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Order Management: How Three Companies Use Digital Tools to Automate the Process

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Executive Summary

There's a big disparity between top-performing and typical finance organizations when it comes to the degree of automation in the order management process. For the latter, this has significant consequences in terms of cost, cycle time and error rates. Increasingly, companies looking to enhance their performance are turning to digital technologies to reduce manual intervention and increase the speed and efficiency of their order management process. Tools in use include robotic process automation and artificial intelligence. Three companies profiled in this report, Underwriters Laboratories, Sonepar, and a global electrical distributor, offer examples of how digital technology can transform the order management process and enhance performance.

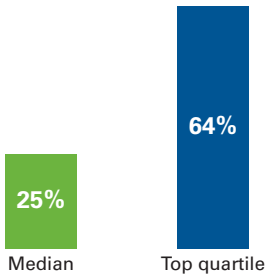
A Call to Action

For many companies, the order management process remains highly manual. Our 2017 benchmark database shows that world-class finance organizations automate 64% of their orders, 2.5 times more than the typical organization (designated as the peer group in our empirical methodology) **(Fig. 1)**.

In low-automation environments, customers call, fax or email their orders. Agents take the orders and manually enter them into an internal order-management system, typically an ERP. The ERP then routes the order to the fulfillment team and on to the customer-billing process. This manual input phase is costly, error-prone and time-consuming.

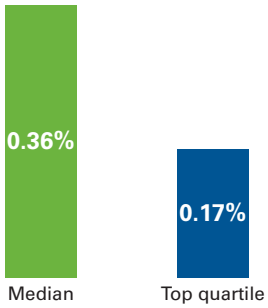
Median companies in our database have 53% more orders requiring correction for errors compared to top-quartile organizations **(Fig. 2)** and it takes them three times longer to fulfill orders **(Fig. 3)**. Yet top-quartile companies' per-transaction costs are 67% lower than the median **(Fig. 4)**.

FIG. 1 Percentage of orders that are automated



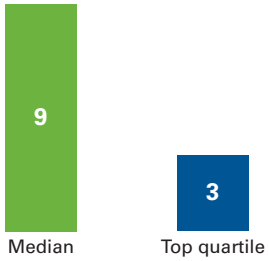
Source: The Hackett Group, 2017

FIG. 2 Percentage of orders corrected for errors



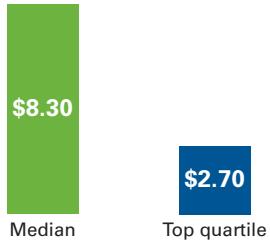
Source: The Hackett Group, 2017

FIG. 3 Cycle time (in days) to fulfill orders



Source: The Hackett Group, 2017

FIG. 4 Order management: Cost per transaction



Source: The Hackett Group, 2017

It's not surprising that companies are trying the remove the human intervention factor from their order management process. Luckily, there is a wide selection of tools available today that leverage artificial intelligence (AI) and robotics to speed up and clean up the process in ways that weren't possible before. They range from AI-enabled fax and email translation software, to straight-through processing via third-party portals, to direct machine-to-machine communication using application protocol interfaces (APIs).

Case Study #1: Robotic Process Automation

Underwriter Laboratories (UL) is a global, privately held company based in Illinois. It tests and certifies products offered by other companies, such as toys distributed with orders by fast-food businesses and electronics. The UL seal of approval assures its customers' own customers that a product has been tested and has passed a safety test.

To start the order-entry process, customers call sales representatives to describe their product specs and request a quote for testing a product, according to Edwin Gordon, UL's global director and global process owner for order-to-cash. The reps enter the quote information into an Oracle system. The quote request may come from a new or existing customer and goes through several iterations. Once confirmed by the customer with a purchase order, it's promoted as an order in the system. At that point, the order goes to the credit department to evaluate the customer's credit in a largely manual way. If credit is approved, the order is released to fulfillment, where the work is performed.

UL's order-to-cash process boasts a 95% level of matching between the initial quote and the final invoice. "We're inching closer to 96% every day," Gordon said. "I expect to be at 97% at the end of the year."

The current process provides the business with the information it needs to fulfill the service accurately and quickly. The consumer product division is an exception. Here, the company manages a large volume of low-value orders. While Oracle handles the lion's share of the order-to-cash process, the company is very acquisitive, which means new entities run their own systems, blocking visibility into order status and providing only month-end and customer-aging summary figures until they are integrated into the system. That prevents the system from automatically matching purchase orders (POs) to payment, resulting in delays in issuing invoices and cash application. Overall, however, most of the POs received are processed straight through to invoice without any change orders or additional iterations. There are only a few other exceptions on very high-value work performed when certifying processes, as opposed to products.

UL sees room for improvement by automating its order management process. It has experienced demand from its customers to offer straight-through processing via supplier portals. Basically, they want UL to accept POs from supplier portals such as Ariba (an SAP product) directly, whereas right now it requires a manual reentry into the Oracle system before the order management process can begin. It's then followed by a manual reentry into the Ariba portal when the invoice is generated.

"Our customers would like to see seamless integration to the supplier portal," Gordon explained. "With a portal, you'd receive an email that a PO has been issued and you can accept it and pay it in the system." The way things work now is entirely manual. "We go into the supplier portal with our own UL ID and invoice in their system, inputting the same information that exists in our system," said Gordon. "We're looking at robotic process automation to handle the order management mailbox, so once that email with the PO is available, the robot will grab the PO and accept it, lifting the data and inputting it into Oracle. Then, once the order is fulfilled, UL will be able to rely on the robot to close the order and enter the data back into Ariba."

Gordon would like to improve his ability to view upstream order-to-cash processes such as quote management, contracting and customer master-data management. That would provide him with the potential to reduce or eliminate related rework that shows up in the downstream processes such as customer billing, cash application and dispute management. For example, he says he would like to have visibility into the company customer relationship management (CRM) system, so he can see when orders are reaching a high probability of occurrence, at what size and geography, and what possible date. This way he can prepare his team to handle the incoming order and fulfillment flow. "I can be proactive, not reactive," he said. "I can tell where the volume is coming from." For example, Christmas rush happens between March and June at UL, as its retail industry customers work to get their products certified in time for sales during the holiday season.

Additionally, if Gordon has information about orders from customers that previously used a cheaper certification provider, he can be proactive and address potential credit issues. The risk in these cases is that customers were cut off by their previous vendor for lack of payment. Another scenario is the location of the customer. If a big order is coming from China, Gordon may prepare his staff to work different shifts or hire extra staff locally to help ease the processing.

"Right now, I have limited visibility into the [order flow] forecast," he said. "I can have the best effect in terms of quality and speed by having better insight into the upstream process." He added that he needs to improve his ability to work with other process stakeholders. For example, sales reps often just copy and paste information to enter a billing address, even when that information is faulty. "If they only stopped to confirm the billing address, for example, when the customer is on the phone, that would save so much work downstream," he suggested.

Ultimately, Gordon's mission is to transform UL's order-management process to state of the art. "It's always the hardest to close that extra last stretch. But I want to set a new bar."

Case Study #2: Artificial Intelligence-Enabled Automation

This approximately $2 billion global distributor works with over 600 suppliers, reselling their products primarily through its website, which carries over six million SKUs. Overall, the company ships 17,000 to 18,000 packages per day.

Around 65% of its orders come directly from its website and are automatically processed. Of those, 40% are processed straight through to the warehouse; others may require some quick touch. The remainder of the orders (35%) come in through phone (very small), fax and email, third-party portals and EDI. Emailed and faxed orders, which make up around 20% of that total, are the company's biggest order-management pain point. Fax images and emails are routed to an agent who opens them up, finds or adds the customer to the database, and checks the shipping, billing and part-number information. The agent then submits the order, which goes to the warehouse. However, information is often missing or in need of verification. For example, there may be a mismatch in the pricing information between the order and the pricing information in the company's database. In fact, in 75% of the cases, agents need to follow up with customers before an order can be submitted into the system for picking and packing. This makes the order process longer and more expensive.

With annual growth in the 20% range, this distributor needed to find automation solutions that would be scalable, reduce manual work, contain cost, and free up staff to focus on higher-level work. The distributor chose an automation solution that captures and emailed images, extracts the information, and enters it directly into the system. It has implemented a degree of "punch-out" capability, i.e., the company's catalog is pre-loaded into third-party systems such as Ariba, which allows customers with these systems to send in their orders in an automated fashion. Finally, the company is in the process of developing APIs for customers that have the capability to directly connect their internal systems to those of the distributor. Not all customers who email or fax orders are eligible for the automation tool. To be included, they have to have a track record of supplying reliable information, such as part numbers. They must consistently submit orders in a standardized format. Lastly, they have to generate enough volume to justify the cost of migrating them to the tool.

By looking at the customer database and order history, the company identified 1,000 customers that fit these requirements. It has been using the solution for a year, during which 700 customers have been migrated onto the system. It expects that the balance of 300 will be added by the end of 2017.

By shifting to the automated solution, the company has drastically reduced its order cycle time for faxed and emailed orders. Cycle time for orders placed via the website is approximately three minutes, compared to the 10 minutes required to manually input data from an order submitted via telephone, email or fax. With the new automation solution, the cycle time for eligible fax or email orders is down to approximately three minutes, as well.

Year to date, approximately 9% of these assisted orders have been entered through the automated system. As more customers are added, the company expects that number to grow. It also anticipates the new tool will reduce the rate of data-entry errors. Five months into 2017, the company entered 330,000 line items through the automated solution, allowing it to save 50 work-hours per day. Plus, while the distributor is growing quickly, it hasn't had to hire additional staff to handle the commensurate growth in order volume.

Along the way, there were two hurdles to adoption. First was the issue of change management, i.e., helping employees understand why the changes were being made. Also, it was important to understand which customers were a good fit for the tool.

Case Study #3: A Multichannel Digital Solution

Sonepar is an independent, family-owned company with global market leadership in business-to-business distribution of electrical products and related services. Headquartered in Paris, France, the €20.6 billion multinational is represented by 239 independent entities in 44 countries.

At Sonepar USA, customer orders traditionally have come in from the field. Sales representative would sell products, write down the order and later input it into the company's ERP. Some orders would come through email or fax, which again had to be manually keyed into the system. Finally, some orders were made at a sales kiosk or cash register; those would be entered directly into the ERP.

As digital transformation has changed both the competitive environment and customer expectations, the nearly 50-year-old company has felt the need to change as well. It adopted digital technologies to offer customers new purchasing experiences and a more efficient way to bill. "We live in a world that dictates that. You have to keep pace or you fall behind," said a Sonepar executive.

First, it upgraded its automated order email program by outsourcing it to a third party. The system reads incoming email orders that match a standardized format and directly inputs them into the ERP. The company migrated to the service provider primarily "because we wanted to leverage the capabilities and expertise that a world-class sales automation tool would have to offer," said the Sonepar official.

The tool provides Sonepar's operating companies with greater flexibility in the types of emails they can automate. It also reduces setup time and decreases the overall percentage of errors. Finally, it makes managing the solution easier by providing more visibility, including activity reports. The program was migrated to the service provider at the end of July 2017. By October, the company had seen an increase in the average number of setups per month compared to the legacy system, as well as a rise in overall sales volume coming through this channel.

Next, Sonepar built a website and mobile app that let customers order parts directly. Orders that come through either channel go straight into the ERP. The website and app offer customers a self-service way to find products, view pricing and availability information, and access detailed product specifications. While there is clearly an efficiency and effectiveness benefit to the company, Sonepar's chief focus is providing customers with a convenient, 24/7 self-service option.

Once the order is in the ERP, it goes to the right warehouse. There, an associate picks the product off the shelf and prepares it for shipping or pickup. After that, the ERP produces an invoice.

Sonepar tracks sales revenue from each channel and the percentage of revenue each represents, as well as metrics such as site traffic. It also uses traditional analytical tools to measure other KPIs, like error rates. Each of Sonepar's independent companies is responsible for converting customers from the traditional process to the new digital approach.

Conclusion and Recommendations

Order management is a process that at many companies still involves a substantial amount of manual intervention. Hackett Group data shows that typical organizations automate only 24% of order volume, leading to higher cost, error rates and longer cycle times. As digital transformation puts customer-centricity at the core of finance organizations' service delivery model, they need to reorganize the order management process by leveraging digital technologies like robotics and AI.

Companies can improve the order management process in the following ways:

1. Automate the process of emailed and faxed orders through AI-enhanced systems that read more standardized orders and directly enter them into internal order management systems.
2. Use robots to bridge gaps between multiple systems, including external portals.
3. Build APIs to connect their systems with those of their customers for direct, machine-to-machine interaction.

Using any one or a combination of these approaches can greatly reduce the cost and increase the accuracy of the order management process, so that typical organizations can approach or match the achievements of the top-quartile performers in The Hackett Group's database.

About the Advisors

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Senior Research Director

Ms. Essaides has over 25 years of experience researching, writing, and speaking about finance and treasury issues, with a focus on the way finance adds value to the enterprise through excellence in financial management and planning processes. Previously, she worked at the Association for Financial Professionals, where she led the FP&A practice. Ms. Essaides, a prolific blogger with thousands of LinkedIn followers, writes for external publications such as *Digitalist Magazine*. In addition, she co-authored a book about the internal transfer of best practices, *If Only We Knew What We Know* (Simon & Schuster, 1998).

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In his current role, Mr. DeGraw conducts topical research, supports client inquiries, leads member webcasts, performs client briefings, and speaks at conferences on topics including working capital, purchase-to-pay and customer-to-cash processes. His expertise includes credit/risk modeling, customer segmentation, collection strategies, supplier risk analysis, buy/pay transactional strategy, and leverage of automation. He has over 20 years of corporate and consulting experience in business process creation and reengineering, cost reduction/management, planning, budgeting and financial analysis. Mr. DeGraw's previous experience with The Hackett Group has included managing and delivering finance, procurement and other benchmark projects for clients in both the public and private sector.

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