

Don't Let Your Collections Crunch

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Don't Let Your Collections Crunch!

Fears over inflation

CRUNCH TIME

Rate cut demanded as property prices slide

Standard of living will fall, CITY FEAR AS SHARES SLIDE

MARKET TURMOIL

The worst market crisis in 60 years

Bond insurers spark new fears over credit crisis

Bears sink their claws into embattled banks

Equities heading for bear territory

Goldilocks gives way to the sombre bears

Traders see Fed rate cut as sign it is spooked

More gloom for US homes market

Recession fears trigger big losses

Goldman fears US recession

Agenda

“ Without the strength to endure the crisis, one will not see the opportunity within. It is within the process of endurance that opportunity reveals itself.”

Chin-Ning Chu

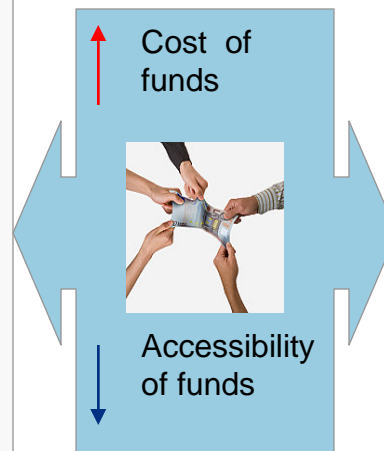
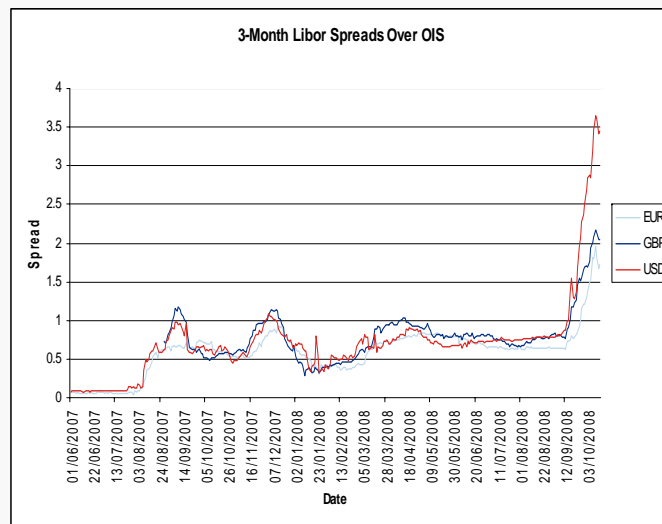
- Crunchy Environment
- Liquidity, Liquidity, Liquidity
- Order-to-Cash Under Pressure
- The Power of DSO
- What Can Be Done?
- Conclusions
- Q&A

'Crunchy' Environment

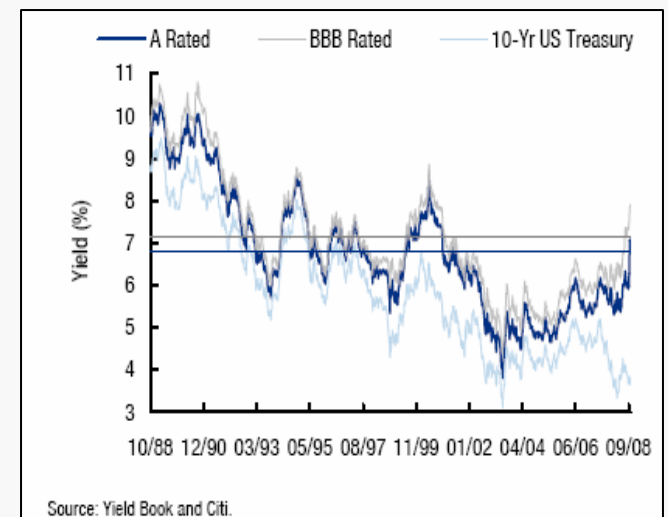
Traditional sources of funding operations have dried up

- Widened spreads between three-month Libor and Overnight Index Swap (OIS) rate indicate tightening market liquidity and associated increased difficulty and cost of accessing funds

Spreads between three-month Libor and Overnight Index Swap (OIS) are wider than ever ...



Cost of debt issuance continues to rise significantly..



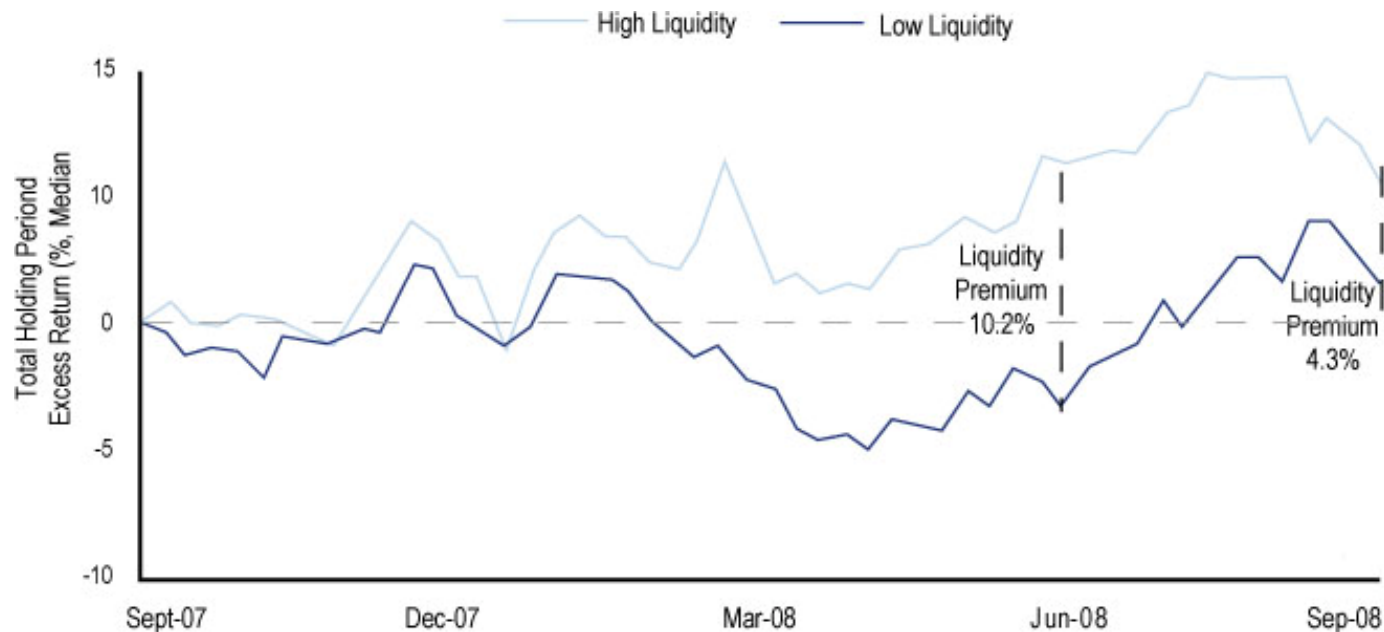
Source: Yield Book and Citi.

Liquidity, Liquidity, Liquidity

Companies should maintain adequate levels of liquidity in order to survive the crisis

- In conditions of tightening credit, companies with high liquidity are likely to outperform companies with low liquidity
- The ability to release cash is hampered by the worsening health of the real economy

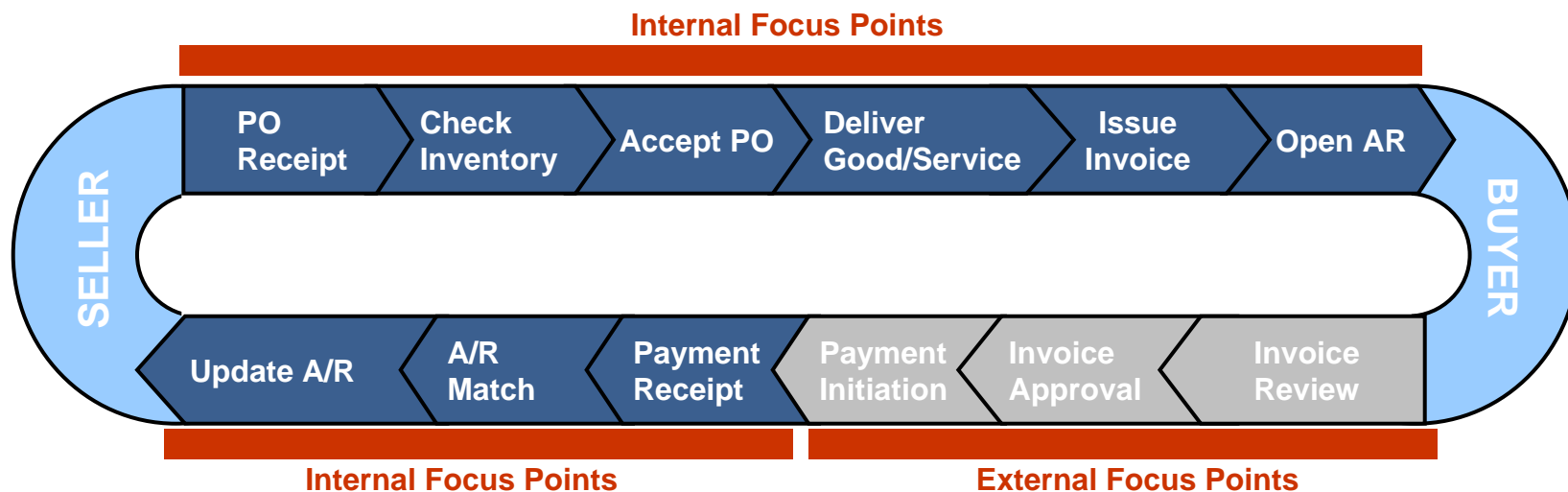
Companies with Strong Liquidity (Cash & Bank Lines) Outperform



Order-to-Cash Under Pressure

Credit crunch and threat of global economic slowdown place significant pressures on companies' balance sheets and the funding of their production cycles

- As liquidity becomes tighter, pressure on the order-to-cash or collections cycle of companies is increasing
- Companies look to squeeze additional liquidity from the commercial supply chain



Legend:



Question 1

- Has your company changed customer credit policies in view of current economic conditions?
 - a) Yes, we have implemented some changes
 - b) No, but we are currently reviewing our policies and considering certain changes
 - c) No, and we are not planning to change our credit policies in the near future

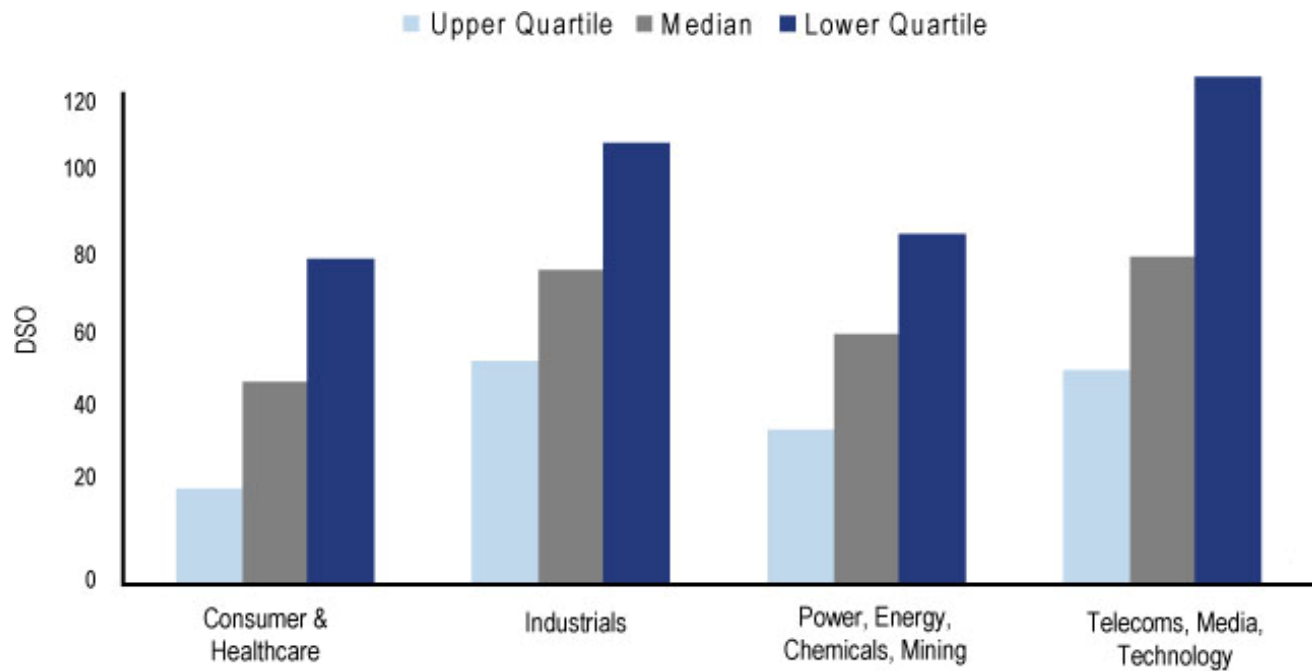


The Power of DSO

DSO reduction can unlock funds tied up in the collections cycle

- DSO (Days Sales Outstanding) is the key indicator of efficiency in the Order-to-Cash cycle
- Significant intra-industry variations in DSO levels suggest there are potential opportunities to unlock additional liquidity tied up in collection processes

DSO Comparison Within and Across Industries

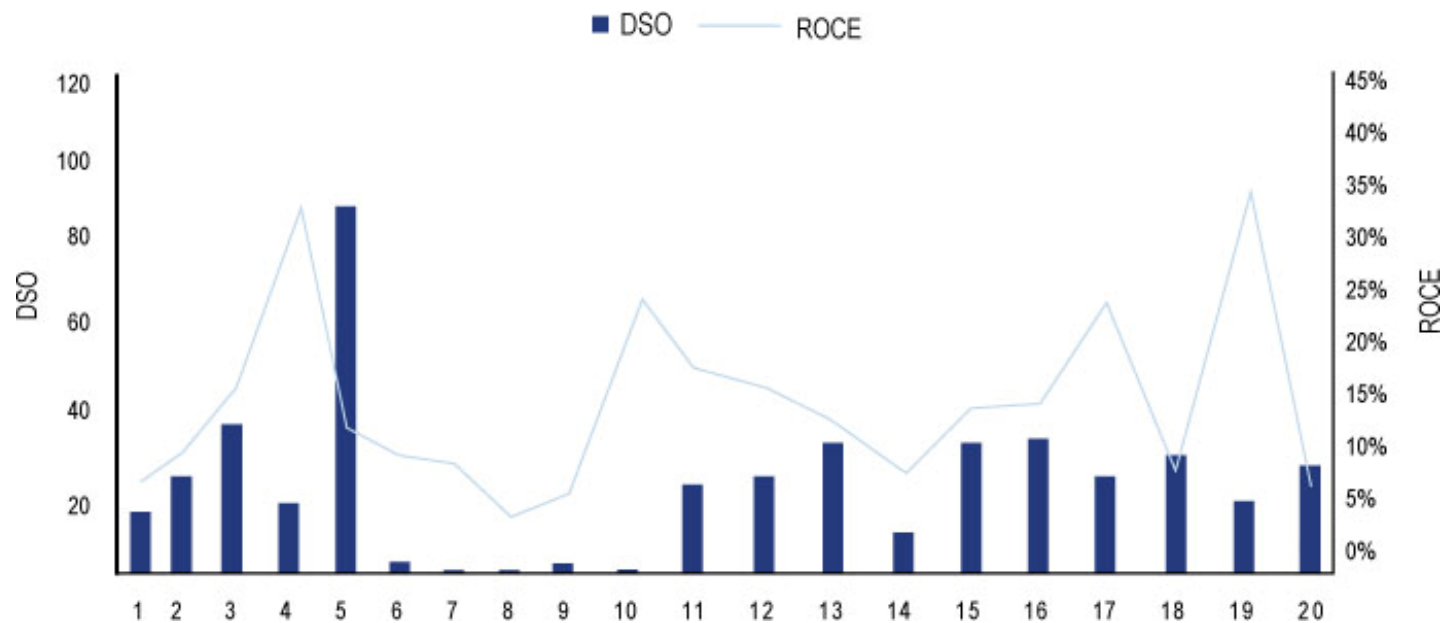


Impact of DSO Performance

DSO optimisation can positively impact the financial performance of a company

- In addition to released funds, DSO reductions improve the ratio of performing current assets to non-performing current assets (receivables), thus enhancing overall financial performance of a company
- This effect is reflected in the negative correlation between DSO and ROCE (Return on Capital Employed)

The Impact of DSO Performance on ROCE



Question 2

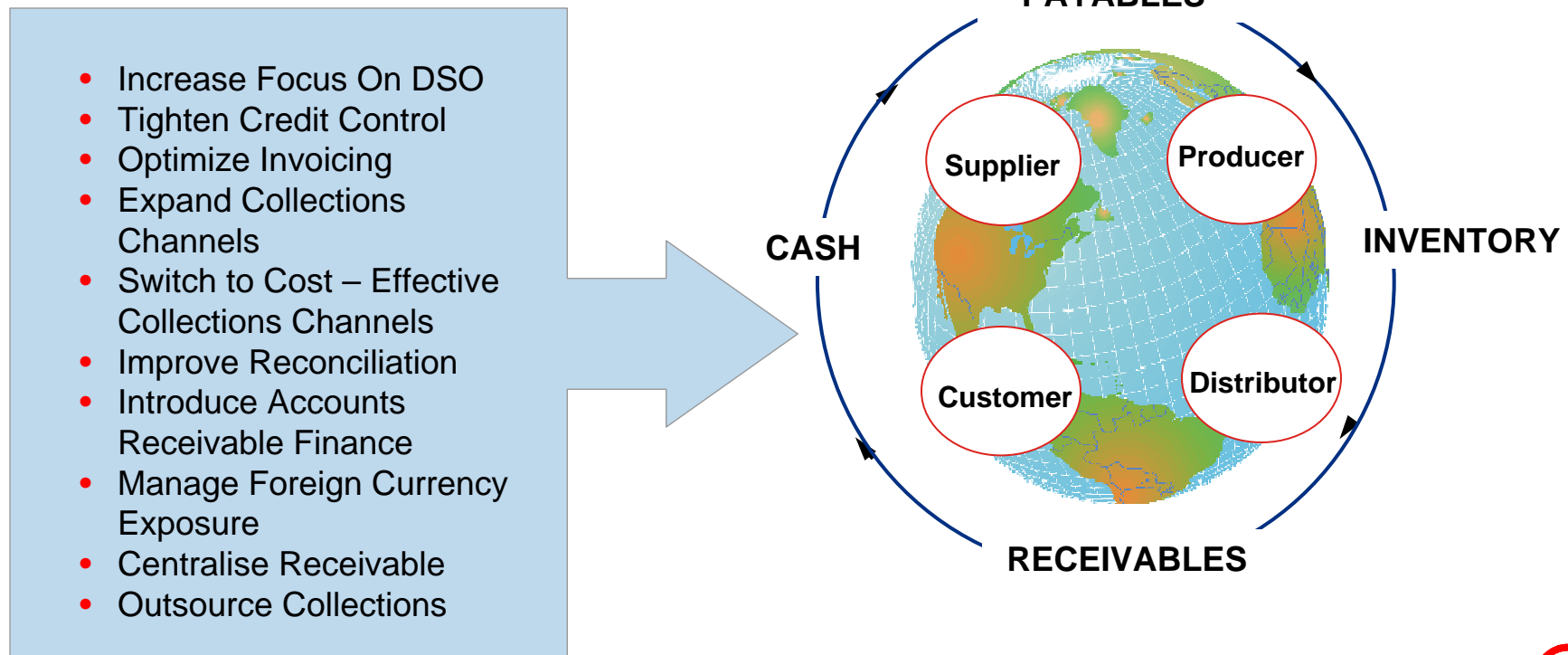
- How have your DSO indicators changed over the past year ?
 - a) DSO decreased, customers are paying faster
 - b) DSO increased, customers are taking longer to pay
 - c) DSO remained flat
 - d) Unable to tell as DSO is not monitored



What can be done?

Several measures can be considered to release additional cash from Order-to -Cash

- Releasing cash tied up in Order to Cash Cycle can lead to important benefits during the economic downturn
- Several measures can be considered to boost efficiency of collections process

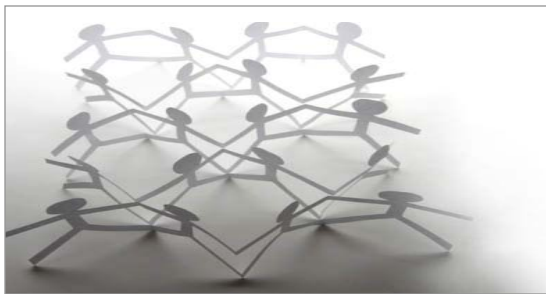


1. Increase Focus On DSO

Optimization of DSO can only be achieved if there is senior buy in and cooperation from all parts of the company

Questions to Ask

- Does company management understand importance of DSO?
- Are there clear targets for AR department with regards to DSO?
- Are there measurable goals in place for other departments (production, shipping etc) that contribute to decrease of DSO?



Success Factors

- Establishing senior buy-in
- Enhancing discipline around such processes as invoicing, collection and tracking post due receipts
- Ensuring adequate quality control, customer support, order management etc



2. Tighten Credit Control

Tightening credit controls can significantly reduce post-due receipts and accelerate Order-to-Cash Cycle

Questions to Ask

- Do you apply appropriate credit terms to every client?
- Do your clients adhere to the agreed payment terms?
- Do you understand the reasons behind late payments for each client?



Success Factors

- Regular review of the financial situation of each client
- Monitoring payment behaviour of clients, re-negotiation of payment terms if required
- In-depth understanding of each business relationship; transparent and controlled process



3. Optimize Invoicing

Efficient invoicing process may result in accelerated collections and reduce costs

Questions to Ask

- Are there controls in place to minimize invoicing errors?
- Do you resolve disputes efficiently?
- Could electronic invoicing be beneficial for your business model?



Success Factors

- Efficient invoicing process
- Proactive approach to dispute resolutions
- Accelerating invoicing process through automation



4. Expand Collections Channels

Providing flexible options to pay may contribute to reducing post due receipts

Questions to Ask

- Do you offer convenient payment channels to your clients?
- Would offering additional payment channels (e.g. credit cards) speed up the collection process and help reduce post due receipts?
- Can the cost of adding a new channel be justified by the benefits it can deliver?



Success Factors

- Understanding payment behaviour of clients
- Providing clients with flexible payment options
- Offering credit card payments may be the only way to reduce post due receipts



5. Switch to Cost-Effective Collections Channels

Electronic channels represent more efficient and cost effective way to collect funds

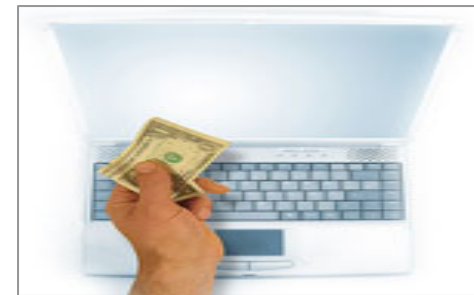
Questions to Ask

- What part of your receipts do you collect through electronic channels (fund transfer, direct debit etc)?
- What is the cost of collecting through electronic channels vs. cost of collecting through physical channels?
- What is the cost of switching to electronic channels?



Success Factors

- Simplified processing and improved reconciliation
- Migration to electronic collection channels to increase efficiency and reduce cost
- Encouraging clients to pay via electronic channels



Question 3

- How do you perceive the importance of reconciliation at the time of the credit crisis ?
 - a) Extremely important
 - b) Quite important
 - c) Moderately important
 - d) Not so important

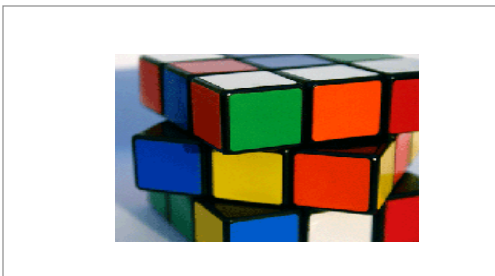


6. Improve Reconciliation

Reconciliation is a key aspect of efficient receivables management

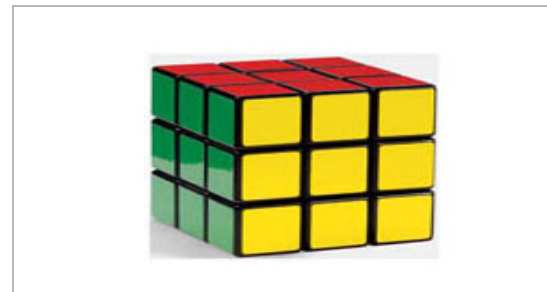
Questions to Ask

- Do you experience difficulties in correct cash application?
- Do errors in reconciliation lead to inefficiencies in order and sales management ?
- Do you use best practices for reconciliation?



Success Factors

- Streamlined reconciliation process
- Timely cash application
- Partnering with providers of advanced reconciliation platforms



7. Introduce Accounts Receivable Finance

Accounts Receivables finance offers quick access to cash and eliminates risk of unpaid receipts

Questions to Ask

- Could Accounts Receivable financing be used as an alternative source of funding?
- What benefits can it deliver?
- What would be the costs associated with this option?



Success Factors

- Quick access to cash
- Elimination of risk of unpaid receipts
- Understanding cost implications of accounts receivable finance
- Careful selection of a provider and instrument



8. Manage Foreign Currency Exposures

Efficient management of FX exposures can boost company's liquidity

Questions to Ask

- Does your company collect in multiple currencies?
- Are your foreign currency exposures monitored on a regular basis?
- What techniques are employed to mitigate risk of FX market volatility?



Success Factors

- Enhanced hedging strategies
- Increased control and visibility of FX positions

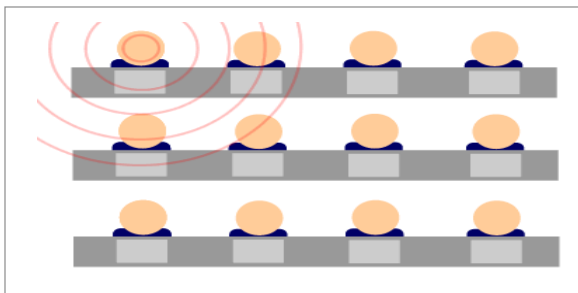


9. Centralise Receivables

Centralisation of receivables can accelerate collections and reduce cost due to significant economies of scale

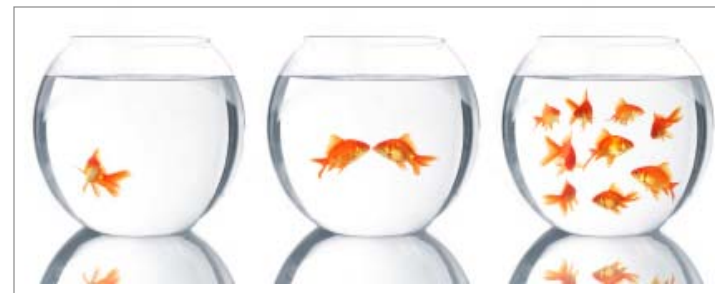
Questions to Ask

- Does your company use SSCs (Shared Service Centre) for payment processing?
- Could your business benefit from consolidation of collections processes?



Success Factors

- Realising economies of scale from centralisation of receivables processing, credit and collection functions
- DSO reduction due to increased efficiency of processing

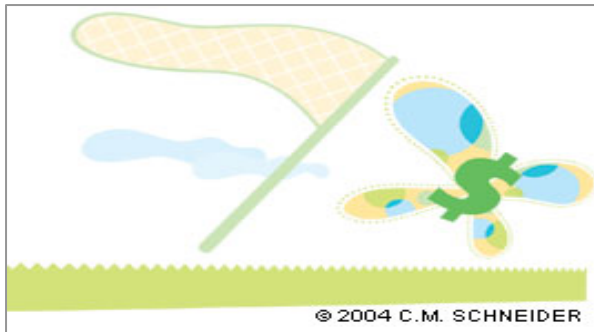


10. Outsource Collections

Dedicated collection companies are best equipped to perform collection activities in the difficult economic environment

Questions to Ask

- Are many of your resources tied up in the collection process?
- Do you experience difficulties in recovering post due receipts?
- Is your collection process increasingly costly and time consuming?



Success Factors

- Releasing resources for core business activities
- Using services of a dedicated collection company with high level of expertise in recovering post due receipts



Question 4

- Which of the following measures do you believe can help your company realise the greatest improvement in the collections process?
 - a) Increasing focus on DSO and tightening credit control
 - b) Exploring new collection channels
 - c) Optimizing invoicing and reconciliation processes
 - d) Centralisation or outsourcing of your collections process
 - e) None of the above mentioned measures is applicable for my company



Conclusions

- As traditional means of financing become more challenging to secure, companies need to explore internal sources of funding for their operations
- Maintaining high levels of liquidity can give a company substantial competitive advantage at time of credit crisis
- Significant opportunities exist in unlocking cash tied up in the Order-to-Cash process through reductions in DSO (Days Sales Outstanding)
- Although there is no universal remedy, several measures can be used to optimize the collections process



Q&A

QUESTIONS?



