# Order To Cash (OTC)

**Order to cash** normally refers to the enterprise resource planning (ERP) process in which taking customer sales (direct from the customer & retail) orders via different sales channels, such as email, internet, sales person, fax or by some other means like EDI, and then fulfilling the order, shipping, logistic and then generating an invoice and collecting payment for that invoice and then receipt.

If we consider the entire flow, this can be further categorized into the following seven sub-processes:

- Customer presence
- Order entry (creation of order/booking of order )
- Order fulfillment (physical & digital fulfillment)
- Distribution
- Invoicing
- Customer payments/collection
- Receipt

**Purpose**

The SAP Best Practices scenario for Order to Cash supports the entire process chain for a typical sales process with a customer. The business process encompasses all steps from creating an order, and optionally, based on a quotation, creation of a delivery, to the billing procedure. During the sales order generation a credit check for the customer is executed and subsequent handling of blocked sales documents is demonstrated. An availability check is done followed by product allocation. Product allocations represent an ordered allocation of production for certain periods, so that a partial quantity can be delivered if not enough stock is available for further orders.

Additionally, Service Charges are entered manually in the sales order, depending on the quantity of goods ordered. In delivery processing the delivery is created, the goods are picked, kitted, packed, shipped and the goods issue is posted. In the billing process that follows, an invoice is created and released to financial accounting. To complete the process, the customer payment is posted to clear the accounts receivable.

This scenario also includes additional presales support activities in addition to sales order processing, delivery, billing and payment. The process begins with a sales inquiry captured in a sales activity document in sales support. The inquiry results in a sale and the process shows how the initial sales activity can be linked to a sales document that is created in the subsequent order processing. At the time of order creation, dynamic product proposals, material substitutions, free goods and material exclusions are demonstrated. At delivery processing the delivery is created, then picked, and goods issue is posted. In the billing process that follows, an invoice is created and released to financial accounting. Incoming payments are documented in payment processing and then posted in financials.

**Process Flow**

- ❒ Sales Quotation
- ❒ Standard Order
- ❒ Shipping
- ❒ Delivery
- ❒ Picking
- ❒ Posting Goods Issue
- ❒ Warehouse Picking Execution
- ❒ Packing
- ❒ Posting Goods Issue
- ❒ Billing
- ❒ Payment of Customer

This process flow encapsulates a variety of smaller business processes from order entry to cash receipt. It pulls resources from many different company departments.

Improving the order-to-cash process is a strategic priority for many companies. Typical improvement objectives include fulfillment performance (order accuracy, shipment accuracy, and on-time shipping), financial performance (reduction of receivables, collection management costs, and Days of Sales Outstanding, or DSOs).

The multi-step order-to-cash process originates with a customer order and terminates once the customer pays for the goods or services received and the company applies the cash.

Five areas are affected by the order-to-cash cycle:

1. Customer,
2. Order entry,
3. Order fulfillment,
4. Distribution, and
5. Finance and accounting.

Since most companies are functionally managed, the order-to-cash process usually touches multiple departments, companies, and back-end enterprise applications. Therefore, it is important for each department to complete its part of the overall process error-free and transfer correct information across functional boundaries.

**Automated Sales Order Processing for Order-to-Cash Performance with ERP Systems Overview**

Business performance depends on how well a company manages its internal processes. Companies with effective business process management in place are able to analyze key performance indicators to monitor efficiency of day-to-day activities and employees against operational targets.

Order-to-cash is a generic term used to encompass the business cycle that starts with reception of a customer sales order and ends with collection of accounts receivable generated in the sale of the final product. There are several sub-processes within the order-to-cash cycle, including: receiving orders, entering sales orders, approving sales orders, fulfilling orders, billing for the orders and collecting payment.

Many companies have implemented enterprise resource planning (ERP) applications to standardize enterprise operations and support business process management strategies. ERP solutions empower companies to automate many business processes formerly done by hand. But to achieve full return on investment in ERP solutions, businesses need to automate the documents that drive business processes.

**Order-to-Cash Service Platforms**

Businesses are investing significantly in software that integrates various applications and processes onto a single service platform. This way every participant in the composite process has the same view of every action and event.

Companies that implement the order-to-cash process internally often break the process down into smaller pieces (order-to-ship, ship-to-delivery, delivery-to-invoice, and invoice-to-payment). UPS, FedEx, and others are increasingly offering order-to-cash service platforms to small and midsize businesses. The shippers handle all parts of the end-to-end process: order flow, fulfillment, and payment.

## Technical Capabilities of Order-to-Cash Service Platforms

Every robust order-to-cash service platform provides the comprehensive process management capabilities needed to automate the underlying order-to-cash business processes. The combination of robust business process management, componentization of processes and systems, and native support of Web Services standards is at the core of the service platform. Some of the capabilities include:

- Unified process automation and human workflow,
- Automated, intelligent management of data, process exceptions, and errors,
- State management to track, store, and intelligently act on complete status of each step (or state) of a multi-step transaction,
- Transaction rollbacks and compensating transactions,
- Time-based exception management, and
- Adaptable business agents that monitor real-time metrics and adjust themselves automatically according to predefined rules.

## Hypothetical test scenario: Order-to-close scenario

Total time to execute manually including recording test results: 25 hours.

Frequency: Executed five times during the year to support major system releases.

Stability: Process is subject to few minor modifications per year (two minor modifications). Fairly static.

Preparation: On average, 15 hours are spent manually rehearsing the test scenario before it is fully executed.

Number of assigned testers: Three testers (having expertise in project systems [PS] module, finance [FI], and sales and distribution [SD] module).

Given these metrics, it is possible to estimate with some margin of error that between preparation and execution of the manual test case (including manually recording test results) approximately 200 man-hours per year are spent executing the order-to-cash scenario.

This is not including time needed to manually modify the documentation for the test case when the order-to-cash scenario is subject to configuration changes, or the time needed to coordinate the multiple resources that are necessary for executing the test scenario. With an automated framework in place, one can review the following statistics and metrics needed to automate the order-to-cash scenario and whether doing so is cost effective:

Total hours needed to automate test case (including functional support): 80 hours.

Time needed to execute process with automated test tool (including automatic test results [logs] generated by automated test tools): Two hours.

Number of resources needed to execute automated test case: One at most, since automated test case can be scheduled to run unattended.

Preparation time needed to execute automated test case: Five.

Under the hypothetical scenario for automating from scratch and executing the automated test case for order-to-cash, it is estimated that for the first year it would take 115 man-hours to execute the automated test case. For subsequent years it would take 35 man hours to execute the automated test since the automated test case has already been constructed, whereas executing the process manually is a fixed number of man-hours: 200 man-hours per year, subject to the availability of the testing resources and level of expertise. This analysis points objectively and based on certain assumption to a case in favor of automation. With a similar analysis, projects can employ an objective approach for automating scenarios.

1. **SALES ORDER**

**Company Code: 4700**

**Sales Document type: ZOR**

**Sales Area: 4700/10/10**

Screen Shot 1:



**Click Enter**

**Step 2:**

**Header Level:**

- Enter Sold to party: 1000991
- Enter Ship to party: 1000991
- Enter PO Number: Test
- Enter Payment term: 0001

**Item Level:**

- Enter Materials in Item Level: 1000309

- Enter order Qty: 1

- Enter Plant: 4702

- Click Enter:

**Refer Screen Shot:**
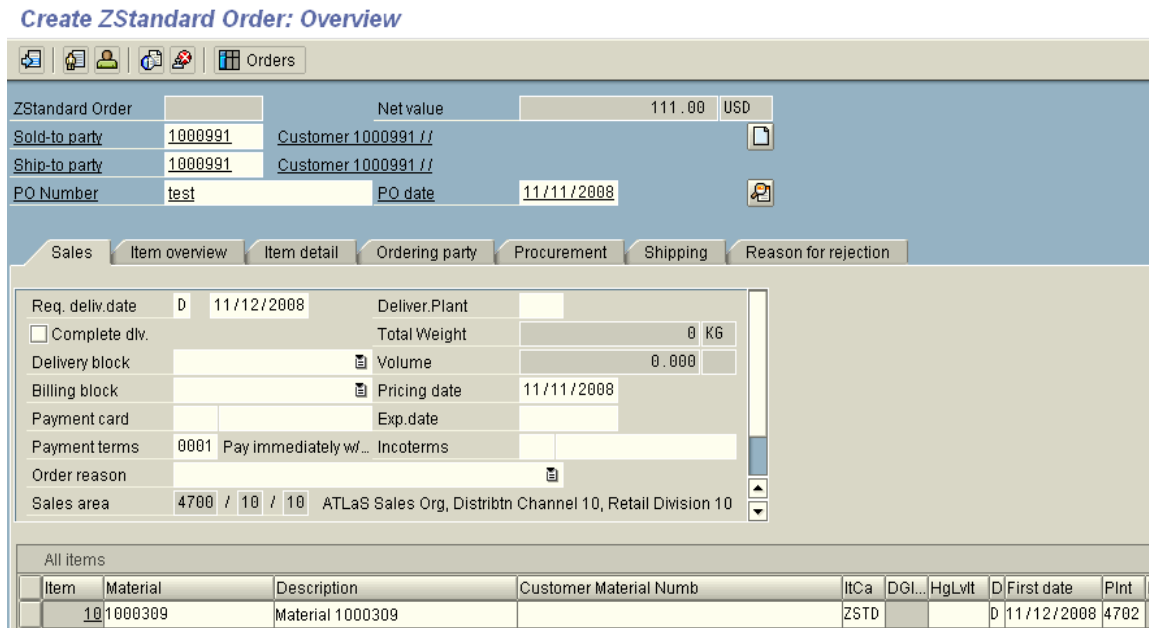


Go to Item Billing
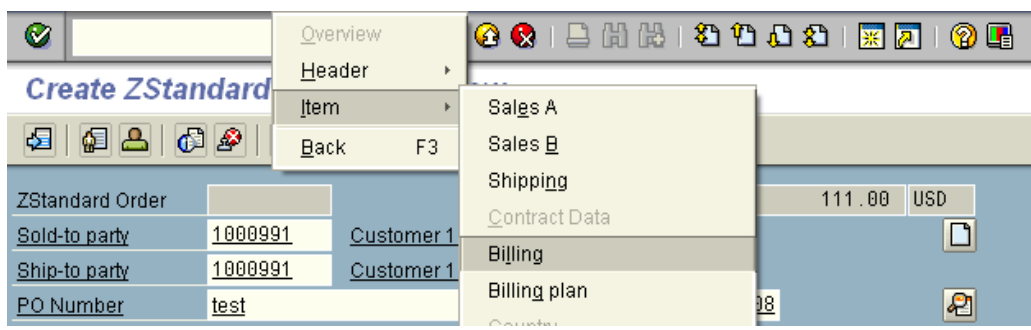


Enter the INCO Terms in the Item Levels: CFR (COST AND FREIGHT)

Click Save
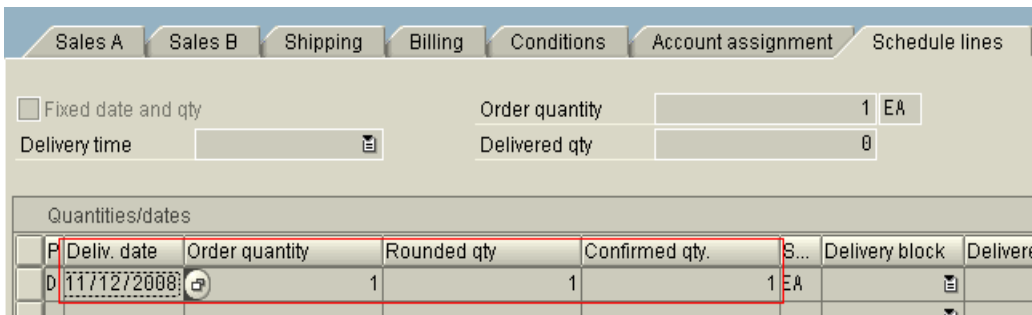


2. **DELIVERY**

**Delivery Document type: ZLF**
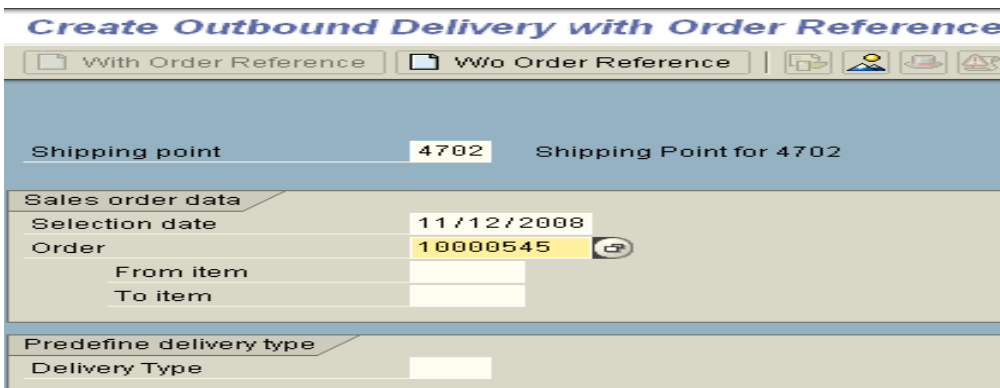
**T – Code VL01N**

- Enter Shipping Point: 4702
- Enter Sales document number:
- Note: Enter Delivery date: (Delivery date should be taken from Schedule lines in Sales order) Refer Screen Shot below:





Click Enter

**Enter Picking Qty & Storage Location:**



Click on Post Goods Issue:



ATLas OutB. Delivery 80000422 has been saved

3. **BILLING**

**Billing Document type: F2**

**T – Code – VF01**

Enter Delivery Document number:

Refer Screen Shot Below:

**Create Billing Document**

| Default data | | | |
|---|---|---|---|
| Billing Type | | Serv.rendered | |
| Billing date | | Pricing date | |

| Docs to be processed | | | | |
|---|---|---|---|---|
| Document | Item | SD document categ. | Processing status | Bill |
| 80000422 | | | | |

Click Enter

Refer Screen Shot below:



**Invoice (F2) Create: Overview of Billing Items**

| Invoice | $000000001 | Net value | 111.00 USD |
|---|---|---|---|
| Payer | 1000991 | Customer 1000991 / / US - | |
| Billing date | 11/11/2008 | | |

| Item | Description | Invoiced Quantity | SU | Net value | Material | Cost | |
|---|---|---|---|---|---|---|---|
| 10 | Material 1000309 | 1 | EA | 111.00 | 1000309 | 100.00 | |

Click Save

Billing Document should be created (Refer Screen Shot below)



Document 7100000202 has been saved
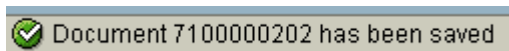
Display the Billing document: T – Code – VF03

Enter the Billing Document number from the above Screen shot:

Click on Accounting Document tab:

Refer the Screen Shot: