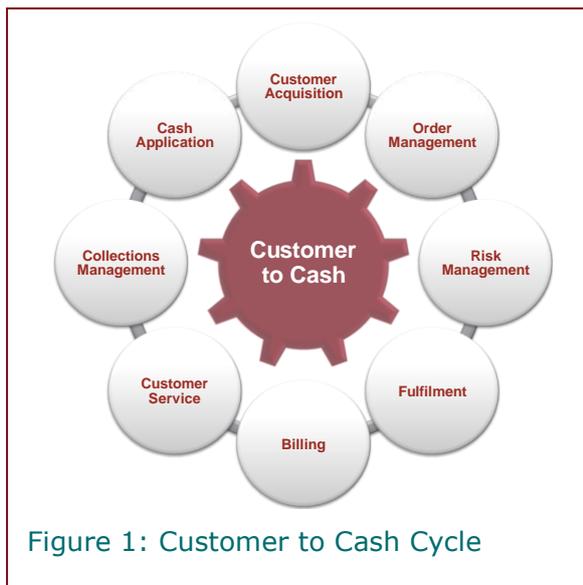


Customer to Cash – Dispute Management (Receivables)

Working Capital Series

By Perry Tong

A portion of collection activities often relegated to 'customer service' is that of actual dispute management. Customers who need 'correction' on invoicing information, goods returned, quality claims, delivery issues among others get directed to a generic 'customer service' department that attempts to secure resolutions from throughout the organisation. As opposed to 'customer service' per se we see these activities specifically as 'dispute management' as it relates to receivables management.



Customers utilise a myriad of reasons for slow or delayed payment. Often these reasons are 'valid' to some extent. "Sorry, we are unable to process your invoice as the address is different or wrong." Or "Your invoice information is incorrect ..."

Crossing t's and dotting i's hardly figures in most finance functions but we have seen these very reasons result in late payments, often after a costly (both time and money) rectification exercise that can span the entire firm in terms of inputs from different departments. Production, logistics, marketing, sales and even management sometimes gets involved in the resolution of these 'disputes.'

Other common reasons we have come across for delayed payment are:

- ❑ Incorrectly addressed billing entity (billing entity name)
- ❑ 3rd party billing that has not been verified
- ❑ Lack of 'documentation' such as Delivery / Purchase / Variation / Confirmation Orders
- ❑ Quality / Quantity / Time issues
- ❑ Incorrect credit or other terms reflected on the invoice – relative to the contract

A dispute management system helps address these issues by collating information on ‘reasons’ provided by customers. Properly, though sometimes arbitrarily, categorised, these are then worked upon systematically for eradication. Inter-functional or inter-departmental work is required but this is considered a ‘one off’ exercise rather than for random late invoices that come up every so often.

Late AR	Count Invoices	\$ 3,545,900	% 100%
Wrong Billing Address	27	531,885	15%
Wrong Shipping Address	15	460,967	13%
Incorrect Terms	11	248,213	7%
Incorrect Entity	11	177,295	5%
Quality	2	283,672	8%
Late Delivery	1	70,918	2%
Rebates	65	319,131	9%
Others	173	1,453,819	41%

Figure 2: Sample Dispute Coding Table

While true that a smaller firm will gain in terms of organisational learning and that such a formal system may not be an absolute requirement but for sizable firms which face regular resource turnover it is much more difficult to retain ‘institutional’ memory that will quickly resolve ‘disputes’ resulting in delayed payments. These memories, in such an informal system, are also stored across departments in bits and pieces making a whole picture difficult to obtain at critical times.

As a medium and long term measure to address late receivables a dispute management system can yield results that go beyond lowering DSO (as a KPI of late receivables) to improving organisational understanding and work flow. Inter-departmental disputes are also reduced over time.

While this system is not a panacea for ‘cheques signed but locked in drawers’ customers we have worked with to design and implement such a system reap benefits of lowering their chronic overdues by some 40% to 80% permanently. As best practice for the establishment of a Financial Shared Services Centre (FSSC) or greenfield projects a dispute management system ensures that the set up of operations do not quickly degenerate into constant fire fighting exercises. Customers typically respond positively to such activities when they realise that there can be no reasonable excuses for late payments.

About the Author

Perry Tong is the Singapore-based Managing Consultant for Centre for Organisational Effectiveness Pte Ltd. He helps companies in Asia, Europe and North America understand the importance of process improvement with impacts on working capital as a primary objective and increased customer service levels as a secondary objective. He has extensive experience in implementing process and organisational improvements for various industries. Perry can be reached at Perry.Tong@COE-Partners.com