

# Powering a more intelligent enterprise: OTC transformation delivers \$40MM business impact at Penske.

## About the Client

Global trucking leasing and logistics services company

## Industry

Transportation and Logistics

## Business Need

Transform back office operations across multiple countries

## Genpact Solution

Collaborative approach to map client processes and transition to shared service center

## Business Impact

- Efficiency: Operating cost savings of \$20MM annually
- Effectiveness: Bad debt expense reduced ~\$10MM annually and \$40MM increased cash flow generated through reduction in DSO
- Raised NPS score above 85%

Transformation to what Genpact calls an intelligent enterprise—one that is more agile, innovative, and effective in its operations across all locations—begins with recognition of goals and crafting strategies to achieve them. Frank Cocuzza, Penske's Chief Financial Officer, described improved efficiency and customer service as the prime drivers in moving his back office processes to Genpact. He says, "While cost savings were expected, they were secondary in the decision-making." Thus began a highly successful journey toward more globally effective back-office operations across Penske's footprint.

## The Business Challenge

Penske Truck Leasing equipment and provides logistics services to businesses in the U.S., Canada, Mexico, Europe, Brazil, and China. The company's first administrative partnering occurred in 1999; in 2001 the company decided to more fully leverage third party support to achieve more efficient processes and faster growth. At the time Penske was absorbing the \$768MM acquisition of rival Rollins Truck Leasing, just as the U.S. economy was heading into recession. Penske realized it needed to better organize its back-office operations, which were spread among five different U.S. cities. "It was difficult to justify the cost of five different centers and also offer a consistent level of service," explains Cocuzza. "We came to realize that our business needed a transformation."

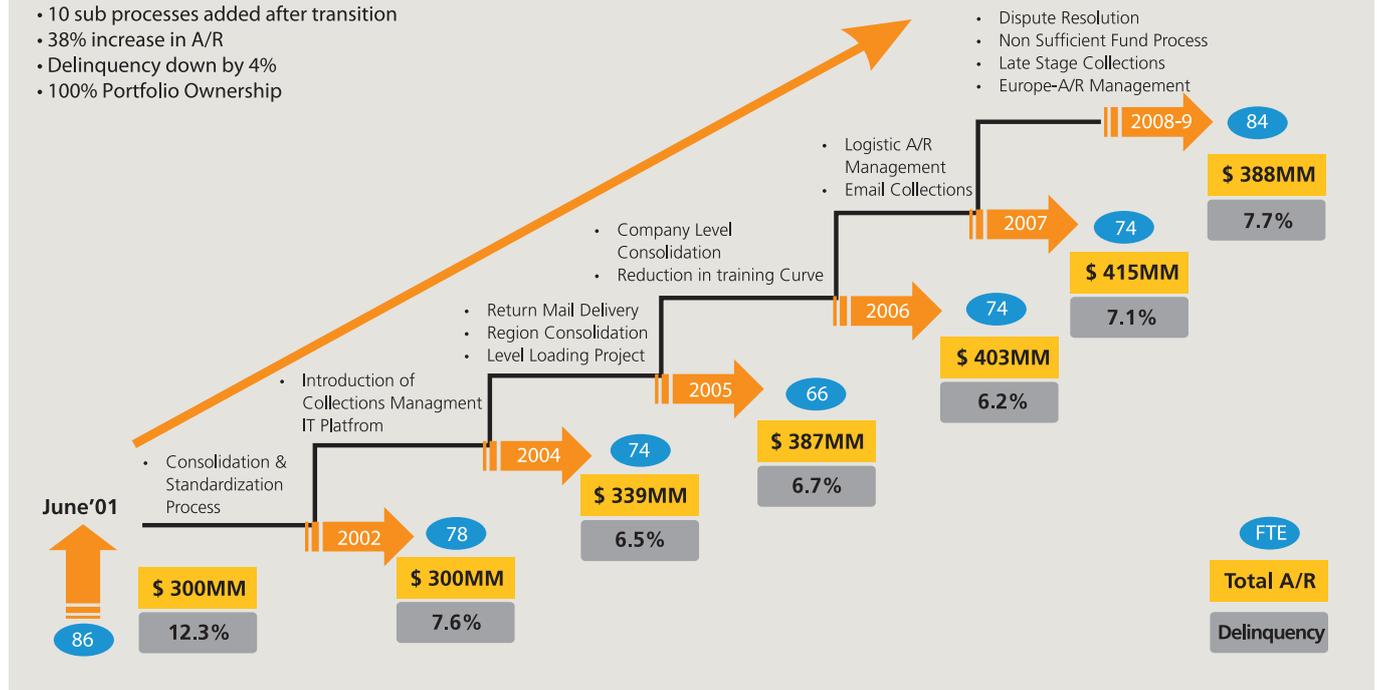
Penske decided to work with an outside specialist, leveraging the provider's global delivery model to help centralize, redesign and then administer much of its back-office work, rather than attempt to reengineer by itself. The Genpact-Penske relationship began with Penske sending documents for data processing to a 30-member Genpact team in Mexico. The Order to Cash (OTC) relationship began in 2001 with 86 FTEs handling the collections process.

## Genpact's Solution

Cocuzza and his Finance team, along with Genpact transition experts, process-mapped activities in the regional administration centers and identified what functions could best be transitioned to Genpact centers in Mexico and India. Over the next 10 years the engagement scope evolved from delivering basic transactional processes to supporting complex analytic processes for Penske's business operations. The geographic scope evolved as well, and now includes Penske operations in the U.S., Mexico, Canada, and Europe. Most recently, Penske used Genpact resources in a small transition project for its Brazil operations.

## TRANSITION-TO-TTRANSFORMATION: COLLECTIONS

- 10 sub processes added after transition
- 38% increase in A/R
- Delinquency down by 4%
- 100% Portfolio Ownership



## Going Beyond Efficiency

To support the evolving relationship shown above, Genpact established Global Shared Services processing platforms in India and Mexico based on a Virtual Captive<sup>SM</sup> model. We transitioned processes in their existing state to our Centers of Excellence in India, Mexico, and the U.S. In addition to ensuring ongoing service delivery quality, we focused extensively on process transformation, utilizing various quality methodologies to drive continuous improvement.

While efficiency gains are important, the Penske and Genpact process teams believed that real business impact to Penske could only be delivered through improving certain key business outcomes. Improvements in business outcomes like Days Sale Outstanding (DSO) and Past Due % usually deliver 5-10 times the savings obtained through improving efficiencies.

We leveraged Genpact's strong Six Sigma and Lean heritage to reduce process variation, deliver efficiency benefits, and drive a more effective operation across all locations. Our proprietary Smart Enterprise Process (SEP<sup>SM</sup>), built around our experience in business process improvement, ensures we identify and leverage key metrics for improvement. First we define the sub-activities of each process, drilling down to Level 2 / Level 3 for the sub-processes in scope, and then identify key performance measures and drivers associated with these activities. Key differentiators between this and traditional approaches include;

- Understanding customer needs for each process
- Establishing clear impact linkages between key performance measures and the overall business outcomes that helped Genpact prioritize focus areas for improvements
- Focusing on leading metrics in addition to lagging metrics
- Reviewing and finalizing metrics with Penske and implementing robust reporting mechanisms to track and report performance

Genpact also leveraged best practices and insights resulting from our deep process understanding and experience in having run similar operations for other clients. We:

- Linked 23,500 individual customer accounts into 8,000 customer groups sharing a common Accounts Payable function, eliminating redundant collection calls and focusing the collection strategy
- Set up a process to continually correct addresses on returned invoices and decrease undeliverable invoices to approximately 1% of total invoices
- Refined the auto-cash algorithms to double the number of payments applied automatically vs. manually

- Developed a “best time to call” profile for key customers to increase the efficiency and effectiveness of collections

Genpact was engaged in comparing Penske’s existing metrics to those in our SEP<sup>SM</sup> methodology to identify additional metrics that should be tracked. This provided deeper insight into processes which would drive effectiveness and efficiency improvements, and bench–mark Penske’s performance against our proprietary database. A few examples of insights gained include:

- Penske compares favorably to benchmarks in Average Days Delinquent, a measure of collection effectiveness, and in Cash Application Accuracy
- Penske can improve performance in the Service Completion to Invoice Cycle Time, a measure of billing timeliness, and further increase the Auto-Cash Hit Rate

Genpact’s wide expertise in understanding key drivers of the Order to Cash process across geographies and industries has enabled our ability to provide insights into how specific focus points and improvement areas within operations can lead to a positive and significant impact on an organization’s revenues and bottom-line figures. Our workflow tools and deep analytics capabilities have helped Penske continue to refine collections prioritization logic and make the entire process more robust and effective, well able to adapt to challenges and changes. Throughout the intense economic cycles of 2008 and 2009 the teams stepped up to a differentiated focus on managing AR through late stage collections, dispute resolution, and predictive analysis and interventions to sustain a healthy Past Due % similar to that of pre-2008 levels.

The relationship’s success is drawn from the collaborative approach used to achieve process excellence between both organizations, supported by the strong leadership and direction provided by the Penske team—truly an “intelligent” use of resources to achieve a more effective enterprise from end to end.

## Business Impact

The end-to-end approach taken by Genpact resulted in significant process improvements across Penske’s multiple works streams.

### Indicator

Past Due AR as % of Total AR  
 Day Sales Outstanding (DSO)  
 Sales tax credit memos  
 Auto-cash hit rate  
 Cash Application Accuracy  
 % of cash applied same day

### Progress

Reduced 50% to <10% range with 23% fewer collectors  
 Upper 30s to 40 days on 30 day terms  
 Reduced by 90% to lowest level ever  
 Increased from zero % to mid 60%  
 Virtually 100% consistently  
 Improved from 90% next day to 98% same day

- Efficiency: Operating cost savings of \$20MM annually
- Effectiveness: Bad debt expense reduced ~\$10MM annually and \$40MM increased cash flow generated through reduction in DSO
- NPS score raised to over 85%

Cocuzza believes that Penske’s revenues have increased from higher customer retention driven by enhanced customer satisfaction from back office improvements. As he put it: “Better billing and improved cash application, both of which lead to eliminating unnecessary collection calls, help drive a better relationship between Penske and its customers,” he says. He also believes that associate satisfaction improves from doing less rework.

**“ Our partnership with Genpact has not only provided us cost-efficient business processes, but also the process rigor and metrics that enable us to achieve ever-higher levels of performance. We look forward to continuing our progress by leveraging Genpact’s Smart Enterprise Process Methodology.”**

**Frank Cocuzza**  
**CFO, Penske Truck Leasing**

