SERRALA

Success Story

Merck

Digital Order to Cash Management in SAP

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By introducing a comprehensive order-to-cash solution that covers credit and collections management as well as complaints and dispute cases, Merck has largely automated its credit and accounts receivable management and thus established efficient, secure and robust business processes. Merck did not only reduce processing time significantly, in addition transparency has been improved and central KPIs are now being met. By means of an end-to-end approach (credit, collections and disputes from a single source), it was possible to ensure the same quality level along almost the entire O2C process.

About Merck KGaA

Merck is a leading science and technology company in the areas of healthcare, life sciences and performance materials. Around 54,000 employees work on further developing technologies that enhance people's lives – ranging from biopharmaceutical therapies for the treatment of cancer or multiple sclerosis to pioneering systems for scientific research and manufacturing, through to liquid crystals for smartphones and LCD TVs. Merck celebrates its 350th anniversary this year and is the oldest pharmaceutical and chemical company in the world. The founding family is a majority shareholder in the listed company to this day. Merck, which has its headquarters in Darmstadt, Germany, owns the global rights to the Merck name and brand. The only exceptions are the USA and Canada where the company trades as EMD Serono, MilliporeSigma and EMD Performance Materials.

Motivation: An Integrated Approach for Continuous Quality in the O2C Process

As a globally operating company with a broad customer base and therefore numerous debtors, Merck required a best-in-class solution to comprehensively meet the requirements of a growing organization with high financial and data volumes in its systems.

Before process automation was introduced, the credit limit was calculated manually using an internal procedure that included credit rating information from web portals. This data then needed to be manually entered in SAP. Revenue collection and the processing of receivables-related disputes were also associated with a high volume of manual work.

The central motivation of the project was therefore to introduce an automated and visually user-friendly solution for the daily calculation, setting and monitoring of customer credit limits as well as for the verification and processing of all outstanding debtor receivables and liabilities in order to ensure an inbound payment process that is as smooth as possible and free of defaults.

Business Case: An Ambitious O2C Project for Globally Standardized Processes and Transparency

The internal Business Case prescribed the creation of a global credit limit guideline for the credit management department. In accounts receivables, the objective was to create an accurate overview of all outstanding debt, payment discrepancies and individually documented correspondence with debtors as well as transparency with regard to the accounting clerks handling dispute cases. All of this was to be implemented within the existing SAP system. While identifying a suitable solution in the RFP process, the SAP standard functionality FSCM were available for selection as well as the FS² Credit and FS² Collections add-on solutions by Serrala that are integrated into SAP. Once the performance scope of the Serrala offering had been compared with the company's requirements, Merck opted for Serrala as its partner.

Credit Management: Description of Process and Solution

Customer acquisition
The process of new customer acquisition at Merck is not supported by credit management, but is instead carried out exclusively by sales. The customer master data is created and managed in SAP. The customer data is maintained centrally by sales. In this process, the credit management view as well as the company code view are automatically created by the accounts receivable department.

Credit Scoring
In accordance with the credit policy, the creditworthiness of all customers is checked and a credit limit is set for each customer. The credit scoring and subsequent risk classification are firstly carried out automatically by FS² Credit. Both internal and external information is included in this credit rating. The customers are analyzed using a weighted score card, determining a credit index and a risk category.

Integration of credit data
When evaluating the internal information, the data that is of relevance to Merck is taken into account, e.g. payment records, sales revenue and country risks. The same applies to the external information – here reports of credit rating agencies are used by Merck. The information are retrieved directly from SAP using connector solutions and are managed in SAP.

Monitoring
The general monitoring of existing customers takes place in a fully automated manner using the FS² software. The payment history of existing customers is also permanently monitored.

The software recognizes changes in the customer's creditworthiness and adjusts the credit index, the risk class and the credit limit accordingly. If a customer fulfils one of the knock-out criteria (e.g. high country risk), the limit is automatically voided. However, the business area can nonetheless undertake an individual customer-related decision to supply the customer while being aware of the risk and weighing up the commercial interests (e.g. construction customer). To provide a better overview, the credit status of the individual customers is shown in a "traffic light" format along with a summary of the key data. In addition, the "mandatory customers" option also exists – these are customers that must be supplied for statutory reasons.

Credit decision

FS² Credit automatically determines the credit limit for customers based on the credit scoring and taking into account the current total liabilities. When assigning limits, the payment history of a customer plays a major role. Merck incorporates positive or negative events that occur in day-to-day business into this credit limit calculation based on a bonus-malus system. New and existing customers with whom no business was transacted in the past twelve months initially receive a basic limit of EUR 5,000. If a customer's creditworthiness changes, this is detected immediately. The credit limit is automatically checked daily and adjusted if required. The limit therefore always represents an up-to-date assessment of the risk situation in relation to a customer. FS² Credit provides full history transparency for all processes in the system; credit decisions therefore remain traceable at all times.

Credit monitoring

The payment transaction is recorded in SAP and then evaluated by FS² Credit. Credit holds are imposed automatically by SAP in accordance with the credit check rules that have been set. A credit limit request is generally made by sales and reviewed by the credit management team. Depending on the amount, this is then approved by a sales employee and a finance employee according to the principle of dual control as defined in an approval matrix. For higher amounts, the approval is granted by the CFO or even the management, depending on the company.

Collections & Disputes: Description of Process and Solution

Debtor management

The main activities in receivables management comprise of the documentation of all correspondence with the customer (telephone calls, contracts, consultations, documents, images) and a quick and always up-to-date view of all open items vs. the payment behavior and dispute cases per customer. This is also supported by automated and individual monitoring with a warning message for large and small customers using predefined workflows and integration into the SAP payment and dispute resolution process, including automatic assignment of customers to accounting clerks based on the sales volume.

Processing of dispute cases

Short payments are detected by the system, which subsequently opens a dispute cases for the account clerk. The system at Merck has the options "paid too much", "paid too little", "duplicate payment" or "no payment assigned". Workflows are executed daily and automatically trigger events based on customer groups and order values. These events are assigned to the respective accounting clerk and must be processed according to internal rules.

Payment collection

In dunning, typical processes such as payment promises by the customer, individual value adjustments or write-offs are provided by the software in a preconfigured way – the application practically guides the accounting clerk through his processes. When the matter is transferred to collections, the customer's credit limit is set to EUR 1. The collection measures are introduced by the credit management department. External lawyers or collection agencies are only engaged if necessary. The credit managers document the collection procedure in the software.

Portfolio analysis and reporting

The software provides various portfolio analysis and reporting options and uses SAP's ALV technology for this. Evaluations can be created easily, the layout can be defined and reports can also be downloaded to Excel, for example. Further evaluations are carried out in SAP.

360-degree View of the Customer: Merck Ensures Excellence in the Processes through Automation

Implementing such a highly complex and all-encompassing O2C solution naturally takes time. The software for credit management and the software for dispute management were introduced in parallel within seven months. It took three months to fully connect all credit rating agencies. Collections management was then implemented in a second project phase, which lasted six months and marked the completion of Merck's O2C solution. The results speak for themselves:

Credit management

- Before the introduction of FS² Credit, the processing time for a credit application was up to six weeks. With the software and the integrated workflow as well as the assignment of events and tasks, a credit application can now be processed on the same day

- There are no longer any fixed, expired credit limits in the system or credit limits that are too high due to credit ratings that have not been adjusted (forgotten, overlooked, obsolete data records)

- The constant processing of internal and external data and the automatic adjustment of limits have resulted in an improved monitoring process for a large customer base

- Sharp reduction in defaults due to early warning indicators and automatic processing of these in the system

- Reporting functions enable various evaluations to be carried out for customer monitoring

Collections & disputes

- Documentation and quick overview of payment history, open items, all dispute cases and all correspondence per customer

- Predefined workflows trigger automatic events and ensure assignment to the correct employees for processing

- If cases are not processed, these can be transferred in batches or closed once they have been resolved or payment has been received

- Customer-oriented agreements, such as installment payments or deferments, can be made quickly and flexibly over the phone and the correspondence can be documented in the system

The software reduces the workload for the credit managers and enables them to handle a large customer base. The use of the software promotes communication between departments, especially between sales and accounts receivable, as well as with the customer. Customers' payment history has noticeably improved and the credit agencies integrated in SAP have contributed to a noticeable reduction in bad debt. Furthermore, possible defaults can be detected more quickly and therefore promptly transferred to collections. Following the pilot projects in France and the Netherlands, the solutions were rolled out in all Merck companies throughout Europe. This ensures not only continuous high quality along the O2C process itself, but also along the various national subsidiaries, which thus operate according to more uniform standards.

Serrala Brings Clarity to Complexity

Serrala is a global B2B fintech software company. We optimize the Universe of Payments for organizations that seek efficient cash visibility and secure financial processes. As an SAP Partner, Serrala supports over 3,500 companies worldwide with advanced technology, intelligent automation and personalized consulting. Our comprehensive end-to-end portfolio automates inbound and outbound payment processes as well as the management of related data and documents.

With offices in Europe, North America, Asia and the Middle East and over 600 employees, we are proud to be a trusted solution provider to customers of all sizes and in all industries.

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