of the implementation have to be clearly defined along with the level of customization required. This can be better achieved by using a Proof of Concept Method. On defining clear scope, the methodology for implementation of SAP FSCM can be decided.

An organization can adopt a phased approach with 'out of the box' functionalities of SAP being implemented in the first phase and further enhancements in the second phase based on the metrics captured and budget availability. But certain factors need to be considered before going for such an approach:

- The choice of implementing a 'Big Bang' v/s 'Phased Approach' depends on the customer's risk appetite and can be substantially reduced by the use of a PoC
- Financial Supply Chain Management is a 'shot in the arm' to an organizations existing SAP Finance set, hence, tailored based on the specificity of each customer's business. The out of the box solution itself is designed with this background and can be easily enhanced based on individual requirements.

The best practices mentioned are derived based on experiences of companies implementing SAP FSCM, implementing SAP in general, policies/IT team in place in various organizations using SAP etc.

Best practices/parameters mentioned are generic in nature and are based on experiences and varied customer's needs. These can be used as a guideline while implementing SAP FSCM and need not be the only possible solution.

## 4. Implementation Methodology – Best Practices

'Successful Organizations don't do different things, they do things differently!'

The above applies to a customer's SAP Finance set up as well. Designing a new system over old processes does not help achieve the success that can be derived out of FSCM. Hence SAP FSCM implementation involves a

Top-Down involvement in the business process re-engineering to help attain both short and long term goals of the CFO.

FSCM implementation involves redesigning the processes in such a way, that the capabilities of SAP can be leveraged and at the same time attain significant improvement in business benefits. The Business Blueprint phase in ASAP methodology is of paramount importance considering the fact that in general most of the existing systems/processes will be disparate with a good amount of work carried out manually.

The solution designed during blueprint phase should streamline these processes and reduce manual work as much as possible. The FSCM structure and process has to be designed based on discussions with key stakeholder and it should be ensured that the design is aligned with the overall goals of the organization.

The following is a recommended process to be followed during Business Blueprint phase.

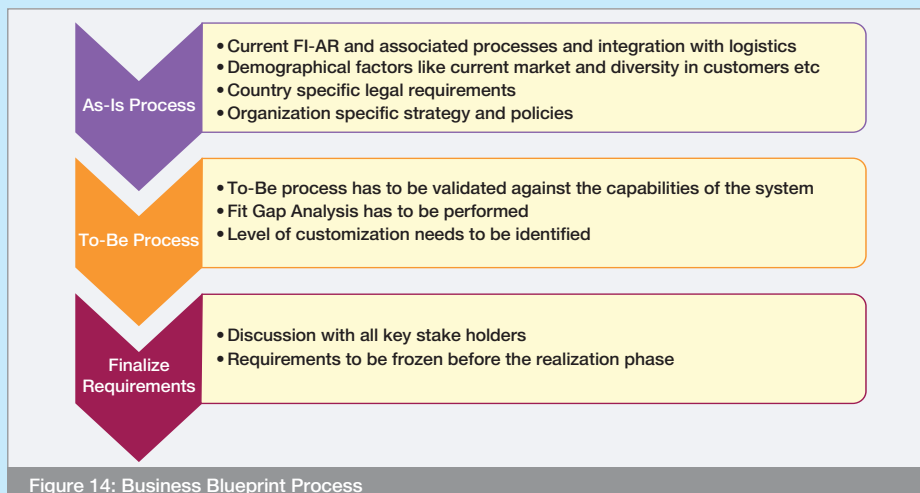
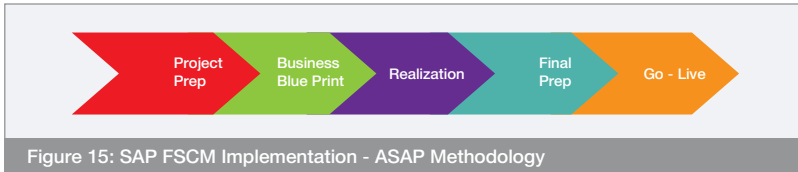


Figure 14: Business Blueprint Process

The SAP FSCM implementation follows the SAP Recommended ASAP methodology, to achieve efficiencies from prior implementations and exhaustive documentation. In general for FSCM implementation, timelines for blueprint phase will be on par with the realization phase.

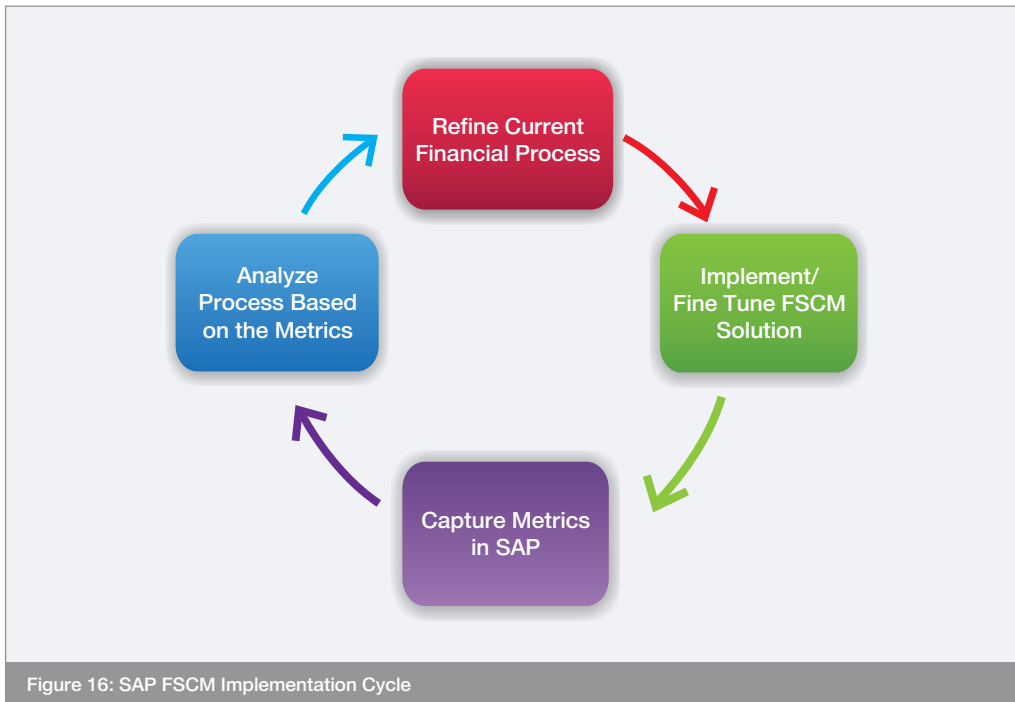


The exact timelines can be predicted only based on the following factors

- Organization structure
- Current policies
- Business needs of FSCM
- Various FSCM components to be implemented

Ideally FSCM implementation helps the customer organization in evolving and maturing the SAP Financials.

FSCM implementation can start yielding results from year one itself and keeps maturing every year if qualitative analysis and corrective actions are taken based on the metrics captured and processes tweaked accordingly.



An ideal FSCM Collections Management and Dispute Management implementation with ‘out of the box’ capabilities of SAP, would require approximately 6 months.

## 5. Case Studies

### 5.1. Stef-TFE Group – Standardizing Collections and Dispute Management

Stef-TFE has three primary businesses each with its own organization and corporate culture. Prior to implementation of the SAP Collections Management and the SAP Dispute Management applications, handling of payment issues were not standardized, harmonized, or even automated. Stef-TFE could not accurately forecast when or whether its customers would pay their bills. SAP has helped the company execute standardized, end-to-end processes for handling collections and dispute management and handle processes in real time.

Key Challenges and Opportunities	Objectives
<ul style="list-style-type: none"> <li>• Standardization and automation of collections and dispute management</li> <li>• Optimization of processes for thousands of customers of different sizes across 5 countries</li> <li>• Shorter collections process to free up cash flow</li> <li>• Streamlined handling of payment disputes for improved cash flow and greater customer satisfaction</li> </ul>	<ul style="list-style-type: none"> <li>• Support systematic tracking of individual invoices and payment disputes</li> <li>• Reduce days sales outstanding</li> <li>• Increase on-time payments</li> <li>• Reduce time for resolving payment disputes</li> <li>• Decrease write-offs of receivables</li> </ul>
Benefits	Implementation Highlights
<ul style="list-style-type: none"> <li>• Real-time management of collections and dispute processes</li> <li>• Reduction in days sales outstanding of 3 days</li> <li>• Reduction in bad debt write-off of 10%</li> <li>• Improved dispute resolution</li> <li>• Improved cash flow</li> <li>• Greater visibility into dispute causes</li> <li>• Detailed tracking of dispute resolution cycle times</li> </ul>	<ul style="list-style-type: none"> <li>• Full implementation within 6 months</li> <li>• Organizational restructuring to accommodate new collections and dispute management processes</li> <li>• 100 users in 5 locations</li> </ul>

## 5.2. Unternehmensgruppe Theo Müller GmbH and Co. KG

Germany's largest privately owned dairy business optimized its working capital by improving collections efficiency and cash flow using the SAP Dispute Management application. It has streamlined its dispute and receivables resolution using SAP.

Key Challenges and Opportunities	Objectives
<ul style="list-style-type: none"> <li>• Cut days sales outstanding</li> <li>• Resolve disputes faster</li> <li>• Reduce administration overhead for managing differences with incoming payments</li> <li>• Optimize customer relations</li> </ul>	<ul style="list-style-type: none"> <li>• Make available to sales executives and finance teams a single, up-to-date view of each dispute instance</li> <li>• Enforce consistent, automated dispute resolution and debt collection processes enterprise-wide</li> </ul>
Benefits	Implementation Highlights
<ul style="list-style-type: none"> <li>• Created electronic dispute files for each customer and instance</li> <li>• Enforced standardized, automated dispute management processes</li> <li>• Improved efficiency by integrating dispute management functionality with existing SAP back-office processes</li> <li>• Resolved most disputes faster</li> <li>• Improved cash flow by cutting days sales outstanding</li> <li>• Built stronger relationships with customers through timely resolution of disputes</li> </ul>	<ul style="list-style-type: none"> <li>• Followed best practices when implementing and going live with solution</li> <li>• Ability to meet all business and user needs without customization</li> <li>• Ease of implementation based on existing SAP solutions without the need to build and maintain interfaces</li> <li>• Began process of rolling out SAP Dispute Management to operations in the United Kingdom</li> <li>• Lean Implementation methodology was adopted to ensure timely implementation of SAP Dispute Management.</li> </ul>

These case studies are shown to illustrate the real world benefits of implementing SAP Collections and Dispute Management. These are taken from SAP's website as a reference.

## 6. References

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Volume 1 / Issue 1, May 2009
2. Customer to Cash – Managing your Working Capital - [vimeo.com/9184166](https://vimeo.com/9184166)
3. Managing the Financial Supply Chain with SAP – Podcast - June 2009, SAP World Tour

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