

Improving Working Capital with Effective Dispute Management Capabilities



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Receivables-related disputes arise when customers either refuse to pay their bills outright or deduct a portion of the invoiced amount from their payment by an amount that exceeds a preset tolerance.

For companies in the electronics and high-tech sectors, disputes can have a dramatic impact on working capital and net bad debt. In fact, these companies can have up to 25 percent of monies owed them tied up in disputes at any given time. This can represent a significant portion of a company's days sales

outstanding (DSO)—or the time it takes to collect money owed—thereby taking a toll on free cash flow and increasing working capital requirements. Disputes can also drive up operating expenses and have an impact on employee morale, given the degree of exception processing and manual intervention often required to settle accounts. Equally important, disputes are an indicator of customer dissatisfaction and can ultimately result in customer attrition.

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The indisputable value of dispute management

Clearly, the time has come for electronics and high-tech companies to position dispute management as a critical component of their revenue-cycle process and customer service capabilities. Consider the case of a company with annual sales of \$10 billion (or \$27.4 million per day), average DSO of 66, and disputes holding up 20 percent of receivables at any given time. A robust dispute management program that reduces disputes by 50 percent yields a 10 percent reduction (or 6.6 days) in DSO. Assuming a six percent rate of working capital, this translates into annual interest expense savings of more than \$9 million. A 2 to 5 percent reduction in order-to-cash operating expenses and a 1 to 5 percent reduction in costs associated with customer attrition further bolster the case for building dispute management capabilities.

Examining the causes of disputes

As a first step to achieving these sorts of benefits, companies should understand the root causes of disputes within their organizations.

As Figure 1 illustrates, disputes usually arise in areas that can be categorized as:

- **Back-office order-to-cash processing.** These issues result in pricing, billing or invoicing errors.
- **Irregular sales-cycle activities.** These activities may propose non-standard terms, promotions or side agreements. While these special offers can attract customers initially, they can lead to disputes when they are not properly translated into order management and billing systems.

- **Order-fulfillment issues.** For electronics and high-tech companies that supply products to customers, late product delivery, damaged goods and partial shipments are primary causes of disputes.
- **Operational issues involving service delivery.** Electronics and high-tech companies that offer services to customers must ensure that they deliver the requested service satisfactorily, on schedule and within the terms of the customer contract. Failing to satisfy service requirements in any of these areas can lead to disputes.

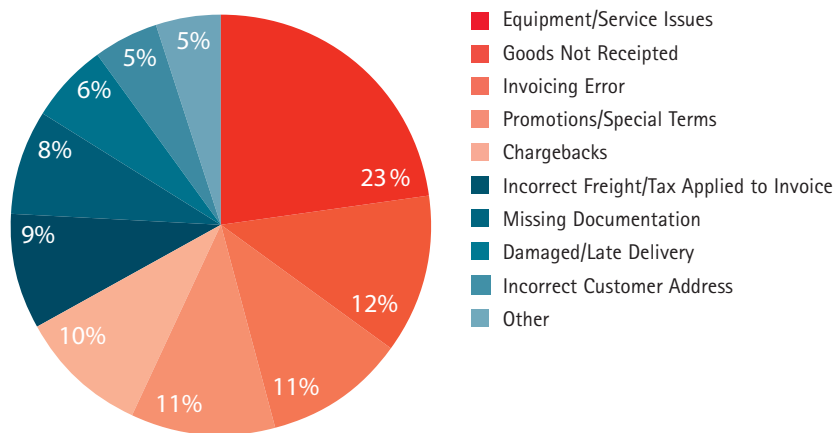


Figure 1. A root cause analysis of disputes can highlight areas for improvement.

Building effective dispute management capabilities

To address these issues—and improve cash flow—electronics and high-tech companies need to build dispute management capabilities that focus on four areas:

- **An integrated revenue-cycle platform and process.** Problems that exist early in the order-to-cash process—including those related to the issuance of sales terms and the timely delivery of products or services—often manifest themselves in the cash collections process when they trigger customer disputes. An integrated, end-to-end order-to-cash process and transaction processing platform enable companies to reduce upstream sales and billing errors, gain a better view of their revenue cycles, streamline dispute management activities, improve cash flow and reduce customer frustration.
- **A powerful dispute management workflow engine.** Many providers such as I-Many, Emagia, Aceva and GETPAID now offer rules-based workflow engines that automate dispute management activities. Further, they route disputes to appropriate authorities for examination and resolution based on transaction and/or customer type. This eliminates much of the "guess work" and many of the time- and resource-consuming tasks typically associated with dispute management. Workflow engines also allow companies to apply special instructions to certain customer disputes, help businesses adhere to proper controls and procedural standards, and trigger event notifications that further minimize payment delays. Enterprise application provider QAD, for example, leverages GETPAID's Dispute Resolution System to identify problems in the dispute process, organize dispute-related issues, understand who has "ownership" of a given problem, elevate issues as appropriate and track the status of resolutions. In this way, the GETPAID workflow engine acts as a change

management tool to help resolve issues throughout the organization. For QAD, this system contributed to an average 30 percent drop in DSO during the first complete quarter the system was in use¹.

- **Detailed root cause analysis.** By understanding customer dispute trends and metrics within their organizations, electronics and high-tech companies are in a better position to identify and implement continuous improvement opportunities that prevent disputes and improve transactional performance on an ongoing basis. To be most successful, root cause analyses must be accompanied by comprehensive reporting and benchmarking, as well as continuous feedback processes that engage all parties involved in dispute management activities.
- **An optimal organizational design.** To be most effective, dispute management functions must be part of an overall organizational design or shared services model that supports a streamlined dispute resolution process. This requires clear communication and tight linkage between the collections/dispute management team and those in other areas—such as sales, billing and operations—that play an instrumental role in helping resolve disputes. As part of its efforts to improve receivables management, accelerate cash collection and optimize working capital, Solectron transitioned to a shared services model, implemented Emagia Cash Inflow Manager to automate and streamline its end-to-end cash collection process, and created a single, comprehensive A/R portfolio with global, real-time access. By optimizing its organizational design and software-enabled dispute resolution processes, the global electronics manufacturer generated immediate cash efficiencies, productivity gains, cash flow improvements, and more effective and accurate cash reporting and forecasting. Combined, these benefits translated to annual savings of approximately \$15 million².

With up to a quarter of their receivables tied up in disputes, companies within the electronics and high-tech sectors are particularly well positioned to reap the benefits of a robust dispute management program. A comprehensive program that comprises process, technology and organizational components can help companies improve customer satisfaction, lower operating expenses and dramatically improve their working capital. More important, the benefits of dispute management have a direct impact on a company's ability to achieve high performance and competitive advantage.

About the authors

Troy Barton is a Partner in Accenture's Finance and Performance Management Service Line and is the global lead of this practice for the Communications and High Tech industry group. In addition, he manages the Revenue Assurance, Credit and Collections Practice for Accenture.

Todd Sheerman is a Partner in Accenture's Finance and Performance Management Service Line. He specializes in executing order-to-cash and finance transformation programs enabled by process reengineering, technology, shared services and outsourcing.

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