Order-to-Cash Defined

Scott Beaver | Senior Product Marketing Manager

Every business needs to process customer orders efficiently and get paid for them in a timely way. The order-to-cash (OTC) cycle comprises all the steps that make that happen, from order placement to payment. A streamlined, automated OTC cycle can deliver a range of benefits, including better cash flow and happier customers. Here's a deep dive into the steps in the OTC cycle, a review of best practices and a guide to automating the process.

What Is Order-to-Cash (OTC or O2C)?

Order-to-cash, commonly abbreviated as OTC or O2C, refers to all the steps involved in processing customer orders from the moment a customer places the order to when payment is received and applied to accounts receivable. Steps in the OTC cycle include order management, order fulfillment, billing, payment processing and reporting. A fast and efficient OTC cycle is critical for maintaining healthy cash flow because it reduces the time between receiving orders and getting paid. It also can boost revenue by ensuring that customers' bills don't slip through the cracks and go unpaid.

Order-to-Cash vs. Quote to Cash
While order-to-cash focuses on order processing and payment, quote-to-cash (QTC or Q2C) describes a broader set of steps used by companies offering goods or services that have variable pricing. Businesses that provide configurable products or project-based services often have a QTC process. As its name would imply, QTC adds several initial steps, such as quote preparation, to the OTC process. These steps include configuring an offering to meet a customer's needs, creating and presenting a quote, and negotiating pricing or other aspects of the offering. Once final terms are set and the customer places the order, the company then completes the rest of the cycle as OTC.

Key Takeaways

- The order-to-cash process includes all the steps from when a customer places an order to when the company receives payment.
- Steps in the order-to-cash cycle include order management and fulfillment, invoicing, payment and reporting.

- The order-to-cash cycle can be automated with an enterprise resource planning (ERP) system that integrates data from across the organization.

Order-to-Cash Explained

An efficient and automated OTC cycle can improve cash flow — a critical concern for many businesses — while enhancing the customer experience. [Accelerating the OTC process](#) helps ensure that companies receive payment faster because they can process orders more quickly and invoice customers sooner. Creating an efficient OTC process requires integrating functions and data across different parts of the business, from order management and shipping to accounts receivable.

Because the OTC process is one of the primary ways that a customer interacts with a business, it plays an important role in customer satisfaction. Customers should be able to place orders easily, understand exactly how much they owe and when their payment is due, and see when their order will be delivered. An efficient OTC cycle also helps ensure that customers quickly receive the goods they order. In contrast, slow or disorganized OTC processes can create problems that negatively impact the customer experience, such as shipping delays and inaccurate bills.

What Is the Order-to-Cash Process?

An efficient OTC cycle makes sure that all orders are processed, fulfilled, invoiced and paid as swiftly as possible. It should also aim to optimize the customer's experience, from ordering to

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9 Steps in the Order-to-Cash Cycle

A typical OTC process includes these nine steps, which begin as soon as the customer places an order.

1. **Customer purchase.** The purchasing process varies by industry and by company, from simple online orders to complex sales that require a conversation with a sales associate. Regardless of the purchasing method used, a business needs to be able to accurately capture all the relevant information and quickly initiate subsequent order-processing and order-fulfillment steps.

2. **Order management.** Once the customer makes a purchase, [order management](#) moves the order through the rest of the OTC cycle. To process orders quickly and efficiently, the order management process tracks the order at each stage, keeps the customer informed of order progress, and identifies and resolves any problems, such as out-of-stock items. An

3. **Credit management.** If a business makes sales on credit, it's important to assess customer financial risk. For new customers, businesses may run credit checks or require references before extending credit payment terms. Diligent attention to credit management can help minimize the potential for overdue balances from unreliable customers.

4. **Order fulfillment.** [Order fulfillment](#) includes picking and packing the ordered items and shipping them to the customer.

5. **Order shipping.** Once the items have shipped, the customer should be notified and given an estimated arrival date. Shipping considerations can be complex, especially for companies that sell internationally. Businesses that frequently ship items can benefit from researching low-cost and efficient shipping methods. For international shipping, businesses need to consider customs declarations and extended shipping times as well.

6. **Invoicing.** Prompt invoicing helps accelerate the [order-to-cash cycle](#) and improves cash flow — customers can't pay a bill until they receive one. So, it's important to eliminate delays between fulfillment and invoice creation in order to get invoices into customers' hands in a timely way. To speed up the invoicing process, supporting information like sales or purchase orders must be readily available.

7. **Accounts receivable.** Once the invoice is generated and sent to the customer, it's up to the [accounts receivable (AR) team](#) to make sure payment is collected. Finance management software can help smooth the accounts receivable process by automatically tracking invoice due dates and creating reminders.

8. **Payment collections.** It's an unfortunate fact that not all customers pay bills on time. The AR team needs to accurately track which accounts are overdue and take action to collect payment when necessary. A delinquent customer's account can also be flagged to prevent them from making further purchases.

9. **Reporting.** With the help of software, companies can analyze the efficiency of each stage

critical for facilitating reporting and analysis. ERP software that integrates data from across the business and provides strong reporting capabilities can help the business track key metrics, such as [total order cycle time](#) and [AR turnover ratio](#).

① Purchasing ② Order Management ③ Credit Management

⑥ Invoicing ⑤ Order Shipping ④ Order Fulfillment

⑦ Accounts Receivable ⑧ Payment Collections ⑨ Reporting

The order-to-cash process begins when a purchase is made and ends when the payment is deposited and reported.

of surveyed finance leaders have reduced month-end close time since switching to NetSuite.

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Source: TechValida

5 Order-to-Cash Best Practices

Improving the OTC process can improve cash flow by speeding up payments and can increase revenue by reducing bad debts. Here are five best practices for enhancing your OTC cycle:

1. Analyze each step in the process.
Take a close look at how each step in the OTC cycle works. For example, after a customer places an order, is the order fulfillment process triggered automatically or does it require manual input? Are invoices sent automatically? What is the process for collecting past-due bills? The analysis should highlight areas where the process can be streamlined and automated.

2. Start with the low-hanging fruit.
Target areas where process improvements offer the highest return for the least effort. Common problem areas include fulfillment delays, high shipping costs and late customer payments.

3. Automate.
Automating the OTC cycle with software can improve cash flow and operating efficiency while enhancing the ordering experience for customers. For example, software can improve AR processes by automating invoice generation and reconciliation, creating payment reminders and flagging overdue accounts. Automation can also reduce errors in billing and order fulfillment by eliminating duplicate data entry.

4. Integrate operations and data with ERP.
A smooth, efficient OTC cycle requires integration of data and operations across the business. That's often difficult when companies use disparate software for each function. ERP software provides an integrated set of business applications that use a single unified

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monitor trends, quickly identify problems and analyze process efficiency.

5. **Listen to customers and staff.**
Your customers and your staff can provide valuable insights into the strengths and weaknesses of your OTC process. If customers frequently complain about shipping delays or billing errors, it makes sense to prioritize those fixes. If warehouse staff can't quickly find ordered inventory, it may be cost-effective to invest in a better inventory tracking and [warehouse management system](#).

Order-to-Cash for Subscription Businesses

More and more businesses are turning to subscription models, from streaming media providers to monthly delivery services and software-as-a-service (SaaS) companies. Subscriptions can generate more reliable and predictable [cash flows](#) than the traditional models for selling products and services. However, they can also create complications for the OTC cycle. Billing can become much more complex, for example. Revenue recognition can also be challenging, particularly for companies that previously focused on product sales, as opposed to services.

Subscription services generally increase the volume of invoices because they require businesses to generate recurring bills at fixed intervals for the duration of the customer relationship. Adding to the challenge, the amount billed may vary from invoice to invoice. Depending on a company's business model, for instance, and how subscription plans are structured, volume-based rates or overage charges can apply. Promotional discounts and free trials that eventually convert to full price subscriptions make billing even more challenging. Automating billing is essential, because preparing invoices manually for hundreds or thousands of customers every month makes it difficult to ensure accuracy, especially with complex pricing scenarios. Manual processes are

business grows, which is unsustainable.

Automating Order-to-Cash in ERP

Cumbersome, labor-intensive OTC processes can cause problems both for your business and for your customers. In addition to hurting cash flow, manual processes can cause problems such as shipping delays and inaccurate billing. [NetSuite Enterprise Resource Planning](#) enables businesses to streamline and accelerate the OTC cycle, improving cash flow by automating steps from order entry to fulfillment and payment. NetSuite ERP knits together the functions involved in the OTC cycle — sales, customer service, operations, accounting and more — in a single integrated solution. NetSuite automates key financial processes, such as billing and revenue recognition, even for complex subscription-based pricing models. Businesses can monitor operating efficiency throughout the OTC cycle and identify bottlenecks using real-time dashboards and business intelligence tools.

An efficient order-to-cash cycle is important for any business. A streamlined, automated OTC process can help businesses improve cash flow and reduce bad debt while delivering a better experience to customers.

Let ERP automate your OTC cycle and get paid faster.

ERP can take the cumbersome and error-prone part of OTC off your plate. Download the expert

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leaders have
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Order-to-Cash FAQs

What is P2P and O2C?

O2C stands for order-to-cash, the sequence of steps involved in processing customer orders. Sometimes abbreviated OTC, the O2C cycle starts with order placement and ends with the receipt of payment. P2P, on the other hand, stands for procure to pay and is the corresponding process businesses follow when purchasing, receiving and paying for goods and services.

What is billing in order-to-cash?

In the order-to-cash process, the billing step involves requesting payment from a customer, typically by issuing an invoice.

What is order-to-cash process?

A typical OTC process includes nine steps, which begin as soon as the customer places an order. The steps include order management and fulfillment, invoicing, payment and reporting.

What is job order costing?

Job order costing is a method that companies use for pricing and tracking the costs of custom products and services. It's commonly used by companies that undertake complex one-off

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Quote-to-Cash Process: What It Is, Benefits, & Examples

The quote-to-cash process encompasses everything your business needs to do from when a potential customer is given a quote for your product or service until a purchase is made, the product or service is…

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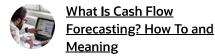
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