



Reduce receivables, free cash

With growth slowing and cash getting tighter, now is the time to reduce the working capital tied up in receivables.

In the first of two papers we focus on reducing trading risk and freeing up cash from receivables.

Call us today for a free assessment of the opportunity to regenerate cash and reduce DSO.



Cash is Getting Short

As growth slows – driven by China and other factors - and borrowing is curtailed, cash will become more precious and companies may struggle to find the cash they need to manage operations or to fund growth.

ACG believe that this is therefore a good time for businesses in Asia – and elsewhere - to focus on optimizing cash-flow from working capital, and in this paper we look at RECEIVABLES.



Simon Littlewood, ACG Global President, says: ‘when growth slows many companies prepare poorly and suffer as a consequence, but a small number of luminaries invariably come out stronger, bigger and with more share and profitability.’

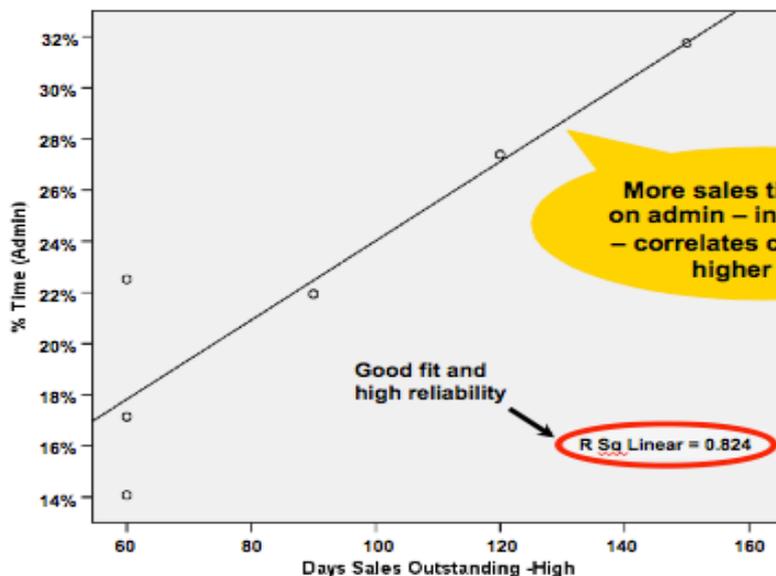
Receivables

As growth slows you may find that customers start to delay payments. It may be overt, or it may be disguised by a smokescreen of ‘billing’ and other issues thrown up in an attempt to win more time. This behavior may mean that you can expect payment later, or it may be a sign of a serious liquidity problem, which may lead to a default and a bad debt.

In either case, prompt – ideally pre-emptive – action is indicated. The good news is that the right actions, taken in the right way and at the right time, can not only assure your cash-flow but actually build better customer relations over time.

Measuring Performance

DSO is driven by the terms you offer customers and how late they pay you relative to terms. Broadly, you can reduce the overdue component within a 6-month period (see below), but renegotiation of terms is problematic and sensitive and should be undertaken with caution.



Source: NTU & ACG (2012) *Sales Productivity Benchmarking Study*

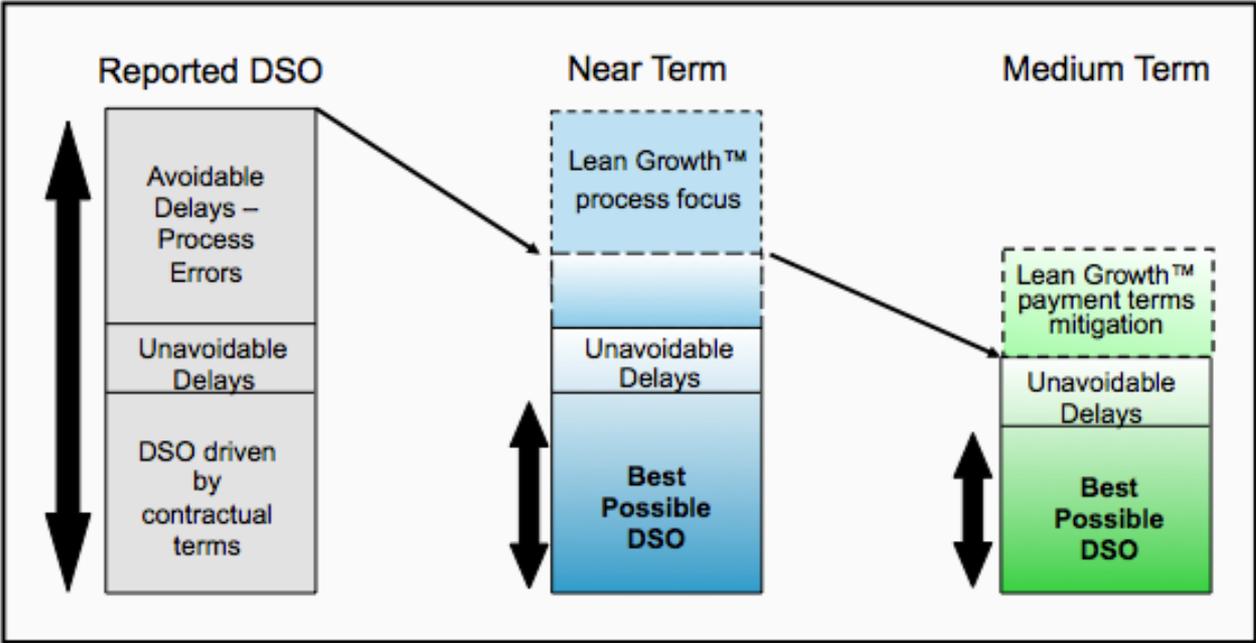
With 20 years of expertise, ACG will provide you the tools and the support you require to successfully managing this process.

Impact on Ability to Sell

There are unintended consequences to poorly managed receivables. Where late payment is an issue, you can expect not merely see increased admin and working capital costs, but ACG research clearly shows that

the higher your DSO is relative to your benchmark group the more time your sales force will spend on AR-related matters.

In other words, high DSO equals an inefficient or distracted sales team, and in a period of slowing growth **addressing billing and receivables issues** can have a critical impact on sales productivity by eliminating the issues that require their engagement.



Terms

In order to collect what is owed, terms of trade need to be clear. Sounds obvious? Well, in ACG’s experience **more than half of companies give customers inconsistent messages about terms.**

For example, what it says in your customer database, what is printed on your invoices, what the salesmen tells customers, and what the customer believes, may all be different.

It is imperative that you find this out, define a common term (which you may need to adjust as a result of custom and practice) and embark on a program of communication to ensure that all messages are aligned.

Getting the support of your sales team, and their active engagement, is likely to be key, as you manage your terms alignment process.

Collections

Even where terms are clear, customers may pay late. A selective analysis of late payments, and polite engagement with customers, is likely to reveal that in many cases you are simply not asking for payment early enough (asking AFTER DUE DATE may seem like politeness but in effect guarantees late payment).

In many cases there will be ‘queries’ or errors, including everything from ‘we did not get the invoice’ to wrong prices and other inaccuracies. Early engagement with the customer, linked to effective issue resolution that includes DEFINED INTERNAL SERVICE LEVELS will address many of these issues.

The two key components of correcting late payments are, therefore, PROACTIVE or early customer engagement, and effective cross-functional ISSUE RESOLUTION.

You May Need to Change

Companies experiencing late payments commonly tell us that ‘our customers are like that’ or ‘this is the nature of the market’. Yet extensive research shows that getting receivables in shape has much more to do with the way you run your processes than it does with any deliberate recalcitrance from customers.

Simply put, smart customers will ALWAYS take advantage of errors or ambiguities in your billing and collections process if they enable them to hold onto their cash for longer. In their minds, they are not being dishonest, they are being commercial, and you are allowing them to behave like this.

Analyze all late payments for a given period by CAUSE and you will find that 20% of 'query types' drive 80% of late payments.

Drill into the root causes of this 20% and mount a cross-functional initiative to resolve them. The team should include finance, supply, and sales. This may take time, and cause friction, but determination and resolve will enable you to tackle and permanently fix most of the internal delays.

Role of Sales

In most emerging markets where 'face time' is key to relationships and geography makes multi-level engagement problematic and costly, you can only succeed in the long term if sales (starting with sales management) are actively engaged.

Metrics and Remuneration

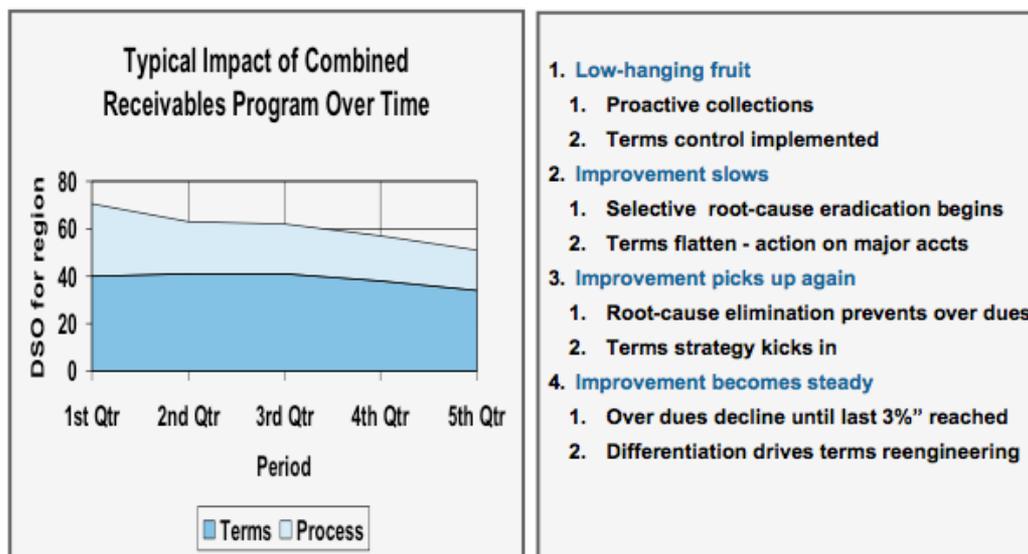
If you remunerate sales on the basis of \$ or volume alone, then you will struggle to get them engaged in a sustained way in the working capital discussion.

There will need to be 'working capital elements' in their variable pay and these will probably need to include, in the short term, some metrics around the resolution of long over-dues, the DSO of key accounts as well as a measure of their engagement in the dispute resolution process (many, or most of the internal issues you uncover can only be resolved with the active campaigning of sales and they may be disinclined to get involved in activities they perceive as 'uncomfortable' to their relationships).

Balance Sheet Training

Sales education may be needed – many may simply not understand why payment timing affects profitability, they may simply see it as binary – so some balance sheet education is often essential. If you educate and make changes to variable pay you must ensure that you can then provide the salesman with good accurate data on his accounts, and prompt support in surfacing and measuring issues for his accounts. Failure to do this may provide a reluctant sales team with good reasons to hold back.

Phasing of Improvements – What Can I Expect?



How to Get Started?

Email ACG at info@acgrowthdelivered.com or go to our website – you can expect substantial improvements to DSO within 4 months.



Only when the tide goes out do you discover who's been swimming naked.

Warren Buffett

ACG Global product offerings

Market entry & strategy

Understanding and comparing markets and channels in order to prioritize and plan new growth.



Working capital

Streamlining support processes to improve service and release working capital from receivables and inventories.



Shared services and offshoring

Offshoring support processes to free time for growth, improve service, and reduce transaction costs.



Sales effectiveness

Improving sales effectiveness by freeing up sales time from non-growth activities and using management tools and incentives to ensure delivery of new growth.



Transition management

Ensuring timely delivery of complex change programs using culturally appropriate change and communication tools to build consensus and momentum.



For more on this article, including detailed case studies for your industry, or on any of our offerings please contact:

info@acgrowthdelivered.com

ACG Global - formerly Asia Now - is a boutique management consultancy founded in Singapore in 1998. We deliver faster growth to major companies worldwide by improving sales effectiveness and reducing costs and working capital. We believe in long-term partnership and we emphasize process and behavioral change.

© Copyright ACG Global
All rights reserved.