BARRATT
SMITH
BROWN

From Accounts Receivable to Results in Receivables

By
Ashley Barratt
CEO, Barratt Smith Brown

Contents

Introduction

Post Brexit the economic climate remain extremely volatile with the number of insolvencies in the UK predicted to rise having already increased 7% in 2020 since January 31st. Whilst Europe is expected to experience a moderate impact, those nations with a reliance on strong UK exports are expected to see a more visible effect.

With the economic outlook uncertain, it has never been more important to ensure your business is as financially robust as possible to weather the storm. In real terms this means having the working capital available to manage any potential sales and revenue dips - the ability to manage cash flow and remain liquid.

A source of working capital that most business overlook is the one they have the most control over – their accounts receivable (AR).

This paper outlines CDS Global's belief that every company should take greater control of its debt book. This is not only best practice, but vital because it releases valuable working capital back into the business that is otherwise tied up by inefficient and ineffective debt recovery processes.

The way to achieve this is to apply what CDS Global calls the “Results in Receivables” approach – utilising the optimum balance of people, process and technology to achieve transformational insights, productivity and efficiency.

The Results in Receivables approach not only seeks to save money, but to also increase collection productivity, optimise risk management, improve dispute management, and enhance the customer experience.

The money belongs to the business after all, so why shouldn’t it make better use of it? What other business resource would be so woefully neglected with such seemingly accepted high levels of wastage?

Managing debt

In control or does your debt control you?

Debt remains a major problem for UK businesses. Around three-quarters of UK businesses have experienced debt recovery problems and in 2019 underlying company insolvencies increased to their highest level since 2013.

More worryingly, studies show that debt is consuming more resources at UK businesses. The Lloyds Bank Business Barometer revealed how 27% businesses are failing to chase outstanding monies due to a capacity and time issues with debt taking longer than ever to collect and in the process is increasing costs and reducing margins.

A major obstacle to debt recovery is the processes employed by businesses. Despite operating in the 21st century, the methods of collection have changed little over the last century or more.

This is not to say that all old practices are necessarily bad. However, accounts receivable, when all is said and done, is a cost; a process-driven discipline for which automation would seem ideal.

Though accounts receivable has made use of technology since the 1960s, it was not until the late 1980s that it became commonplace. However, although technology is (rightly) applied, the processes it facilitates are based upon traditional manual tasks, which though tried-and- tested, are highly inefficient.

Debt lists are generated in this method and standardised letters are sent, followed by personal contact by either phone or perhaps in person – the number and nature of these contact methods is determined usually by size of debt, age of debt, value of customer and/or simply the workload of the credit control team.

This approach relies on the hope that the act of contacting the customer alone is enough of a stimulus to trigger payment. Businesses using this approach are trusting to luck and/or accepting large wastage levels instead of using hard facts, through data analytics, to understand the specific credit situation of their customers and thus influence their actions effectively.

Where an account remains unsettled, there are three main reasons for this: a) The customer has become dissatisfied with the service; b) The business is going bust and they can't pay or are delaying payment to ease cash flow; and c) Most commonly, the supplier of the service has poor or no method, system or process to chase debts systematically.

This last reason results in poor communication, poor tracking of progress/payment, and ultimately poor collection performance. In any of the three scenarios however, the fact is the business is largely blind – they never really understand the dynamics of their customers' debt and so cannot implement changes to tackle the problem effectively.

Taking control

To resolve this situation, a business must introduce a systematic approach to recovering debt which focuses upon the reasons for non-payment and provides new and effective processes to tackle those specific issues quickly and effectively.

Results in Receivables treats each customer as separate with their own contact and recovery processes. The way clients are approached can be tailored to the preferences of the individual person who manages the customer's account.

This cannot be achieved with manual or semi-automated approaches employed by most businesses, and is heavily reliant upon the integration of technology to take the power of human reasoning and scale it up to a level which delivers the productivity and efficiency expected of any other corporate function in the information age.

The Results in Receivables approach requires more than access to a database.

The role of technology

Why computers haven't worked...

There is a vast variance between the technologies applied to AR, ranging from simple systems based upon spreadsheets that allow the attachment of notes, through to full enterprise resource planning (ERP) systems.

Whatever level of sophistication is available in these existing systems, they all share the same problem – technology alone is not enough to drive down DSO. This is because it fails to address the fundamental flaw - which lies not in the technological systems implemented, but in the processes underpinning the technology.

Simply adding technology to an outdated and inefficient system does not make the system better. Instead, it immediately undermines the benefits of introducing the technology in the first place – after all, an ineffective system working twice as efficiently simply loses money quicker.

The Results in Receivables approach requires the use of technology and data science to improve the way you go about collecting debts, but not only by automating processes.

Results in Receivables recognises each customer is different, with their own requirements and internal processes. It uses technology and data science to tailor the way accounts receivable interacts with customers on a daily basis, based upon what is really likely to be happening in the business at that point in time.

Taking control with RPS...

RPS (Recovery Propensity Score) is a crucial metric that informs the best approach to an account based on a wide number of metrics.

The more credit offered to customers, the more efficient a company must be in collections if it is to remain in control of its finances.

Being able to model RPS by account can have a profound effect upon payment times and the financial position of a business.

The management information businesses use to assess their financial position is rarely, however, anything more than a snapshot of an assumption based upon outdated information. Only when data is directly linked to a a multitude of other data points can you conduct the sorts of multi-variant analysis used to produce RPS and gain atrue insight into how to approach credit and receivables with the account in question.

It is no longer necessary to laboriously and tediously mine this management information either, as each piece of data can be accessed instantaneously – if your systems are capable and appropriately integrated. The Results in Receivables methodology works by providing insight into an account's financial position and payment psychology, based upon meaningful benchmark and trend analysis, rather than mere supposition.

Building better client relationships

The more you know, the more you can monitor, and this has game-changing possibilities for integrating customer relationship management (CRM) principles into your accounts receivable function.

The key to Results in Receivables is analytics – management information that shows the financial position and projected payment performance. This level of data interrogation can be generated on your customers and their payment behaviour, allowing you to tailor collection processes that satisfy not segments of your client base, but individual customers.

For instance, a client who typically remits on day 10, will not respond well to a blanket process that contacts all customers at day seven. It is a waste of resource and is also likely to antagonise the customer, undermine your relationship and give them a reason to delay payment. Instead, a more nuanced approach to re-educate the customer will be needed.

Similarly, if a customer who typically pays on day 10 misses by even a day, this can be flagged for immediate review and intervention.

Once you have this degree of granularity and an overview of your customers' behaviour, you can better assess their credit-worthiness on an individual basis. Therefore the management of that client relationship is no longer revisited on a weekly or monthly basis (providing the opportunity for delays and errors to miss potential warning signals) but on an ongoing basis.

Results in Receivables continually adds to, analyses and thus enriches the data set, so your business learns from its past in order to optimise future performance. Results beget results.

Because you know how and when customers pay, you can now build processes that fit with their accounts payable process, monitor any change from the normal pattern and take action more swiftly if their behaviour deviates.

This is true business intelligence, giving your business the ability to make informed decisions about the credit you offer individual customers.

The data then defines the work-flow for that customer, allowing you to abandon the blunt instrument of seven and 15 day letters, phone calls and debt recovery patterns, so widely used despite their relatively high levels of wastage. Results in Receivables therefore moves work-flows based upon a standard process to a personalised one for your individual customer - and your business.

Furthermore, debtors anticipate collections sequences. A less predictable, more personal collections function has a greater psycological impact because it removes the debtors' confidence in their assumptions about the consequences of non-payment.

Results in Receivables

Turning accounts receivable into Results in Receivables

Results in Receivables tools that interrogate data are not merely systems used to support processes, but management information models that determine and define the processes themselves.

Bespoke communications engage customers. For example, research by the Direct Marketing Association has shown that tailored marketing materials lead to engagement in 48% of cases, opposed to 3% that are addressed "to the occupier".

A higher potential level of engagement defines how you will interact with clients. Building bespoke credit histories helps CRM, but the MI will also protect your business by allowing dynamic credit assessments and driving high-performance accounts receivable – collecting more, collecting faster, with results driving even better results in a virtuous cycle of improvement.

Applying the strategies of marketing and the discipline of data science to larger and larger data sets that allow for forensic interrogation which identifies correlations between those data sets, provides previously unimagined control over DSO – bottom up, and top-down analysis, driving transformational improvement.

Drive growth through recovering debt

Working capital is required to feed growth, so controlling debt – and the levels of credit you extend to clients – will generate more capital.

It is a simple equation and is no different in any economic cycle – best practice is to collect your debt as quickly and efficiently as possible.

Results in Receivables not only improves the control of DSO, but allows the AR team to apply their considerable knowledge and experience to the data generated. By looking for anomalies within their customer group – changing patterns of payment, payment methods, etc.. – they can automate 'ordinary' AR work, leaving them free to investigate the changes.

With this additional analysis of Results in Receivables data, AR staff can be invaluable in identifying potential problems with customers which can be flagged up so sales teams can make contact with clients, discuss the situation and renegotiate terms if necessary.

Our company

The Results in Receivables methodology is brought to you by Barratt Smith Brown. Barratt Smith Brown are steeped in 25 years of receivables management expertise across the globe and are known as focused and comprehensive specialists in receivables management.

The company has invested in data science and technological R&D since its inception and it is this dedication to the Results in Receivables ethos which has resulted in the company's advanced RPS modelling and proprietary dunning-systems which drive its industry-leading performance.

Barratt Smith Brown are specialists. We focus exclusively and comprehensively on accounts receivable. We pride ourselves on ensuring AR contributes to the overall commercial objectives of your business in terms of:

- Working capital
- Sales growth
- Profitability
- Market share

BARRATT
SMITH
BROWN

Best House, Enderby Road Leicester, LE8 6EP

Tel: 0116 296 1438
Email: info@thebsbco.com
Web: www.thebsbco.com