genpact
Transformation Happens Here

CASE STUDY

Give cash flow a boost with a payables and receivables makeover

How a beauty-products brand turned its focus on liquidity to accelerate cash flow

WHO WE WORKED WITH

A major multinational manufacturer of beauty products

WHAT THE COMPANY NEEDED

- To keep cash flowing steadily and predictably despite fluctuating demand due to COVID-19
- A robust approach to managing liquidity in uncertain times
- To build resilience against future uncertainty

HOW WE HELPED

Working with the company's finance team, we created a cross-functional task force - a liquidity council - that analyzed and benchmarked the firm's cash position. We then laid out a roadmap to improve performance.

WHAT THE COMPANY GOT

- Improved visibility of working-capital performance
- Insights for improving payables and receivables
- A plan for maximizing operating cash flow that can withstand long-term disruption

CHALLENGE

Protect cash flow during volatile times

For a global beauty-products company that had been thriving, COVID-19 caused sales of luxury goods to drop dramatically. At the same time, the company's long-standing customers were asking for relaxed payment terms to manage their own cash crunches.

The firm knew that it had to prepare more effectively for future cash flow shocks, and that meant finding the right balance between payables and receivables.

An eye on payables

The company had a mix of payment terms, many of which favored suppliers. Indeed, 24% of invoices fell into the 'immediately due' category. Some contracts had duplicate terms, while others had mismatches between the supplier's contract, purchase orders, and vendor master record.

In addition, because some contracts renewed automatically, procurement had a limited ability to negotiate extensions to payment terms. And inconsistent payment frequencies and an absent controllership framework made it difficult to regularly track and report on days payable outstanding (DPO).

Turning to accounts receivable

The company's manual approach to collections was a problem. It did not have any customer segmentation, and collections agents worked in Excel rather than the company's ERP. And without any insights from data analytics to guide the team, agents made their own decisions about where to prioritize their collection efforts.

The process for managing disputes and deductions was also manual. Shipping, returns, pricing, and product handling contributed to 80% of preventable deductions, but the manual approach led to many invalid deductions.

Additionally, all customer-credit reviews were managed outside the ERP, and there was no integration with external agencies. The company didn't have a credit-scoring mechanism or self-serve option for customers to apply for credit, which resulted in customer-onboarding delays.

The F&A team knew there was intelligence it should mine from its data. That was the first step toward building an overarching liquidity-management strategy. But it needed a partner with deep analytics and finance experience to get those insights and build an action plan that could make a real impact on working capital.

SOLUTION

Assembling a liquidity council to maximize operating cash flow

Focusing on DPO and days sales outstanding (DSO), we took on the five-week assignment and formed a dedicated liquidity council. It included the firm's finance professionals and our own specialists in analytics, order to cash, and procure-to-pay. This band of experts went to work to find quick, short-term fixes and more structural improvements for longer-term cash flow management.

This elite squad determined that on the DPO side, meeting payment terms to avoid interest charges and penalties would dramatically improve liquidity. To do that it had to standardize payment terms and streamline the payables process. For the DSO part of the equation, we focused on the factors impacting collections, deductions, and credit management.

We analyzed data, interviewed the people managing both receivables and payables, and performed a root-cause analysis to reveal process vulnerabilities. We began by delving into data from the past two years and sifting through spend figures, accounts payable and receivable transactions, vendor and customer master data, and contract data. We followed deduction trails and scoured credit-policy documents.

More power to procurement

In procurement, we recommended discontinuing contracts that renew automatically and advised that the team should have more authority to negotiate. We also noted that busy buyers were only using procurement-approved contracts 20% of the time and weren't exploring extended payment terms. We proposed standardizing payment frequencies, which had been scattergun until then.

A new receivables regime

In accounts receivables our goal was to exceed DSO performance and sustain it. We defined what the best possible DSO landscape looked like by examining the company's past-due trends, following its shipping procedures, and conducting regional analyses of its customers. Through global customer segmentation and analytical insights into payment behavior, we are helping the company decide which clients to concentrate on when collecting and servicing. We also analyzed the upstream supply chain issues causing the most deductions and applied standardized reason codes, using predictive analytics to reduce preventable deductions.

Continuing the cash management journey

The liquidity council is now helping the company revamp is global credit policy, develop a robust credit-scoring mechanism, and apply automation to create credit reports.

And with our liquidity management control tower, the company's leaders will have dynamic insights at their fingertips. The control tower will highlight ways they can unlock value by making changes that impact DSO and DPO. And by benchmarking the company's DSO and DPO metrics, it will help the company reach its cash management goals faster.

We're also deploying technology from Celonis, a leader in artificial intelligence-enhanced process mining, to improve receivables management and introduce automation. This will cut manual work, reduce errors, and accelerate processes.

IMPACT

Unlocking real value in cash flow performance

The company expects the liquidity council's recommendations to make a significant impact. Thanks to the changes we're putting in place, the company has identified a $430 million improvement in working capital by 2022. And it has a clear roadmap to get there. It also anticipates a 12-day increase in DPO and a seven-day reduction in DSO that will generate working-capital improvements of $210 million and $220 million respectively - all within next 18 months.

The liquidity council's analytics-led recommendations are redefining how the company manages payables and receivables today and in the future to improve working-capital performance and build resilience.