

## THE PROBLEM WITH SHORT PAYMENTS

### DEDUCTIONS, SHORT PAYMENTS AND DISPUTES CAN KILL THE AR COLLECTIONS PROCESS

Unearthing customer disputes is usually a tedious and often unsophisticated process. Customers call a customer service centre stating they have a dispute and are not paying their invoice. Or a collection agent tries to collect cash but is met with a reason for non-payment. The customer service or collections agent logs this dispute somewhere, often in a spreadsheet. They then try to remove the associated invoice from the next dunning run and go about resolving the issue as quickly as possible to ensure collection activity can continue.

This is a manual process for both the customer and the service centre.

Your customers are increasingly not informing you about an invoice, service or product dispute, preferring to short pay on the invoice and leaving it to your AR collectors to investigate why. The impact of short payments is the accumulation of large volumes of low value uncleared items on the AR ledger, which cause a headache for any receivables management process. The AR collector is forced to investigate whether there is an existing dispute or debit note from the customer to match the short payment. Due to high volumes, some companies are even resorting to increasing staff headcount to discover the source of these short payments.

### CASE STUDY— GLOBAL ELECTRONICS GIANT

One of The Customer Value Group (CVG)'s clients implemented CVG Value+ because their customers were short paying 7,500 invoices per month. This situation diverted 200 FTE collection days away from their AR-critical activities. DSOs and overdue debts increased as a result and the client was still unhappy with the slow processing of these claims. With CVG Value+ now running live, 90% of this matching process is automated.

In research done on 2008 figures, CVG discovered that overdue debt in Europe amounted to approximately EUR 833.7Bn (39% of total AR) and the associated short payments totalled around EUR 122.5Bn.



### SHORT PAYMENT TRENDS

"This trend is not so new in the USA," says Dickie Bielenberg, Managing Director of CVG, "customers have been short paying in the USA for decades. What we are seeing in the last year is this 'short payment' trend is affecting more and more companies in many sectors both in Europe and Asia".

According to the English Institute of Chartered Accountants, more than 30% of worldwide Fortune 500 companies have implemented a shared service centre, and although they are

reporting cost savings in their general accounting functions of around 46%, these savings are being eaten up out by the costs associated with short payments. These costs can cripple the AR functions of organisations today.

The predominant issues with short payments are:

- The debt is uncollectable and companies are not sure why until further manual investigation is undertaken.
- There are costs associated with having to divert critical collections resource towards high volume/low value activities in discovering the source of these short payments.
- According to recent client analysis, the operational costs associated with discovering the source of each short payment is as much as EUR 75 per item.
- Instead of using permanent collections resource, some companies are choosing to hire temporary staff to match the short payments to the reason for short payment.
- The associated costs for customers in spending time discussing their reasons for short payment are also significant.

### CVG VALUE+

CVG Value+ enables automatic processing of short payments by auto-matching them with outstanding disputes or existing registered debit notes. This sophisticated functionality has already delivered significant tangible benefits to our clients through:

- Reduced manual work in deductions management for customers and suppliers.
- Increased collectability of AR, reducing AR balances.
- Increased integrity of AR reports.
- Improved productivity of collections resources.