A dash for cash

FABIO SEABRA SUGGESTS HOW THE ACCOUNTS RECEIVABLE PROCESS CAN BE IMPROVED AS PART OF STRENGTHENING WORKING CAPITAL MANAGEMENT.

Executive summary

- Days Sales Outstanding (DSO) metric is increasingly being used by organisations to monitor the performance of Accounts Receivable.
- EDS has moved to centralise and consolidate receivable processing in a bid to reduce costs.
- The key issue is to match payments with multiple invoices. Despite advances in technology this can still be a time-consuming process.
- Large organisations with high volumes across different territories need to examine the whole of the receivables process in a bid to find improvements.

An efficient receivables process is a critical ingredient in successful working capital optimisation. Any attempt to improve the receivables process will focus on Days Sales Outstanding (DSO), a widely recognised metric of receivables performance. A single day's decrease in DSO can yield a significant amount of released cash. Moreover keeping DSO low is important as late collection of payments can weaken a company's cashflow position and therefore impact its market value. Realising this, companies increasingly reward their Accounts Receivables (AR) staff on a DSO basis and seek to improve efficiency of their AR process.

Given the multi-currency, multi-instrument nature of commercial transactions in the current business environment, managing AR can be a time-consuming and labour-intensive task. Cash allocation becomes extremely difficult when remittance information is inconsistent or incomplete, which is often the case when invoices are settled through electronic channels.

The creation of value by increasing access and visibility to information is forcing companies today to invest in new working capital management tools and solutions. The continuous roll-out of enterprise resource planning (ERP) systems, increasing corporate governance initiatives such as Sarbanes-Oxley and the relationship with customers regarding credit lines and service continuity, reinforce this need and set the scenario for better controls on the collection side of the working capital management.

RECEIVABLES MANAGEMENT One of the ways to make the AR management more efficient would be moving to a Shared Service Centre structure and introducing an ERP system. Centralisation and standardisation of processes brings significant economies of scale from pooling cash, information and transaction flows and leads to significant efficiency gains. This path is, however, not free of problems. While most of the existing ERP systems are effective when matching the received funds if the ratio of payment to invoice is 1:1, they are often not capable of closing out the open items when the ratio is 1:many. Today an average payment settles a number of

Box 1. EDS case study

EDS delivers a broad portfolio of information technology and business process outsourcing services to clients in the manufacturing, financial services, healthcare, communications, energy, transportation, consumer and retail industries and to governments around the world. With a revenue of $20.7bn in 2004, EDS is ranked 95th on the Fortune 500.

EDS is currently using Citigroup's Receivables Consolidation Service and Irene Atkins, EDS Treasury Consultant, comments on receivables management.

Why did you decide to outsource your receivables consolidation process?

EDS currently manages 350 million-plus customer relationships and more than 2 billion customer interactions annually in over 60 countries. This means that bank processes supporting our activities are very complex and require a lot of resources. We realised that for a company like EDS, centralisation and consolidation of receivable processing could bring significant savings.

What we were looking for was a way to further automate our existing processes and consolidate our financial activities globally. We were also seeking to boost the use of Shared Service Centres in order to be able to fully capitalise on the benefits of the outsourcing approach.

As a multinational company we were interested to find a global partner who would be able to serve our needs in different locations across the world. We have considered various providers, but Citigroup's global coverage was the most appropriate partner for us. We also liked the fact that its Receivables Consolidation solution (ARMS) would deliver the consolidated receivables file in a format that would allow us to upload it to our ERP system.

What are the benefits to EDS of using this service?

Using the service enabled us to meet our goals of cost reduction and raising automation levels. Availability of consolidated information about all our customers' payments allowed us to achieve remarkable results. In the past, processing receivables for EDS meant multiple different manual processes in multiple countries, which of course required a tremendous amount of time and resources. With Receivables Consolidation we now have one fully automated process and this enabled us to reduce the cost of handling receivables by as much as 30%. Moreover, our matching rate has improved significantly which means that funds are allocated faster and the whole cash cycle is more efficient.

What are your next steps in outsourcing receivables?

There are still many things to be done. To improve cash allocation we work closely with our customers in order to guide them to provide the correct payment information that facilitates matching of funds received against the invoices. We are looking forward to further rationalising our receivables processing and will work with the bank as our long-term partner in this area.

Our main goal for the future is to improve our matching rates. We are also looking to increase receivables consolidation by expanding the use of the service to cover more of our bank accounts. We are satisfied with the impact that Receivables Consolidation has had on our operations so far.

invoices, which effectively means that even with ERP, the system matching process often has to be done manually.

To reduce the time spent by personnel on administrative tasks and increase focus on their core activities, more companies are considering the option of outsourcing their receivables process. With the variety of service providers currently available on the market, it is important to make the right decision when selecting an outsourcing partner.

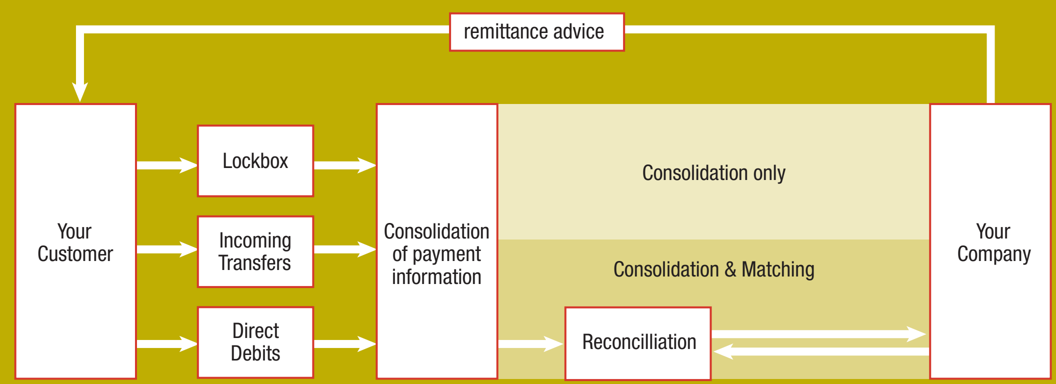
Large organisations that need to process high volumes of paper and electronic receipts in multiple countries need a solution which covers all the aspects of the receivables process – collection of funds, clearing, data capture and cash allocation. For multinational companies, another significant factor is the ability of the outsourcing provider to support the global operations.

Consolidating information about payments received is an important aspect of the receivables process. Consolidated receivables

Box 2. Accounts Receivables Matching Services

Customers are generally offered a choice of payment methods – the most common of which are by cheque, electronic payment, credit cards and direct debit. Receivables Consolidation can be used to help identify which invoices the payer has settled and when payment is received.

If the matching process is outsourced, a company sends its open items file (containing all outstanding invoices and any credit notes) to the bank and the bank will take the responsibility for matching receipts with that file – returning a file to the company on a regular basis (usually daily or weekly). The open items file can be delivered to the bank at the company's preferred frequency (usually weekly) and in a flexible flat file format.



AVAILABILITY OF COMPREHENSIVE AND ACCURATE INFORMATION FACILITATES THE MATCHING AND RECONCILIATION OF RECEIVABLE ITEMS AND THEREBY CONTRIBUTES TO DSO REDUCTION AND STRENGTHENS THE RELATIONSHIP AND DIALOGUE WITH CUSTOMERS.

information provided by the outsourcing partner can be used to help identify which invoices have been settled and when payments have been received. Availability of comprehensive and accurate information facilitates the matching and reconciliation of receivable items and thereby contributes to DSO reduction and strengthens the relationship and dialogue with customers.

In addition to the direct effect on receivables management, consolidating AR information can trigger improvements in other business processes. Greater transparency of the order-to-cash cycle process improves credit terms analysis for customers and increases predictability of future cashflows. Availability of timely receivables status can be used to identify the optimal stock levels and reduce inventory costs. Quicker resolution of customer queries has a positive impact on customer service and relationships.

When all payments are successfully consolidated with their associated remittance information, they need to be matched against the open items in a company's AR system. Outsourcing receivables matching is the next step in optimising account receivable management that will improve the reconciliation process, free up additional resources and further reduce DSO.

The fully automated end-to-end outsourcing solution including AR consolidation and matching should lead benefits for the entire business process.

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