



Release Frozen Cash Flow and Profits With Data, Bolt-On Technology, and Managed Services

By the staff at [Smyyth LLC](#)
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Zero-Sum Receivables Management Game

The zero-sum working capital tension between you and your customers requires a driven effort to enforce your terms of sale; that is, to focus on getting your receivables paid on time. There are many companies that could improve their DSO by 10, 20, even 30 percent if they use what we call the Cash Gap Strategy™ to direct their efforts to the right customers at the right time, and employing technology to drive the collection work-flow.

Recognize that a certain percentage of late payments are basically “baked-in” to the system; that is, many customers have no plans to pay right on the date due.

“Give them an inch, they’ll take a mile.”

To illustrate how being passive leads to even worse results, some accounts payable departments use software that tracks how quickly (or slowly) you follow up for payment, and adjusts the payment rules accordingly. The less aggressively you follow up, the more slowly you get paid, and vice versa. It’s either “You win, they lose”, or “They win, you lose.” What’s it going to be?

Delays - Disputes - Deductions - Process errors

In addition, all businesses have significant cash “frozen” or delayed due to upstream process errors, deductions, or disputes holding up invoice payment, yet few companies have invested in systems to deal with this. Once practices and habits become ingrained, negative practices are hard to break.

So, how can you break this cycle and unlock this cash flow?

Mining internal and industry accounts receivable data to find ways to speed cash

flow and reduce disputes is no less important than optimizing inventory management. Both assets depreciate, and both have the same impact on working capital. With bank lending constrained these days, why not find growth financing internally?

Unfortunately, unless you have the technology and the data to point you in the right direction and drive your activities, you can't do much more than "more of the same", working hard to eke out small, incremental gains instead of the huge breakthroughs possible when looking at accounts receivable as an asset to be mined and optimized.

With fewer staffers in most companies today, data and systems have taken on critical importance for targeting collection, cash flow, and deduction strategies versus the old days of thumbing through accounts A through Z and "dialing for dollars". What we in the business know is that it is not merely how many you call (although that is important), but selecting who you call with what frequency.

The CFO's Dilemma

CFOs today are looking to outside solutions that supply not only state-of-the-art technology over the Internet for a transparent "collaborative" system that keeps them in the picture, but also provides a motivated, experienced, trained outsourced staff to add flexibility instead of fixed overhead. To achieve great results in addition to motivated expertise, a high level of special [automation](#) is required.

Developing Your Scorecard and Identifying the Cash Flow Gap Metrics

Understanding where you are, relative to the optimum cash flow results achievable, is the first step. Use current industry and competitor benchmarks, not last year's data, to determine the improvement possibilities, what we call the cash flow "gap".

Determine the metrics you need to use to measure performance, such as DSO, Average Days Late, Percentage Past Due, etc. You probably have already set DSO and past-due targets for your team to achieve, but these are probably last year's numbers plus a slight uptick.

There is an easier way. For example, we compare your scores against the best performers in the industry, calculating the Cash Flow Gap in days and dollars on a customer-by-customer basis to give you a measurable target for your collectors.

Harnessing Data to Power Your Collection Efforts

Comparative Industry Payment Data—the Cash Gap Strategy

We suggest you set your DSO targets based on top industry performers, not the averages. Your best-in-class competitor days-late or DSO could be 20 percent or more

better than yours, indicating the improvement potential. Both on a general, and on a customer-specific basis, you may find great opportunity.

Here are three hypothetical, representative one billion dollar revenue companies, all in the same industry. We calculate the Cash Gap by comparing peer receivables data with your company’s data to determine the overall cash potential as well as for each major customer.

Overall DSO Comparison and Cash Opportunity

Supplier	DSO	Cash Gap
A	37	\$27,400,000 +
B	42	\$13,700,000 +
C	47	0

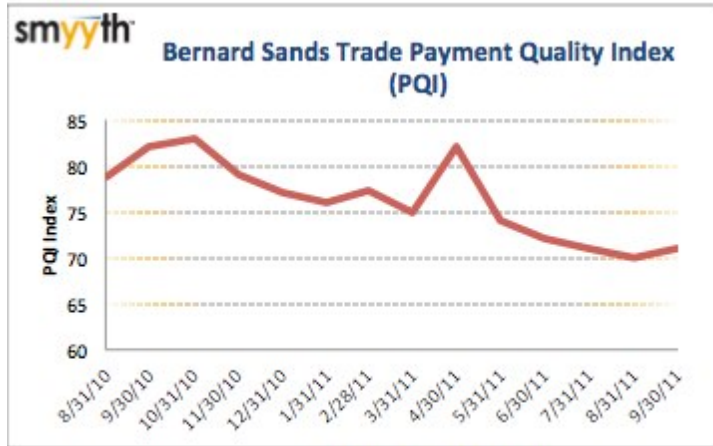
Days Late For a Specific Customer

Supplier	Days Paying Late	Past Due 30+
A	37	30,500
B	42	70,000
C	47	90,000

To begin with, use your internal data to set baselines. Then, leveraging Smyyth Networks’™ massive trade payments analytics, we compare how other suppliers are being paid and focus on the variances between customers to identify the cash gap and collection priorities. You will be surprised to find substantial differences, resulting from supplier trade or credit and collection practices.

You can’t do this yourself. The way to achieve this is to engage a third-party industry system, such as Smyyth Networks, that monitors, scores, and compares data. Smyyth’s industry payments database is the largest of its kind, with over 100 million payment records.

Smyyth Networks’ industry credit communities share A/R data for benchmarking and credit-reporting purposes. These virtual credit groups can roll up data from hundreds of companies and factors to produce a broad (or focused) picture of how an account is paying, as well as an industry-specific view. Here is an example of a company (customer) whose payments have steadily deteriorated over time. Clearly, the example below is a deteriorated score that would put this customer in the top ranks of priority for collections.



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Employing the PQI score as well as your internal payment histories, our system develops credit risk and collection priority scores to be used for prioritizing collection activity, so that your staff works effectively, and on the priority accounts first. These scores are uploaded to your collection system, or if you use Smyyth's Carixa Order to Cash technologies, they are seamlessly integrated and determine the work queue for your collection staff.

Root Causes of Late Payments, Disputes, and Deductions

In most companies, problem feedback is received at the collection stage and used in the resolution of a specific transaction, but it all too often ends there and is repeated over and over again dozens of times each day. These causes need to be measured, tracked, and looped back to correct the root cause to prevent other similar situations in the future.

Most problems occur somewhere upstream of the collection function. For example, they include pricing, billing, EDI, marketing, or logistics issues, or a disparity between your published, standard terms and the customers' "standard".

Root-cause feedback is especially important with customer deductions, which fall into [three deduction categories](#). The feedback loop is especially important with the Preventable and Customer Error, as they represent significant revenue and profit dilution.

- **Trade Practices** - These are deductions, for example, for trade promotions that you agreed to and are costs of doing business. You can generally streamline the resolution process, but you cannot avoid these without fundamental changes in policy.
- **Preventable** - These are upstream processes, communications, billing, or shipping errors which you can control and eliminate. These tend to be chronic and indicative of how well your organization is managed.

- **Customer Error** - Little explanation needed here, except that many of these can also fall into the “**Preventable**” category if due to lack of clarity in the supplier’s sales, pricing, or operational communications to customers.

The tangible benefits of measuring, monitoring, and acting on root causes include improved cash flow, business problems averted, better customer relations, and higher corporate profits. Optimal customer deductions handling alone can increase your profits, by millions of dollars. The necessary tools are built right into Carixa, Smyyth’s [Order to Cash](#) technology.

Bolt-On People and Systems Solutions

Expert Outsourcing - *not* “Off-shoring”

Many business and payment disputes are rooted in business issues that cannot be effectively solved by simple collection follow-ups. Consequently, we are not proponents of “off-shoring” credit-to-cash operations as the “net back” achieved is usually *negative*. That is, the potential cash flow or profit lost by not resolving a dispute or business issue is more than any amount that could ever be saved in a labor cost differential.

To improve results, an understanding of the industry and the business culture is critical. That is why 100 percent of our dispute resolution, collection, deduction management, and customer facing operations are located in the U.S.

It is not easy changing corporate ERP systems as these projects often turn into mammoth, expensive, multi-year undertakings. However, there is good news in that a solution exists, which includes a seamless integration of third-party and Smyyth Networks data. That is, Smyyth’s Carixa Order to Cash System, a bolt-on tool that incorporates data and priority scoring, all driving a world-class collection and deduction management operation.

If you need competent systems to manage collections and deductions, take as long as a year or more to implement and run hundreds of thousands of dollars, plus the annual user and maintenance fees. If, on the other hand, you decide to modify your ERP to give you more power, the price tag will be into the seven figures and take even longer.

If you want to realize the improvement now, without any development or implementation headaches, there is a better way, without the heavy cost, and you can have it almost immediately.

The Smyyth Way

Smyyth [outsourcing](#) engagements include Carixa’s world-class accounts receivable

management workflow and automation. We handle all the customization and establish the data transfer with your ERP system, and have you up and running within a few weeks. Then we apply a dedicated U.S. team to handle the accounts on an intensive, high-priority basis, trained to mirror your business culture. Total time to implement - less than a month.

Visibility

Carixa is a platform built for strategy, collaboration, and to provide a global Order to Cash solution, a customizable rules engine, extreme automation and work-flow, and complete management visibility.

- Complete Credit, Collection, Deduction, and Accounts Receivable automation.
- Management access on a global or account basis, 24/7.
- Performance tracking, with graphs and spreadsheets.
- Special management reports online and by system email.
- As a matter of fact, your key departments will be included in the workflow so that issues with their related documents are escalated to the right people. For example, if a marketing issue is holding up a large invoice.

Smyyth Results

A 40-percent increase in deduction recoveries

A 50-percent improvement in the past-due aging

A 20-percent improvement in DSO

A 70-percent cut in time to resolve disputes

An overhead - slashed

So, there is a way to achieve your corporate financial goals without burdening your technology budget and resources, with a professional resource that combines dedicated, expert staff and management with the highest level of automation and customer service in the industry. Contact Smyyth's President of Solutions for more information today. KMetzger@smyyth.com. +1-201-714-4545

RationalScore™ is a powerful, user-definable, multi-variable, customizable credit and payment scoring system, a trademark of Smyyth Credit Services, Inc.

Carixa™ is a trademark of Smyyth Technology LLC.