

# TITAN

## CONSULTING



## DO YOU WANT TO PUT MORE CASH IN YOUR POCKET?

### Slash the Cost of Disputes and Collections with SAP FSCM

“The economy is getting better; we should see our write-offs go down!”, one Director of AR recently exclaimed!

It is unfortunate that the economic cycles influence when broken processes get fixed. As easily as the economy improves, it can swing in the other direction, and you are right back into a bad situation of increased disputes, collection issues, and write-offs.

How reliable are your disputes and collections processes in your business? The disputes and collections process is often one of the most fragmented, cumbersome and disjointed processes – it is the red-headed step child of reluctant financial business processes – no disrespect to red-heads.

For small and medium-sized businesses, the processes are costly, immature, manual, and cumbersome. The information and records are tracked on spreadsheets, word documents, stored on a desktop or file share, and disconnected from the other processes and systems – creating a huge risk for delayed payments and write-offs.

#### **What are the goals and benefits of an integrated, mature Disputes and Collections function?**

What happens if we improve our collections and reduce the number of disputes:

- Reduces the cash-on-cash conversion cycle – a key measure of how quickly we leverage asset to asset conversions.
- Improves the effectiveness of working capital and internal rates of return.
- Supports growth in sales.

Typically, the justification for implementing the Disputes and Collections process is a relatively quick payback. Our experience shows a payback in the 1st year.

Automating the processes should allow you to evaluate your risk and collectability of receivables, handle customer situations with payment reminders and promise-to-pay arrangements before they get to a point where it is likely that



the receivables will be written off. Streamlining the workflow for users and managers is essential to the process, and integration of the source data is critical.

#### **Metrics and Objective for Disputes and Collections Process:**

- Reduce DSO – Days Sales Outstanding – measuring how quickly cash is received after a sale;
- Avoid Write-offs;
- Increase on-time payments.

Unlike other processes, improvements in key metrics like DSO provides an immediate payback to the company. For example, early identification of an at-risk receivable may result in avoiding significant write-offs, further improving the ROI for a project like this.

The biggest mistakes we see in this business process are:

- Processes and data are isolated and not integrated into the source data – offline data, contained on spreadsheets;
- Metrics and analytics to support FSCM don't exist or are improperly managed;
- Processes and Workflow management are not integrated into the AR, Finance and Sales / Operations organizations.

Unfortunately, the remedy for these broken processes requires additional resources to resolve the issues. Or, to sweep these

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## C O N S U L T I N G



processes under the carpet and hope that the economy improves and reduces the number of disputes, collections, and write-offs.

At a time when companies are driving Customer Enablement, compiling a comprehensive picture of buying and payment behavior is vital. Disputes and Collections enables and supports better customer and business decisions.

**Improve DSO** - A simple example to show how improved DSO funds the business:

Annual Credit Sales - \$100M

Average AR - \$12.5M

DSO = ~45 days

Note – Use 360 days/year calculation

Reduce the DSO from 45 to 40 days is like adding \$150,000 in sales per year—a nice improvement any way you measure it. This small productivity gain is certainly better than tapping into a line of credit or other working capital.

In a 2015 survey, approximately 1/5th of all receivables in the United States were beyond 90 days. Top percentile companies are within 10% of their standard terms: Net 30, making the average DSO 33 days. In foreign countries, these percentages are worse than in the USA.

Creating the business case for Disputes and Collections, a component of SAP Financial Supply Chain Management (FSCM) is straightforward. Simple, manageable improvements help businesses of all types; manufacturers, service providers, financial services, and healthcare, can all benefit from improvements.

FSCM allows you to:

- Act quickly on aging and past-due receivables,
- Establish early a promise-to-pay plan,
- Consider alternatives such as lockbox or ACH,
- Build a complete customer profile.

Other key metrics we consider with your receivables, disputes and collections cycle are:

- Average Days Delinquent,
- CEI – Collections Effective Index,
- Write-offs and At-Risk,
- Percentages Trend – Current, Over 30, Over 91,
- Customer Profile and Payment Behavior.

At the recent SAP-Centric Financials Conference (<http://sapcentricfinancials.com/>), we presented business cases on how our customers are improving efficiency in their financials and reducing their cost of operations.

Do you want to see our case studies of how to reduce your DSO and improve your Disputes and Collections processes? Contact Warren Norris, [warren@titanconsulting.net](mailto:warren@titanconsulting.net), 972.977.3100; or your Titan Consulting Sales Director.