



Microsoft™ Business Insights

*Cash flow is all about getting paid, and getting paid is all about sending out the invoices, right? Wrong, says Dickie Bielenberg, MD of the Customer Value Group (CVG). He says that all the elements of a business are interconnected, and cash flow is tied strongly to customer service. The problem is, when did your accounts and customer services teams last chat over a cup of coffee? **Nick Saalfeld** finds out more.*

The real reasons for non-payment

Unlike many business activities, invoicing is a process with clearly defined rules. Better still, it's you that defines them: if you stipulate terms of 30 days, then you have the right to expect payment within that timescale. So defining a credit management strategy ought to be simple: aim for payment within your terms of trading. So how come extracting money from customers- customers who have chosen to do business with you- can be so hard?

Dickie Bielenberg of CVG says "There are lots of reasons why customers don't pay on time- but it's actually very rare that they don't pay simply because they haven't got the money. The three main reasons we come across are:

- ✓ the content of the invoice was wrong
- ✓ something in the delivery of the service was wrong
- ✓ the client has had bad customer service, or at least has a query which remains unresolved

The thing for midsize companies to remember is that all of these issues can be fixed- and there's ready money waiting for you when a satisfactory resolution is reached.

Create a workflow for solving customer complaints

Bielenberg believes that there are two ways in which technology can help breach payment gap to improve cash flow. "The first is establishing a workflow for dealing with objections to payment- and often those objections are no more than niggles. In all the above examples, if

the customer's objections were dealt with effectively, then payment would be forthcoming. But all too often, the credit control department is disconnected, often physically and also in terms of systems, from the customer service function; so the matter remains unresolved.

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customer care agents do have access to accounts information, but lack the workflow for resolving problems.

If you've ever felt the frustration of a 'red' reminder notice dropping onto your doormat the day after you've made a complaint, that's a perfect example of this workflow problem. If credit control systems can't flag up and deal with customer problems proactively, then it's no surprise that these customers become unwilling to pay." In this way, cash flow is very much tied to customer service, and Bielenberg believes that making that connection is key to making cash flow gains.

Create customer payment profiles

The second issue is collection prioritisation- and that doesn't just mean going after the

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bigger sums first. "There is, of course, a cost attached to chasing invoices. The way to milk efficiencies from your system is to chase payment in the most effective way possible, and ideally that means getting paid with as few 'chases' as you can. Returning to our previous example, sending out the red reminder was pointless- it just alienated the customer. So reaching customers appropriately really does matter. Just as most companies sell by targeting specific markets, at CVG we think that customers fall into payment profiles too. A particularly good client will need no contact at all other than to send off the invoice. A less communicative client might be profiled as requiring a phone call to ensure that they are happy with the service they have received, and to extract a commitment to pay, a couple of days before sending out the paperwork." By using the same profiling techniques as a sales department, the Accounts Receivable team can reduce late payments dramatically, and reduce the overhead associated with chasing invoices into the bargain.

The hard financial facts

The effect of these two issues cannot be underestimated. CVG's own research across 200 companies from the midsize and corporate sectors suggests that of all invoices sent out, around 36% will be paid late. Of that 36%, 42% are overdue because of unresolved customer service issues. In other words, some 15% of money owed at any one time is in dispute for reasons which could be resolved with the right application of customer service resources. For

a midsize company with a £5 million annual turnover, that equates to £750,000. And for a company with typical margins of 20%, that £750,000 amounts to an astonishing 70%+ of operating profits.

Worse still, Bielenberg points out that disputed invoices then also serve to impact non-disputed invoices with the same customer. "Until a dispute is resolved, you're not going to be inclined to pay even the invoices which you think are fair- indeed you're more likely to start searching for another supplier", he points out.

Benefits beyond cash flow

The benefits of integrating accounts and customer service systems go beyond just resolving cash flow. "Of course, the cash flow benefit matters- and it's also a quick win: we have worked with a utilities company which has improved cash flow by £100m in the first year- a huge return on their investment. But there are other benefits too. You'll have happier customers, who are therefore happier to pay in future, and more likely to keep working with you. And there are reductions to be made in operating costs, with a lower overhead required in the accounts department, and ideally lower customer service costs- if customer issues are resolved fast, then these problems don't need to be constantly revisited in an ever-growing cycle of poor service." By monitoring these customer complaints, it is possible to rapidly gain a picture of where the company is regularly failing in its duty of service, and then change the processes to put things right.

Midsized companies can benefit too

Bielenberg is at pains to add that these techniques are well within the scope of midsize company budgets too. "Many of the examples we've talked about began in larger-scale enterprises, but at CVG, we can typically roll out a tailored cash flow management solution in under a month- and the training required for the people who are actually going to use it can be as little as half a day. In any case, it is in the small and medium-sized sector that cash flow pressure is most acute, and therefore systems like ours are most valuable."

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Above all, failures in cash flow management are perhaps the least desirable of business mistakes: why go to all the trouble of

providing a service to the best of your ability, only to fall at the last hurdle and lose payment over issues which with the right communication strategy could be resolved in a matter of minutes? Customers naturally connect payment with the service they have received: companies need to do this too.

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