

Order-to-Cash: process chain from order to receipt of payment

Order-to-Cash (O2C) refers to the end-to-end process chain that begins with order acceptance and ends with receipt of payment. In DACH industry, O2C connects sales, order processing, logistics and financial accounting into a closed process. For technical buyers and suppliers, the mirror process chain Purchase-to-Pay is relevant, but understanding customers' O2C dynamics helps to manage one's own liquidity and ability to deliver.

Key facts

- Order-to-Cash typically comprises order acceptance, credit checking, order confirmation, picking, shipping, invoicing and receipt of payment.
- DSO (Days Sales Outstanding) is the key metric and in practice frequently lies between 30 and 60 days.
- Automation and exception management significantly reduce lead times and error costs.
- For suppliers, bad debts and credit limit checks are the greatest O2C risks.
- O2C and Purchase-to-Pay are two sides of the same value chain and should be aligned.

Definition: Order-to-Cash

Order-to-Cash describes the entire business process from the customer order to the posted receipt of payment. It is the sales-side counterpart to the procurement process Purchase-to-Pay and covers all cross-functional steps of order processing.

Distinction from Purchase-to-Pay

While O2C depicts the selling perspective, Purchase-to-Pay (P2P) describes the procurement process from purchase requisition to payment. Buyers encounter their suppliers' O2C every day: every order, every goods receipt note (GRN) and every invoice triggers O2C steps at the supplier. As a buyer, understanding the supplier's workflows allows more realistic planning of payment terms, invoice posting and clarification processes. In practice, this also improves collaboration on framework orders and their settlement, because both sides use the same process data.

Process steps at a glance

A classic O2C process consists of several consecutive steps. Typical sequence: receipt and checking of the customer order, credit and credit limit check, order confirmation, availability check and release to production, picking and shipping, invoicing as well as receivables management and payment settlement.

- Order receipt and configuration/pricing
- Credit limit check and order confirmation
- Picking, shipping, shipping documents (e.g. bill of lading for sea freight)
- Invoicing, accounts receivable, dunning process

Importance for industry and suppliers

In the manufacturing industry, O2C is often complex: bills of materials, batch sizes, customer specifications and quality inspections influence lead time. A medium-sized supplier can use O2C lead time as a key lever for its own liquidity. The shorter the process, the lower the external financing need between material procurement and receipt of payment.

Methods and approach for O2C optimisation

Optimising Order-to-Cash follows a classic approach: current-state analysis, identification of weaknesses, standardisation and automation. Key starting points are data quality, process rules and interfaces between sales, logistics and finance.

Order acceptance and customer data quality

Many O2C problems arise at the very start of the process: incomplete order data, missing material numbers or incorrect delivery addresses. Structured order capture, clear item master data and well-maintained catalogue management reduce queries and clarification cases. In practice, the four-eyes principle (control proven in P2P) also proves its worth on the sales side for special terms, prices and payment terms.

Automation and exception management

Modern O2C set-ups automate standard transactions and handle only exceptions manually. Structured exception management defines which deviations – such as price variances, incomplete deliveries or missing order references – are clarified at which point. Common automation building blocks are IT-supported order checking, automatic invoice creation from shipping data and digital dunning processes. The error rate typically drops noticeably when clarification cases are captured centrally and processed systematically.

Interfaces to procurement and logistics

O2C does not end at the supplier's factory gate. Shipping papers, bills of lading in international sea freight and customs documents such as the ATA Carnet influence when an invoice may be issued and when money flows. Suppliers and customers should align shipping and receiving processes so that goods receipt confirmations are available promptly for invoice posting. Especially for cross-border deliveries, customs and documentation processes extend the O2C cycle.

Key KPIs in the Order-to-Cash process

O2C lends itself well to measurement. The relevant metrics capture lead time, receivables quality and process quality and are suitable for regular cost centre reporting and management reporting.

Days Sales Outstanding (DSO)

DSO indicates how many days on average lie between invoicing and receipt of payment. In industry, the value typically lies between 30 and 60 days; in sectors with long payment terms, even above that. A rising DSO ties up liquidity and is often an early indicator of customers' payment difficulties. Differentiation by customer group is relevant in practice, as major customers frequently negotiate significantly longer terms.

Lead time and process quality

In addition to DSO, companies typically measure the order lead time from order receipt to dispatch, the first-time-right rate of orders and the proportion of invoices processed automatically. The rate of quantities delivered against quantities ordered (order fill rate) and the punctuality rate (on-time delivery) also belong here, as they influence the customer's willingness to pay.

Receivables and risk KPIs

Further metrics: proportion of overdue receivables, dunning stage distribution, bad debt ratio and credit limit utilisation per customer. Those who evaluate these figures regularly identify risks early and can deploy delivery reservations or prepayments in a targeted manner. Mirrored in procurement, the order history helps to assess suppliers' payment behaviour and clarification case rates in a structured way.

Risks and controls in the O2C process

The greatest O2C risks are bad debts, process delays and customs documentation errors. Sound control mechanisms reduce defaults and ensure the legality of invoicing.

Credit risk and bad debts

Default risks arise when customers become insolvent before open invoices are settled. Common countermeasures: credit limit check before order confirmation, continuous monitoring of payment terms, shipping stop thresholds for overdue amounts and hedging via factoring or credit insurance. For international customers, additionally relevant: currency risk in procurement or sales – currency fluctuations can erode margins, so hedging via forward or option contracts should be considered.

Process and documentation risks

Missing or incorrect shipping papers delay invoicing and payment, especially for exports. A bill of lading, for example, must be issued correctly, otherwise sale or delivery is not possible. For temporary export, e.g. to trade fairs or for repairs, an ATA Carnet is required; documentation errors cost customs duties and time. Structured exception management captures such cases systematically rather than ad hoc.

Controls and compliance

Effective controls include segregation of duties between order capture, shipping and invoicing, the four-eyes principle for price and terms changes and regular reconciliation between delivery and invoice data. Delegation of authority governs who may approve which terms and payment surcharges. Legal advice – for example on limitation periods for receivables or on customs documents – should always be reviewed on a case-by-case basis.

Current developments and digitalisation

O2C is becoming increasingly digitalised: e-invoicing, electronic order confirmation and real-time data from ERP and WMS shorten lead times. AI-supported forecasts also support demand sensing on the customer side.

E-invoicing and statutory requirements

Electronic invoicing is becoming mandatory, or at least standardised, in many markets. For suppliers, this means adjustments to ERP interfaces and format requirements. In practice, early review of country-specific requirements is advisable, as the regulations are continuously developed further.

Invoice data can also be used for process automation and KPI evaluation.

Forecasting and integration with demand sensing

Customers who forecast their demand at short notice increasingly rely on demand sensing – the real-time analysis of demand data. For suppliers, this simplifies capacity planning and release to production in the O2C process. Close alignment with the customer order book reduces inventory risks and improves the order fill rate. Closely linked to this is the question of vertical integration: the more a company manufactures upstream stages itself, the longer its own O2C chain and the greater the tied-up capital.

Standardisation and partner integration

Exchange formats such as EDI and open platforms standardise order, dispatch advice and invoice. This reduces clarification cases and dependence on manual coordination. At the same time, requirements for data security and the integrity of business partners are rising. For suppliers, an approach modelled on a pilot project with suppliers makes sense: test O2C automation initially with a pilot partner, document the findings, then scale.

Typical metrics

Days Sales Outstanding (DSO): typically 30–60 days

The lower, the lower the liquidity binding requirement; industry benchmarking is useful.

Order Lead Time: commonly 2–10 working days to dispatch

Depends on depth of manufacturing and product complexity.

Proportion of invoices processed automatically: > 80 %

Rule-of-thumb value for digitalised companies; manual clarification cases should remain below this.

Order Fill Rate: > 95 %

Proportion of order lines delivered in full; influences customer satisfaction and willingness to pay.

Bad debt ratio: < 1 %

Benchmark for financially stable industrial companies with credit management.

Practical example

A medium-sized mechanical engineering company with around 80 employees had an O2C cycle of 70 days on average. Causes were incomplete order data, manual dispatch notification and an inconsistent dunning process. After analysing the order history and introducing structured checking rules, DSO fell to below 45 days within about a year. Liquidity planning became more stable, and the company was able to regularly make use of suppliers' early payment discounts.

- Introduction of automated order checking including credit limit checking before confirmation
- Digital linking of shipping and invoice data including automatic goods receipt confirmations from the customer
- Standardised four-stage dunning process with clear responsibility
- Quarterly review of O2C KPIs with sales and finance

Conclusion

Order-to-Cash connects sales, logistics and finance into an end-to-end process chain and significantly

determines a company's liquidity. Those who systematically measure lead times, DSO and clarification case rates identify weaknesses early and can automate in a targeted manner. For buyers, looking at suppliers' O2C chain is worthwhile, since payment terms, invoicing and clarification processes arise there. Digital invoice formats and exception management make the process more robust and faster. A structured O2C approach is therefore not purely a finance topic but a powerful lever for competitiveness and liquidity.

Frequently asked questions

What does Order-to-Cash mean?

Order-to-Cash refers to all process steps from the customer order to receipt of payment. This includes order acceptance, credit checking, shipping, invoicing and accounts receivable. Its counterpart on the procurement side is Purchase-to-Pay.

Which steps belong to the Order-to-Cash process?

Typical steps are order receipt and checking, credit limit checking, order confirmation, picking and shipping, invoicing and receivables management. For exports, customs and shipping documents are added. The process ends with settlement of the open receivable.

What is the difference between Order-to-Cash and Purchase-to-Pay?

O2C describes the sales process, P2P the purchasing process of a company. Both partly use the same data such as order and goods receipt documents, but run in opposite directions. Companies benefit when both processes are aligned.

How can the Order-to-Cash process be improved?

Success factors are clean master data, automated order and invoice checking, clearly defined exception management and regular KPI evaluation. Aligning with customers on shipping and receiving processes also shortens the cycle. It is important to automate standard cases and handle only exceptions manually.

What is DSO in Order-to-Cash?

DSO stands for Days Sales Outstanding, i.e. the average period between invoicing and receipt of payment. In industry, the value typically lies between 30 and 60 days. A rising DSO ties up liquidity and may indicate customers' payment difficulties.

Why is Order-to-Cash important for suppliers?

Suppliers finance materials, production and warehousing upfront but receive payment only after the customer order and invoicing run. A short O2C cycle reduces capital requirements and default risk. In addition, O2C documentation influences when revenue may be invoiced.