THE NECESSITY OF AUTOMATING THE RECONCILIATION AND SETTLEMENT PROCESS

Office: (1) 510 237 8608
2634 Ridge Road, San Pablo, CA 94806, USA
Email: info@aologistics.net • www.aologisticsrec.net

GOh
Reconciliation Φ Settlement Management System

OVERVIEW
The current reconciliation and settlement method followed by the logistics industry is time-consuming, inefficient, and costly.

CURRENT STATE ANALYSIS:
Reconciliation is a tool that measures the effectiveness of operational processes while mitigating and controlling financial risks. Under the current reconciliation method, various shortcomings have made the reconciliation process laborious, uneconomical, and cumbersome, requiring a vast work force.

SHORTCOMINGS OF CURRENT RECONCILIATION METHOD:
Prior to about twenty years ago, the cargo booking operation process – issuing and reconciliation of bills of lading and freight bills – was done manually. The system worked effectively for the time. During the last two decades, however, the issuance of lading and freight bills became automated, while reconciliation remains a manual process. With such automation in place, midsize international logistics companies have seen their bill issuance load grow from roughly five thousand a month to over twenty thousand a month. This volume growth has created a process imbalance between the automated operational process and the manual reconciliation process as demonstrated by the following three categories:
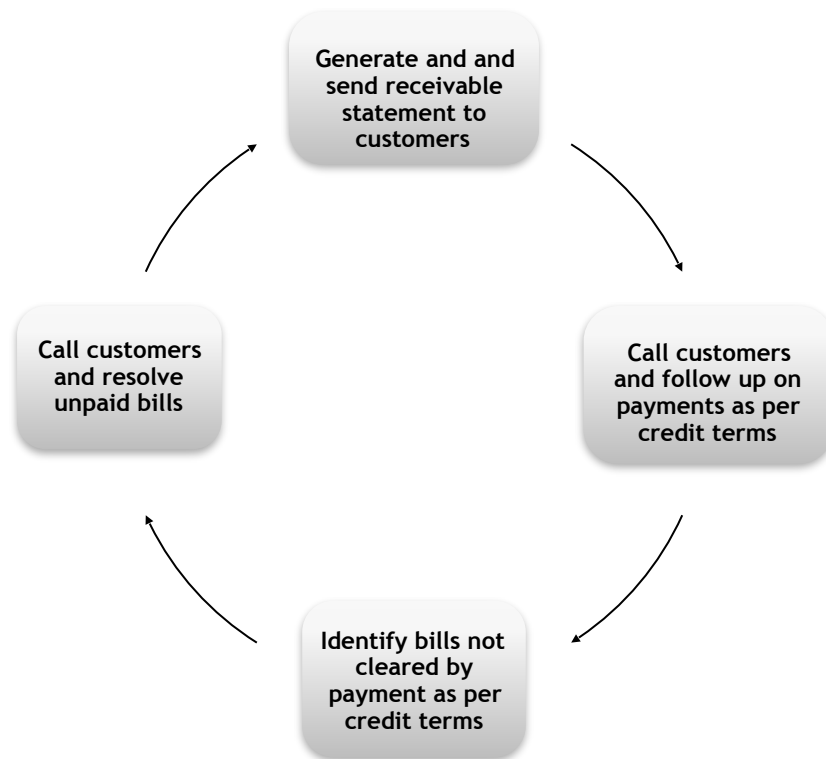
PROCESS

AGING (DSO/DPO)

COST

Process: The present day reconciliation method has only progressed to the use of spreadsheet-based tools. As this process is still heavily dependent on manual support, it is incompatible with the automated operational process. The reconciliation process cannot be accomplished in a timely manner due to volume output of freight bills. Therefore, the reconciliation process has become time-consuming and prone to human error, while adding a significant amount of overhead cost.

CURRENT DOMESTIC RECEIVABLE RECONCILIATION PROCESS IS REACTIVE

Generate and and send receivable statement to customers

Call customers and follow up on payments as per credit terms

Identify bills not cleared by payment as per credit terms

Call customers and resolve unpaid bills

Generate and send Receivable Statement

- **Receive reconciled statement**
- **Settle**
- **Resolve disputes**

Receivable payable Statement

- **Reconcile and send statement**
- **Settle**
- **Resolve disputes**

CURRENT PAYABLE PROCESS- PRONE TO ERROR

Method #1 Receive Vendor Statement

- **Compare statement to cost**
- **Issue payment**
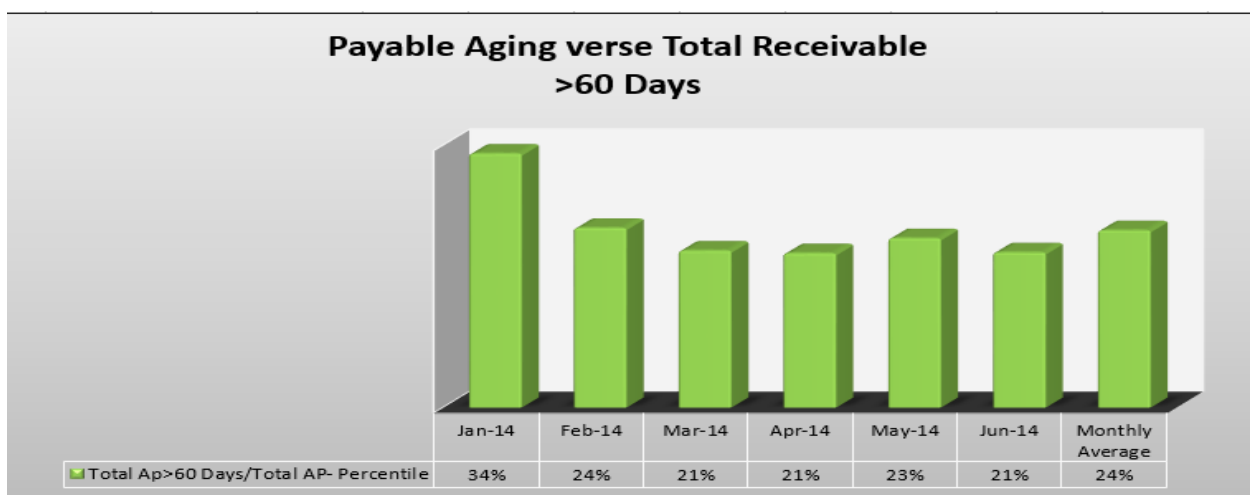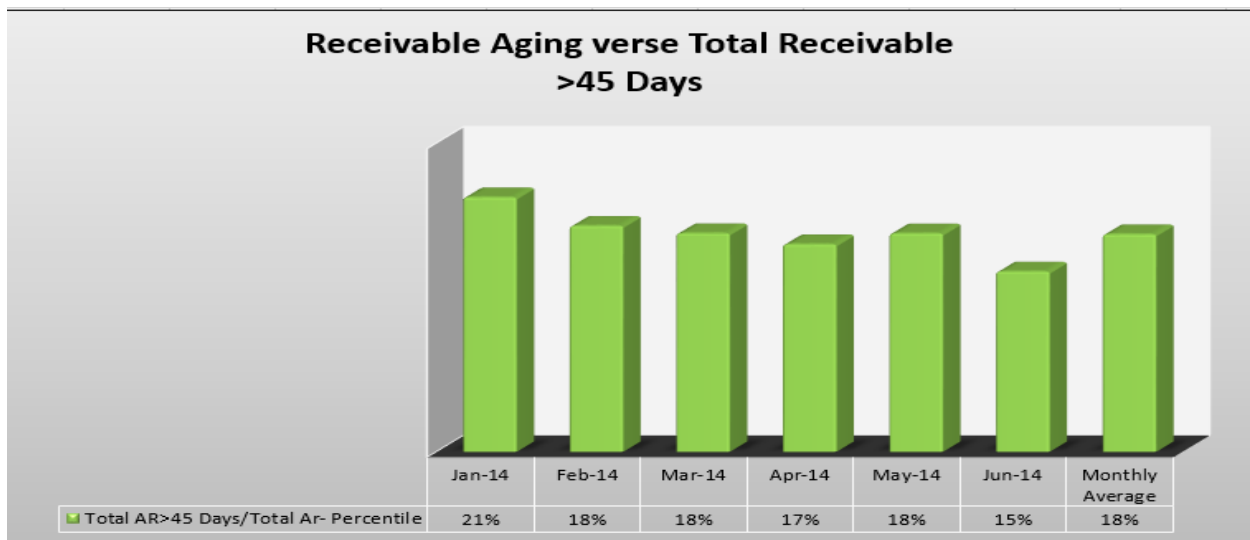- **Resolve disputes**

Method #2 Receive Vendor Invoices

- **Input invoices into system**
- **Issue payment**
- **Compare to cost and resolve disputes**

Method #3 issues payment as per open cost

- **Receive vendor statement**
- **Compare to payment**
- **Dispute and resolve paid items**

Aging:
Each entity in the logistics industry has its own rules under which it determines credit terms. The current technological imbalance between an organization's operations department and its reconciliation and settlement department (Accounts Receivable and Accounts Payable for domestic and overseas) is having a direct negative impact on the Days Revenue Outstanding ratio as well as on the Days Payable Outstanding ratio, resulting in gross inefficiencies in processing the collection of revenues and the settlement of costs. For example, a case study of a midsize Non-Vessel Operating Common Carrier Company (NVOCC) that has yearly revenue of over $800 million (for the first six months of year 2014) shows that the firm incurs a receivable overdue of 18% (45 days due-date based). The payable over due date for the same company runs 24% (60 days due-date based).

Receivable Aging verse Total Receivable >45 Days

	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Monthly Average
Total AR>45 Days/Total Ar- Percentile	21%	18%	18%	17%	18%	15%	18%

Payable Aging verse Total Receivable >60 Days

	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Monthly Average
Total Ap>60 Days/Total AP- Percentile	34%	24%	21%	21%	23%	21%	24%

Cost:
To handle and optimize the automated output of bill of lading billings, present-day reconciliation methods require a large number of personnel. For example, an NVOCC that has yearly revenue of over $800 million incurs a cost of $117,000 per month. This method of reconciliation is costly and not economically viable.

PERSONNEL REQUIREMENT AND COST – CURRENT METHOD OF RECONCILIATION AND SETTLEMENT PROCESS

Number of employees 32 Based on $800M yearly revenue

Monthly cost per employee calculation			
Rate per hour* per employee = $31.50	Days worked per employee per month = 22 days	Hours worked per month per employee = 176 hours(8x22)	Monthly cost per employee = $5,544(176x$31.50)

	Monthly cost calculation for 32 employees		
	Monthly work days for 32 employee = 704 days (22x32)	Monthly work hours for 32 employee = 5,632 hours (8x32x22)	Monthly cost for 32 employee = $177,408 (5,632x $31.50)

*Rate per Hour-

 USA department of labor report:

Table 1. Civilian workers, by major occupational and industry group as of December 2013

SOLUTION: The reconciliation process has to be quick, accurate, in real time and cost effective. To accomplish this, the reconciliation process needs to be automated. Automation will: sustain the compatibility between operations and accounting systems; retain reconciliation as the key tool for measuring effectiveness of operation and mitigating financial risk; maintain optimum ratio of Days Revenue and Payable outstanding; preserve accuracy; and control overhead cost. An excellent example of such an automation software is Goh- RSMS a web based SaaS reconciliation and settlement management system.

Upgrading the reconciliation method: Any upgrade needs to take into consideration a scalable solution that avoids linear relationships between transaction volume increases and employee size. It must be robust, predictable, secure, and profitable and encompass

PROCESS UPGRADE

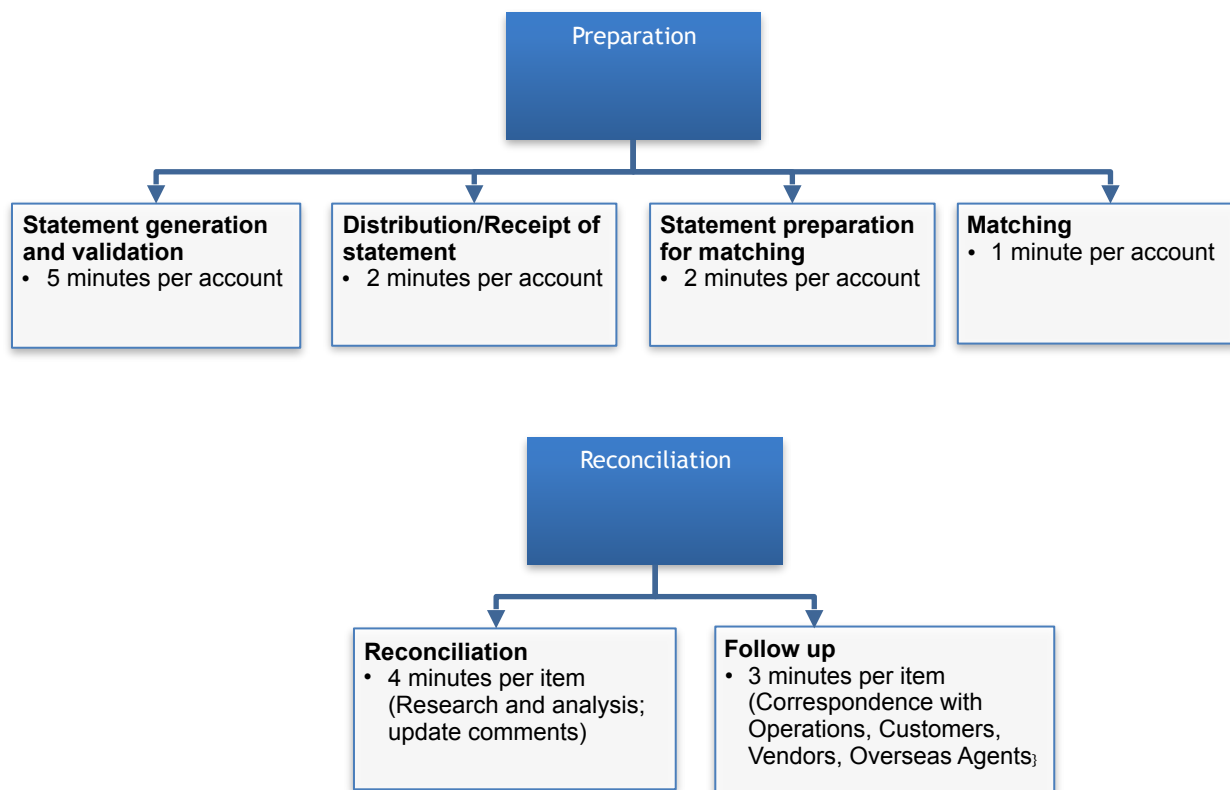AGING (DSO/DPO) IMPROVEMENT

COST EFFECTIVENESS

PROCESS UPGRADE:

The reconciliation process has two components: preparation of statement and reconciling statement. The "heart" of the reconciliation process is the analytics that identify exceptions and resolution of exceptions. The faster reconciliation is completed, the sooner exceptions can be resolved, operational risk controlled, and Days Sales/ Payables optimized. Per the current process, however, out of twenty-one working days per month, only five can be allocated for exception resolution.

The time requirement for the current reconciliation process broken down by account and volume is:

**Preparation =** 10 minutes per account (**total number of accounts is 1,589**) and

Reconciliation= 7 minutes per line item (**total number of items is 293,986**) *

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                          │   Preparation    │
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Statement generation and validation	**Distribution/Receipt of statement**	**Statement preparation for matching**	**Matching**
• 5 minutes per account	• 2 minutes per account	• 2 minutes per account	• 1 minute per account

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                          │  Reconciliation  │
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Reconciliation	**Follow up**
• 4 minutes per item (Research and analysis; update comments)	• 3 minutes per item (Correspondence with Operations, Customers, Vendors, Overseas Agents}

*
Time Requirement: As per the case study of the reconciliation process management of a mid-size Non-Vessel Operating Common Carrier Company (NVOCC) with yearly revenue above $800M.

An automated reconciliation process will allot a minimum of fifteen working days for resolution of exceptions and a maximum of one day for preparation and identification of exceptions and matched items, regardless of company size. The software such as **Goh-RSMS** will be robust enough to:

- Accept the receivable and payable statements of receiving and paying parties in their raw formats,
- Match the payable and receivable statements; identify approved items and mark them as such; identify exceptions and supply general reasons;
- Process the activities within one minute (for accounts that have less than 5,000 line items) and 15 minutes (for accounts that have over 20,000 line items) per account
- Handle multiple accounts reconciliation simultaneously
- Allow updating of reconciliation comment and amounts
- Have real-time reporting capabilities
- Be predictable, affordable, and secure
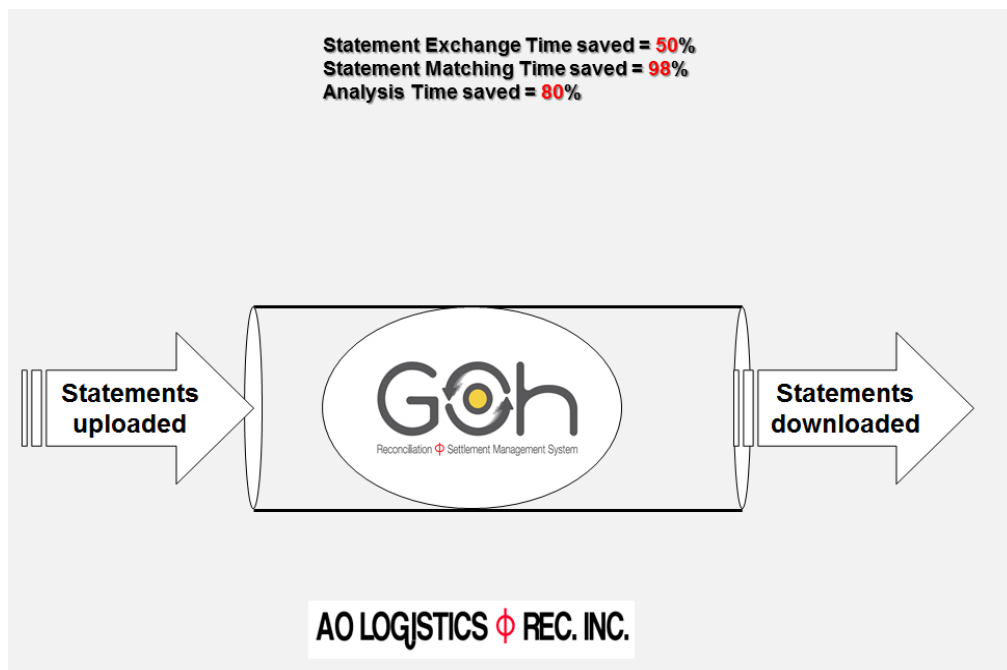
AGING (DSO/ DPO) IMPROVEMENT

Automation improves DSO and DPO by allowing receivable and payable staff to:

- shift time to higher-value work
- proactively, effectively, and rapidly resolve exceptions
- maintain an optimal gap between DSO and DPO

CURRENT RECEIVABLE COLLECTION PROCESS FLOW *

*AS PER THE RECEIVABLE COLLECTION PROCESS CASE STUDY DONE OF A MID-SIZE NVOCC WITH REVENUE OF 800 MILLION POST EBITA WITH AN AVERAGE OUTSTANDING OF 18% OVER CREDIT LIMIT FOR FIRST 6 MONTHS OF YEAR 2014

CREDIT TERM DAYS = X

Month 1

- ❖ **Beginning of month**
  - ➢ Work on billings aged X and X+ (via phone calls)
- ❖ **End of Month**
  - ➢ 90 % of X and X+ bills solved and settled
  - ➢ 10% of exceptions from Month 1 unsolved
  - ➢ Bills aged X- beginning of Month 1 aged to X and X+

Month 2

- ❖ **Beginning of month**
  - ➢ Work on billings aged X- bill aged X and X+ from Month 1 (via phone calls)
  - ➢ Work on 10% exceptions from Month 1
- ❖ **End of month**
  - ➢ 8% out of **Month 1** exceptions solved -**2% still unsolved**
  - ➢ 90 % of X and X+ bills from Month 2 solved and settled
  - ➢ 10% of exceptions from Month 2 unsolved
  - ➢ Bills aged X- beginning of Month 2 aged to X and X+

Month 3

❖ **Beginning of Month**

➢ Work on X- bills aged X and X+ from Month 2 (via phone calls)

➢ Work on 10% exceptions from Month 2

➢ Work on 2% exceptions from Month 1

❖ **End of Month**

➢ 2% out of **Month 1** exceptions solved- **0% left unsolved**

➢ 8% of Month 2 exceptions solved

➢ 90 % of X and X+ bills from Month 3 solved and settled

➢ 10% of exceptions from Month 3 unsolved

➢ Bills aged X- beginning of Month 3 aged to X and X+

Month 4

❖ **Beginning of Month**

➢ Work on X- bills aged X and X+ from Month 3 (via phone calls)

➢ Work on 10% exceptions from Month 3

➢ Work on 2% exceptions from Month 2

❖ **End of Month**

➢ 2% out of Month 2 exceptions solved

➢ 8% of Month 3 exceptions solved

➢ 90 % of X and X+ bills from Month 4 solved and settled

➢ 10% of exceptions from Month 4 unsolved

➢ Bills aged X- beginning of Month 4 aged to X and X+

GOh AUTOMATED RECEIVABLE COLLECTION PROCESS FLOW *

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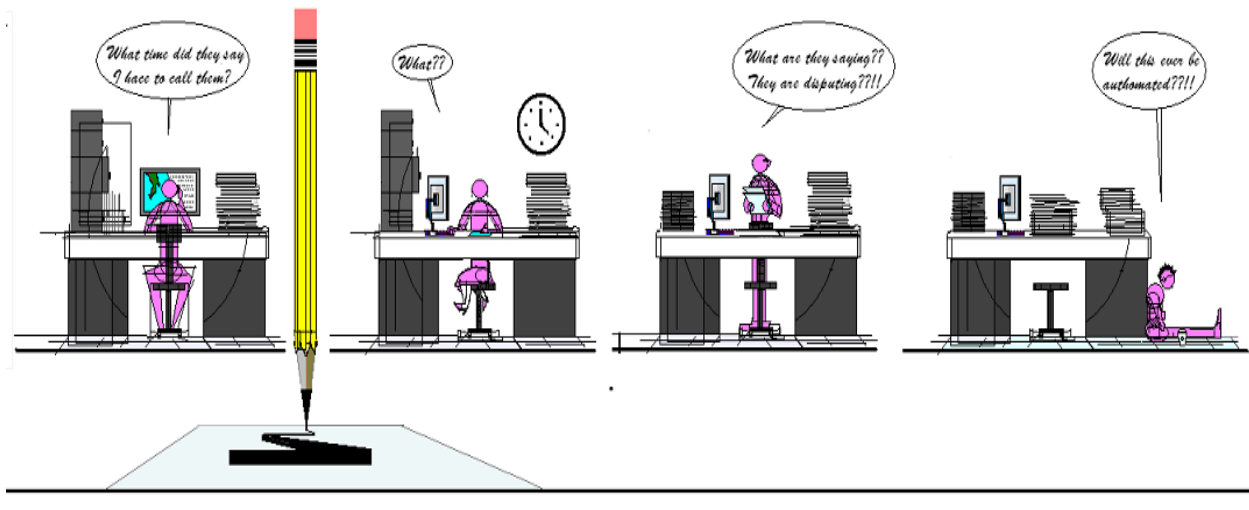
Month 1

- ❖ **Beginning of month**
  - ➢ All billings (matched via)
  - ➢ 90% of all billings matched
  - ➢ Work on 10% of exceptions
- ❖ **End of month**
  - ➢ 9% of exceptions solved
  - ➢ 91% of all billings solved
  - ➢ 1% of exceptions from Month 1 aged X- unsolved

Cost effectiveness

Goh- RSMS our robust reconciliation and settlement management software is a profitable, secure and scalable solution that avoids a linear relationship between accounting staff and volume increase. Reconciliation is managed timely and effectively, enabling the redeployment of staff into higher-value work.

Cost saving = 65%