

# OUTSOURCING THE COLLECTIONS PROCESS GENERATES MORE THAN \$650K IMPROVEMENT FOR BILLION-DOLLAR MANUFACTURER

Selecting a third-party vendor with an expertise in credit and collections freed H. B. Fuller to develop stronger relationships with customers

Case Study

For Current Members of Process Advisory Programs

*Adapted by Bryan DeGraw and Hye Yu from a Hackett Customer-to-Cash Process Advisory webcast by Steve Martinson, Manager, Credit and Collections, H.B. Fuller Co., and Pamela Krank, President, The Credit Department*



H.B. Fuller has been manufacturing adhesives and sealants for 120 years. The publicly traded company had net revenue of \$1.4 billion in 2007 and US sales of \$550 million. Based in St. Paul, Minn., it employs 3,200 people and has direct operations in 34 countries in North America, Latin America, Europe and Asia Pacific. (NYSE: FUL)

## STEVE MARTINSON

*Manager, Credit and Collections,  
H.B. Fuller, North America and Europe*

*Mr. Martinson has managed credit and collections at H.B. Fuller since August 2005. Prior to that, he filled Credit and Accounts Receivable management positions at General Mills (Pillsbury), Dial Corporation, Jarden Consumer Solution (Sunbeam), and Chiquita Brands International.*

## PAMELA KRANK

*President, The Credit Department, Inc.*

*Ms. Krank, was a credit manager at 3M for 13 years before starting her own business in 1992. Her company provides outsourcing and consulting services to manufacturers, distributors and service companies throughout North America.*

## EXECUTIVE SUMMARY

Many finance organizations decentralize their processes by moving them into shared services centers (SSC), either on- or offshore, while others outsource them to third-party vendors. Today, a growing number of firms are automating activities traditionally executed in local offices or field locations. For example, within the revenue cycle, the cash application process has been relatively simple for companies to automate or outsource. Collections, however, because of the sensitive and specialized nature of much of the activity, has largely been kept in-house until recently, as BPOs with an expertise in managing and enhancing customer relationships in collections have made the option to outsource more attractive. Adhesive and sealant manufacturer H.B. Fuller considered proposals from BPOs in the US and India before selecting an onshore provider, The Credit Department in West St. Paul, Minn., to handle its US-only collections function.

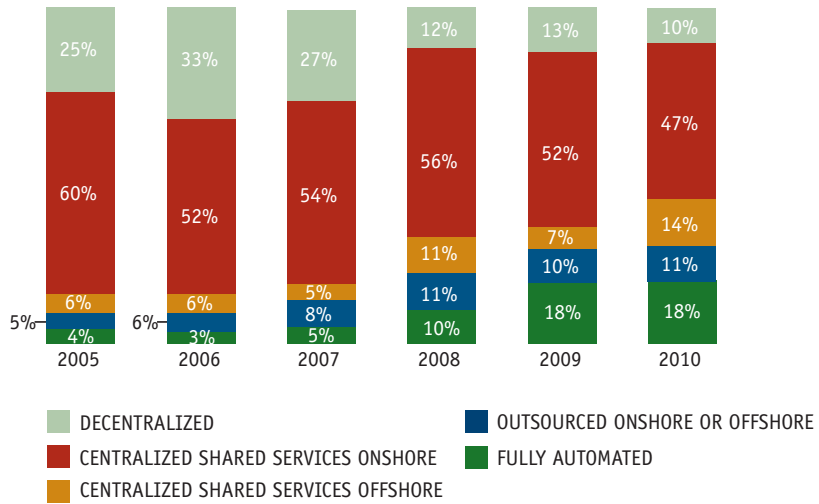
Because H.B. Fuller was concerned about customer interaction, outsourcing with an onshore partner was more attractive than the potential savings of a low-cost country. Also, working with this outsourcer enabled it to transition the US collections process gradually. The final result, which took one year to accomplish, was a 1% improvement in percent current, translating to a \$650,000 reduction in US-based A/R, and improved relationships with customers.

## THE CURRENT STATE OF BUSINESS PROCESS SOURCING

Business process sourcing continues to be a critical component for the finance function. Results from Hackett's 2008 Finance Business Process Sourcing Study, which compares sourcing choices from 2005 to 2007 and projections for 2008 to 2010, show a continued expansion in the role of shared services (**Fig. 1**). As more companies move to alternative sourcing strategies, including outsourcing, on- or offshoring and/or the automation of processes, shared services is viewed as the conduit to making and monitoring these decisions.

Although more work is expected to be processed in centralized shared services centers (SSC) on- and offshore, there is a greater increase projected of processes being fully automated by 2010, suggesting that companies moving from a decentralized model are shifting to centralized SSCs while companies that have previously used SSCs are now advancing toward automation.

**FIG. 1 Finance business process sourcing trends, 2005-2010**



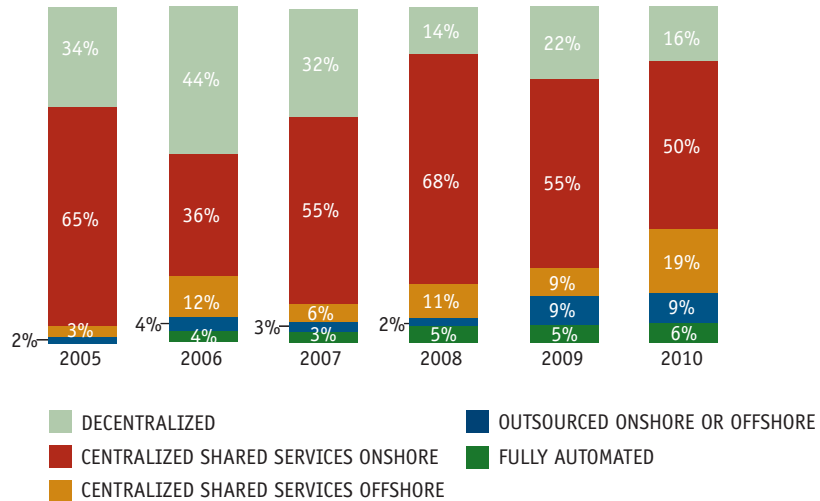
Source: Business Process Sourcing Research Study, The Hackett Group, 2008

*Trends in the revenue cycle*

Subprocesses within the revenue cycle, such as credit, customer billing, collections and cash application are also being shifted away from the decentralized model and into centralized shared services on- and offshore, with some outsourcing. Process owners in this group also anticipate a slight increase in full automation.

- **Credit:** We see a strong consideration for centralized shared services onshore and offshore with the expectation of an increase in outsourcing and full automation (Fig. 2).

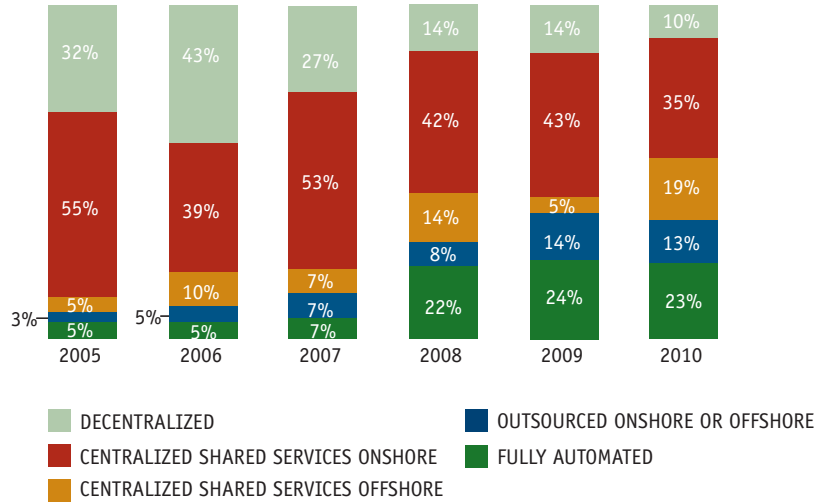
**FIG. 2 Customer-to-cash credit management sourcing trends, 2005-2010**



Source: Business Process Sourcing Research Study, The Hackett Group, 2008

- **Customer billing:** Processing invoices is also shifting toward shared services with an expected increase in automation in 2009 and 2010 and an increase in outsourcing in 2009 (Fig. 3).

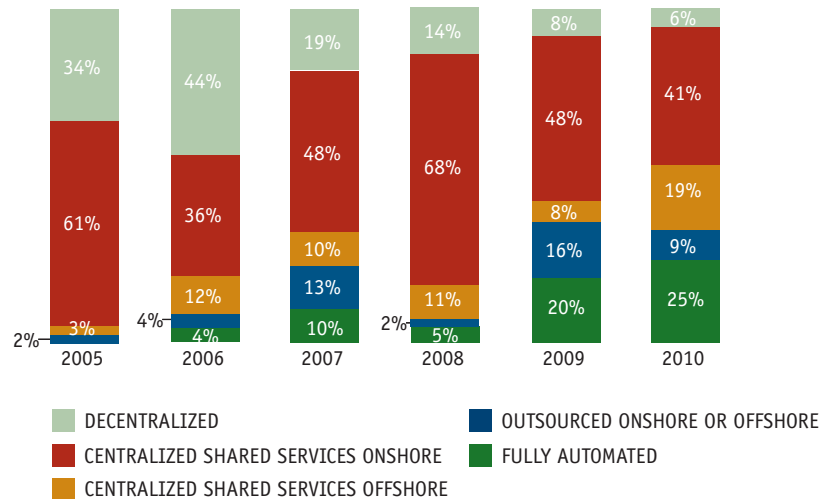
**FIG. 3 Customer-to-cash invoice process sourcing trends, 2005-2010**



Source: Business Process Sourcing Research Study, The Hackett Group, 2008

- **Receive payment:** The payment receipt activity reflects some of the greatest expected increases in automation with a projection of up to 25% in 2010 (Fig. 4).

**FIG. 4 Customer-to-cash payment receipt sourcing trends, 2005-2010**

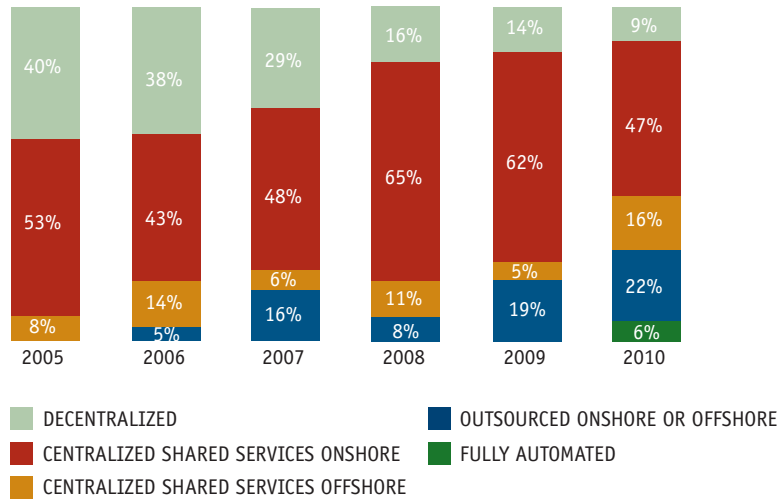


Source: Business Process Sourcing Research Study, The Hackett Group, 2008

- **Collections:** One of the most challenging activities to imagine outsourcing, the collections subprocess also shows a trend toward shared services and outsourcing. The decentralized model is giving way to SSCs both on and offshore. Outsourcing reflects a consistent year-over-year growth in actual

figures. It was virtually zero in 2005 and grew from 5% in 2006 to 16% in 2007. Growth in outsourcing is also reflected in the three-year projections with 19% expected in 2009 and growing to 22% in 2010. By 2010, some 6% of companies anticipate a fully automated collections process (Fig. 5).

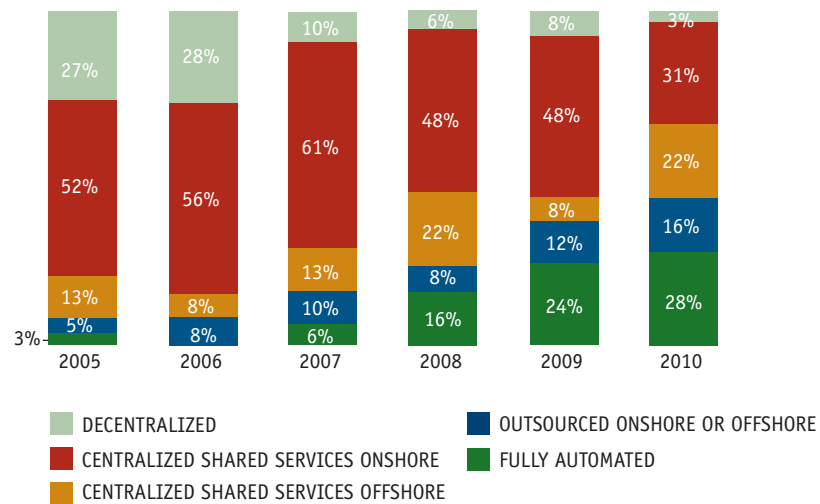
**FIG. 5 Customer-to-cash collections sourcing trends, 2005-2010**



Source: Business Process Sourcing Research Study, The Hackett Group, 2008

- **Cash application:** Here, the number of organizations using a decentralized model is continuing to shrink but so too is the number of those using centralized shared services. This process has always been the easiest transactional activity to automate through application interfaces and online tools. The projections continue to support automation of this process (Fig. 6).

**FIG. 6 Customer-to-cash payment application sourcing trends, 2005-2010**



Source: Business Process Sourcing Research Study, The Hackett Group, 2008

While organizations looking to automate activities can find technologies through new or existing ERPs or certain payment-processing tools available in the marketplace, decision makers who want to outsource need vendors with the expertise unique to a particular activity. This is especially true in customer-sensitive collections.

### **H.B. FULLER CO.: BACKGROUND AND STRATEGY FOR CHANGE**

In 2007, revenues at H.B. Fuller Co. totaled \$1.4 billion with sales of \$550 million to US customers. In the US, the company operates adhesive and window divisions in St. Paul, Minn.; specialty packaging in Vancouver, Wash.; and specialty construction brands in Aurora, Il. The company sells to and tracks 1,300 active US entities (i.e., single customers with many bills and ship-to locations). As of February 2008, it had 7,500 open invoices in the US.

But in 2005, the company engaged in a Lean Six Sigma initiative to reduce waste and eliminate process variability, and which would deliver an estimated \$20.3 million in benefits by 2007. That same year, H.B. Fuller's US credit and collections office initiated improvements. It was operating with four credit analysts and three collectors, two of whom were contract employees. The staff was missing leadership, goals and, until Steve Martinson joined in August, a manager. But while results for both businesses were near median levels for chemical-industry benchmarks, it was critical that relationships with clients improve. "The feedback we got from the clients we were servicing reflected a real lack of confidence in collaboration with the credit decisioning and collection processes," says Martinson.

Collaboration between customers and creditors requires an understanding of a client's financial position and the risks associated with extending credit and approving new sales while trying to collect on past due receivables.

To that end, Martinson implemented a credit-risk management strategy with key client input, which required traveling to the company's largest regional distributors to assess risk and develop relationships. The effort was large enough to prompt the new credit and collections manager to consider options for outsourcing. "It was so much to handle we needed to free up time," he says.

Martinson studied proposals from third-party providers, including two from offshore call centers and several from US-based firms, including The Credit Department, headquartered in nearby West St. Paul. The cost proposals from the offshore vendors represented about 60% of the company's internal cost; onshore centers were about 80%. But cost, while important, was not the key issue, says Martinson. "We wanted high-quality service and a very high sensitivity to the customer relationship."

In choosing The Credit Department, Martinson felt his new vendor could meet the service agreements in terms of making a predetermined number of calls and serving customers within a given timeframe, but he also believed The Credit Department could improve results, which would more than offset the cost differential with the offshore vendors. "The costs to meet that goal were consistent with what it would cost us to reach it internally," he says.

In addition to its promise to improve results, The Credit Department offered a long-tenured staff that could step into and maintain H.B. Fuller's relationships with its customers. Staff turnover and potential customer issues rank high among concerns expressed by companies reluctant to outsource. Part of the agreement between H.B. Fuller and its vendor included maintaining consistent service, which has been managed by keeping members of the original team on the contract throughout the last three years, says Pamela Krank, president, The Credit Department, "It's not about training and re-training the same people to understand H.B. Fuller's business, their ERP system, their customer base," she says. "That has been consistent throughout and I think it has made a big difference as well."

In the spring of 2006, and after meetings with leaders in H.B. Fuller's business divisions, Martinson and Krank initiated a phased approach, which meant starting with one client that served as a pilot case and adding in others throughout the year, ending with the company's fifth-largest customer. "At that point it was a slam dunk because we were not only improving results but there were no customer issues," says Martinson.

But there were other challenges. "Looking back, I would have handled the remote access into our system differently," he says. To be successful, The Credit Department had to have access into the company's J.D. Edwards A/R system. Unfortunately, remote access was not supported by the firm's existing technology. The problem was solved when H.B. Fuller upgraded to a new, secure virtual private network. IT also installed dedicated computers for H.B. Fuller support at The Credit Department, a critical element because the company wanted its vendor to work from real-time data.

## RESULTS

Martinson measures results on a monthly and quarterly basis. In 2005, when he joined the company, H.B. Fuller's invoices were 92.1% current with 0.56% over 90 days past due. In 2006, after the first accounts were transferred to The Credit Department, the company improved its current accounts to 93.4%, despite some aging from 2005 that needed resolution. By 2007, the company picked up another percentage point on percent current to 94.4% and is now running consistently at about 0.17% of accounts at over 90 days past due (**Fig. 6**). (Note: a 1% improvement represents a \$650,000 reduction in A/R for the US division.)

### *Keys to success*

Martinson and Krank credit the following as critical to the success of their partnership:

- **Define the process:** Company and vendor leaders decide on goals, service level agreements and how these will be reached.
- **Meet frequently:** During the initial phase, leaders should meet frequently to address problems.
- **Coordinate staffs:** In this process-level meeting between H.B. Fuller and its vendor, discussions involve specific issues, such as how the company logged notes into the system and coordination of the project. The companies also discuss delinquencies, ongoing problems, and brainstorm on ways to improve the processes that affect other areas as well.

- **Measure and communicate results:** Initially, H.B. Fuller communicated measures monthly but has since shifted to quarterly announcements to the business.

## REMAINING CHALLENGES

“We still have challenges around the dispute or deduction resolution process,” admits Martinson. “I think we always will relative to deciding when something is a dispute, when it’s collectible, and how it flows between the (decentralized) businesses and our office.”

“Overall, cost wasn’t a key driver for us,” says Martinson, “but we wanted to ensure we weren’t spending too much, either.” **Fig. 7** illustrates the company’s labor cost as a percent of sales and shows H.B. Fuller is at the median for both the adhesive and sealants industry, and the chemical and allied products industry.

**FIG. 7 Cost-to-serve analysis of collections outsourcing, H.B. Fuller vs. industry surveys**

H.B. Fuller vs. industry survey results			Adhesive and sealants			Chemical and allied		
Collections	HBF '08 budget	HBF '07	Lower Q	Median	Upper Q	Lower Q	Median	Upper Q
Sales/FTE (\$000s)	200,966	171,821	13,524	142,328	204,579	93,698	257,744	721,507
Labor cost as a percent of sales	0.038%	0.040%	0.047%	0.039%	0.023%	0.086%	0.041%	0.015%
Number of invoices/FTE	33,494	29,167	11,085	27,833	41,633	19,263	39,667	63,125

Source: Credit Research Foundation Annual Benchmarking Survey

## STRATEGIC IMPLICATIONS: OUTSOURCING BARRIERS AND RISKS

While there are always a number of factors comprising a good business case for moving processes outside the company, it is critical that organizations understand how their own activities work before they move anything, as mistakes and “unknowns” (e.g., attrition in offshore sites) can sharply increase the total cost of a project. When it comes to outsourcing collections, data from Hackett’s 2008 Finance Business Process Sourcing Study shows 36% of companies are most concerned about compliance and controls. Another 34% of companies are most worried about cultural differences that may lead to confusion and mistrust. For example, businesses with a strong sales culture focus on building relationships with their clients. This culture is shared throughout the organization and accounts for the need for collaboration between credit and collections and the customer. Handing off collections to a third-party could jeopardize that cultural bond. Security issues were raised by 20% of the respondents, while just 11% worried about “an unknown total cost.”

But as BPOs develop more sophisticated offerings in finance processes, and as companies continually strive to cut costs, more organizations are choosing to outsource collections. That said, hiring a third party, either onshore or in a low-cost country, comes with its own set of risks:

- **Outsourcing was the wrong solution:** Sometimes, the decision to outsource was prompted by an event or a reaction to a competitor's decision. Perhaps the company didn't have the correct sourcing advisor recommendations or moved with a flawed business case that didn't consider all the factors specific to the company's situation, industry or customer base. Also, while there are a number of vendors with real expertise in certain areas, if a company does not pick the vendor with a core competency for its industry and customer base, and with the necessary technologies, outsourcing may fail.
- **Business processes outsourced were muddled:** When companies transfer poorly operating processes to an outsourcer, without establishing a performance baseline or defining their current metrics and practices, in the hope that the outsourcer will figure it out, there is little opportunity for success. Expected savings are quickly lost as the outsourcer pushes time-consuming work back to the company to perform, especially in areas such as issues resolution and reduction disputes. The company ultimately performs the rework internally while still paying for an outside vendor.
- **Expectations were flawed:** These include an inflated projected ROI. Here, the company did not understand the total cost of the outsourcing activity, the migration effort and/or the timeline to establish the outsourcer as a fully functioning service provider. Unprepared companies often underestimate how long it will take to migrate, train and finally get the outsourcer fully operational in managing the activity.
- **Vendor failure:** The company chose a vendor without a good core competency for the activity. If the vendor's staff is poorly trained, there will likely be high turnover, which will impact established service level agreements.
- **Culture:** Difficulty communicating and working together can sour an outsourcing relationship and, eventually, customer relationships. Companies need to ensure that the cultures of both organizations are a good fit. The outsourcing firm must work efficiently and effectively with the governance team managing the relationship as well as key members of both organizations who may come into contact with customers. It is also critical that the outsourcer understands the methods and style of the client's customer communications to ensure high-quality customer relationships are maintained.

## RELATED RESEARCH

[“Offshore Wage Rates: Do You Know What You're Paying For?”](#) March 2008

[“Survey Shows that Many C2C Organizations Fail to Understand the Value of End-to-End Accountability and Process Ownership,”](#) July 2007

[“Optimizing Receivables Management: A Case Study,”](#) June 2007

## ABOUT THE HACKETT GROUP

The Hackett Group, a global strategic advisory firm, is a leader in best practice advisory, benchmarking, and transformation consulting services, including shared services, offshoring and outsourcing advice. Utilizing best practices and implementation insights from more than 4,000 benchmarking engagements, executives use Hackett's empirically based approach to quickly define and prioritize initiatives to enable world-class performance. Through its REL brand, Hackett offers working capital solutions focused on delivering significant cash flow improvements. Through its Hackett Technology Solutions group, Hackett offers business application consulting services that helps maximize returns on IT investments. Hackett has worked with 2,700 major corporations and government agencies, including 97% of the Dow Jones Industrials, 73% of the Fortune 100, 73% of the DAX 30 and 45% of the FTSE 100.

Founded in 1991, The Hackett Group was acquired by Answerthink, which was renamed The Hackett Group in 2008. The Hackett Group has global offices in the United States, Europe and India and is publicly traded on the NASDAQ as HCKT.

### THE HACKETT GROUP

Email: [info@thehackettgroup.com](mailto:info@thehackettgroup.com)  
Toll-free: 866-442-2538  
[www.thehackettgroup.com](http://www.thehackettgroup.com)

---

Atlanta •  
London • Frankfurt am Main •  
Paris • Amsterdam •  
Zurich • Hyderabad

---

## ABOUT THE ADVISORS

### **Bryan DeGraw**

*Customer-to-Cash Program Manager and Finance Business Advisor, The Hackett Group*



Mr. DeGraw has nearly 20 years of business experience covering a variety of disciplines including business process creation, re-engineering and improvement, cost reduction/management, planning, budgeting, and financial analysis at AT&T/Lucent Technologies and PricewaterhouseCoopers. At The Hackett Group, he has managed finance, procurement and complete SG&A benchmark projects for clients in the public and private sectors.

### **Hye Yu**

*Global Practice Leader, Customer-to-Cash, REL*



Ms. Yu works with clients to identify and deliver cash flow improvements resulting in optimal working capital, reduced costs and improved customer service. She has extensive experience in all aspects of the sales and revenue management process.