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Business Performance Sustained

## Best Practice eXensys – Cash-to-Cash Cycle

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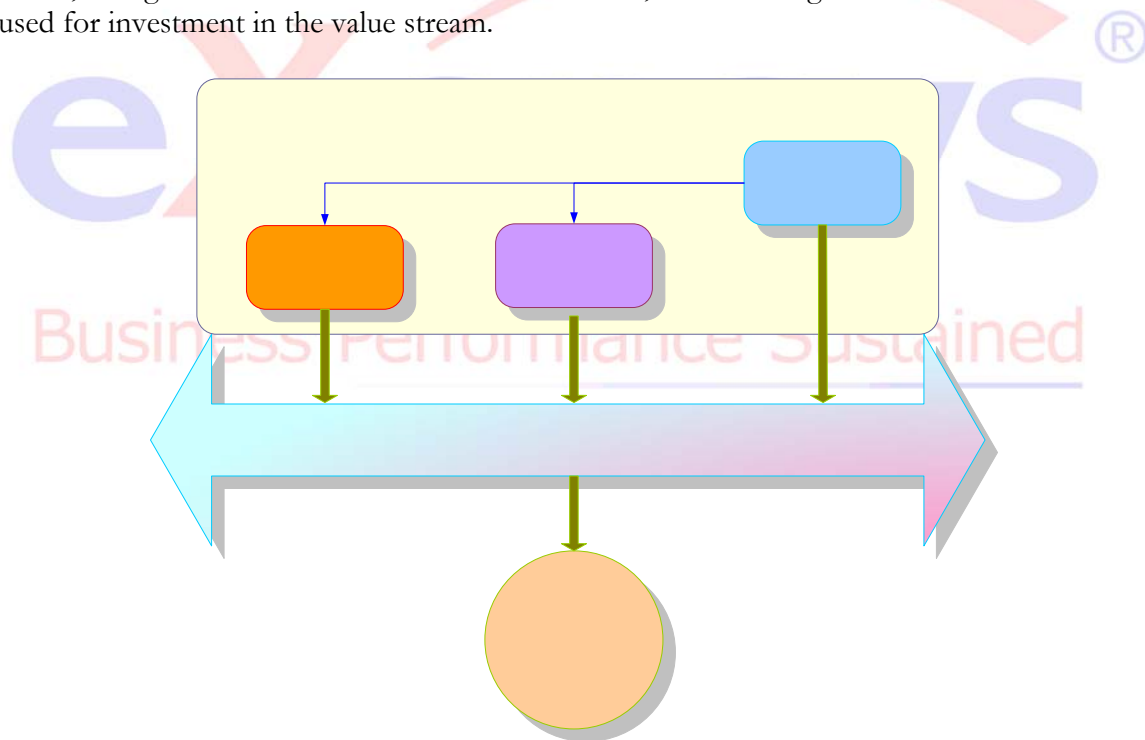


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## Introduction

If a business is considered to be a stream of value-adding activities intended to satisfy customer needs, then people, processes and finances are the key drivers of the value stream. Each one of these drivers influences the business in different ways. People influence business by their decisions and actions and they are the ones who identify the customer needs. Processes influence the business by converting raw material to finished product through value addition and they help a business to deliver products that satisfy customer needs. Finances influence the business by acquiring raw material & equipment, and thus support people and value-adding activities.

Since people and processes are supported by finances, it gets critical to manage finances properly. If the finances (cash) are not available on time, processes cannot be executed effectively in spite of an extra-ordinary performance of the employees. On the contrary, if processes are not monitored properly, there are chances of finances being blocked or not being utilized for the profitability of the business. Thus people, processes and finances should work in synchronization for the enterprise\business to sustain. If the synchronization is lost, it might lead to a cash-out-of-reach situation, where cash gets blocked and cannot be used for investment in the value stream.



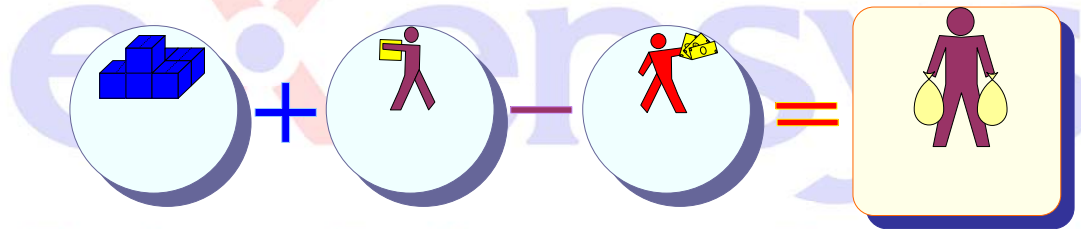
A wide variety of factors contribute to cash-out-of-reach situation in an enterprise, while the most common, but under-estimated one is the cash held in inventory or receivables. Inventory is the major cash absorber as it converts cash to material or WIP. As long as it waits in the warehouse or plant, it holds back the cash captive. The time period for which the material waits in the warehouse or plant depends on how well the organization manages its supply chain and manufacturing processes and how it balances them with the customer

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demand. Yet another factor which would lead to cash-out-of-reach situation is when the organization pays its suppliers before receiving the cash from its customers. This typically happens when the amount to be paid to the vendor is more than the amount receivable from the customers, due to less demand or poor credit management practices. This situation can be confronted by proper management of payables and receivables.

A wide variety of tools and metrics are available for evaluating how effectively an enterprise manages its operating cash or the working capital; the most popular and effective one being the Cash-to-Cash Cycle. Cash-to-Cash Cycle is a function that helps an organization to continuously monitor cash flows in the real-time and avoid a cash-out-of-reach situation. Cash-to-Cash Cycle measures the number of days between the initial cash outflow (to vendors) and the time when it receives back cash from the customers. Cash-to-Cash Cycle in-a-way represents the time for which a company’s inventory is held before it is delivered to the customer and the time for which cash is held at the customer after delivery of goods. It not only measures the number of days between the initial cash outflow (to vendors) to the cash inflow from customers but also signifies the amount of time for which the cash is blocked from use by the business.

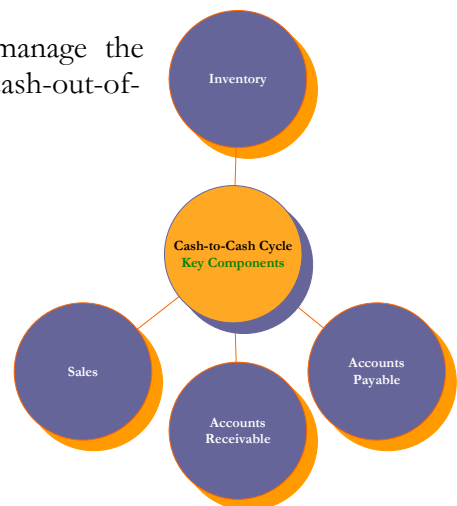
Cash-to-Cash Cycle is calculated as: *“Days Cash is Locked up as Inventory Waits + Days Cash is Locked-Up as Receivables are Not Collected – Days Cash is Free as Payables are Deferred”*



When the Cash-to-Cash Cycle is less, the inflow of money is faster and thus the cash is available for investment in the value stream and the business, and the earnings per share will be better. Although, inventory and receivables are shown in the balance sheet as current assets and the working capital states that the current assets are significantly more than the current liabilities, the financial reports do not represent the opportunity lost due to restraining cash in the form of inventory and receivables. Cash-to-Cash Cycle allows enterprises to typically identify the number of days it takes to convert the non-utilizable balance sheet current assets viz., inventory and receivables into the utilizable form viz., cash.

Based on the above logic, it makes sense to effectively manage the following for controlling Cash-to-Cash Cycle and avoiding cash-out-of-reach situation.

- Inventory
- Accounts Receivable
- Sales
- Accounts Payable



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Enterprises are likely to have lower Cash-to-Cash cycles when

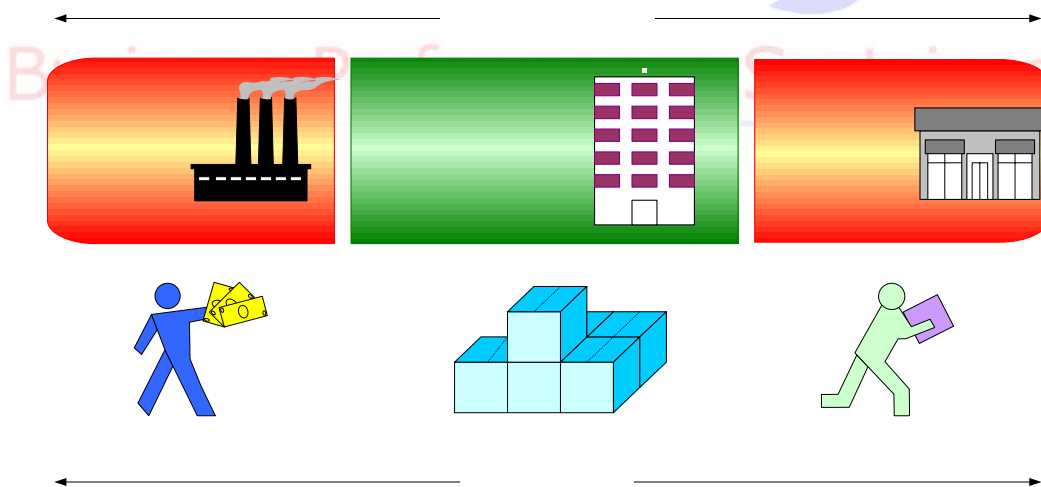
- They are able to get cash from the customer immediately after sale
- They implement the best inventory control practices and
- They are able to manage vendor payables

However, as represented in the Cash-to-Cash Cycle formula, deferring payments to vendors owing to the buying power and implementing inventory controls on long lead time products may not always prove to be best practices to lower the Cash-to-Cash Cycle. Hence, it is important to evaluate the Cash-to-Cash Cycle performance in depth and then take the right decisions. Many manufacturing and distribution companies have effectively managed the above processes and monitored the Cash-to-Cash Cycle by implementing some of the eXensys best practices across the business processes.

This white paper provides a detailed analysis of the intricacies involved in analyzing the Cash-to-Cash Cycle and the benefits of using eXensys solutions to manage the inventory, receivables, payables and sales cycles for lowering Cash-to-Cash Cycle.

### Overview

The enterprise value stream comprises of the enterprise, its vendors and the customers, which impact the components of Cash-to-Cash Cycle. Vendors influence the payables component, enterprise influences the inventory component and the customers influence the receivables component. Thus, the value stream and the Cash-to-Cash Cycle share a very close relation with each other.



A very low or zero Cash-to-Cash Cycle may be possible if,

Receivables are obtained immediately after the sale

Raw materials are bought and production is done only after receiving customer orders (pull or just-in-time)

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Payments are deferred for long durations

But, the above may not be valid or ideal for all business situations. Typically, purchases and sales are made on credit and finished goods need to be stored to avoid longer lead times. Further, deferring payments may lead to strained vendor relationships and low inventory might not always give the right pictures – it may be due to sales driven by promotions or discounts. So it is very important to interpret the results vis-à-vis the processes executed.

eXensys thus takes into account the above bottlenecks and implements some of the best practices to manage payables, inventory, sales and receivables focusing on optimizing Cash-to-Cash Cycle by reducing the waste from the value stream. Some of the approaches that eXensys recommends to lower the Cash-to-Cash Cycle are listed below.

1. Reduce inventory and increase inventory turns
2. Reduce order-to-cash receipt cycle time

The above are possible by implementing some of the best supply chain practices which are described in detail in further sections of the white paper.

### 1. Inventory Management

eXensys helps enterprise to minimize inventory, while keeping the inventory turns high by following some of the supply chain best practices. eXensys helps enterprises to not only convert 85% of their inventory to cash by lowering down the inventory to just-in-time levels, but also reduce the annual inventory carrying costs by 10% and improve the production efficiency.

The following are some of the steps that eXensys implements to lower the inventory levels.

1. **Forecasting & Planning** – eXensys facilitates to accurately forecast the demand and synchronize the production, purchase and inventory processes with the forecasted demand. Key steps include demand forecasting, sales and operations plan, master scheduling and capacity planning, material requirements planning and capacity requirements planning and planned order release for production and purchases.

The sales and operations plan helps in synchronizing the demand and supply. Sales and operations plan helps enterprise to consolidate the demand and evaluates actual demand against the forecasted sales. Sales and operations plan links strategic plans with more detailed levels of planning. Outputs of sales and operations plan are production plan, purchase plan, inventory or the backlog plan. Product plan is further detailed into master scheduling consolidating the demand.

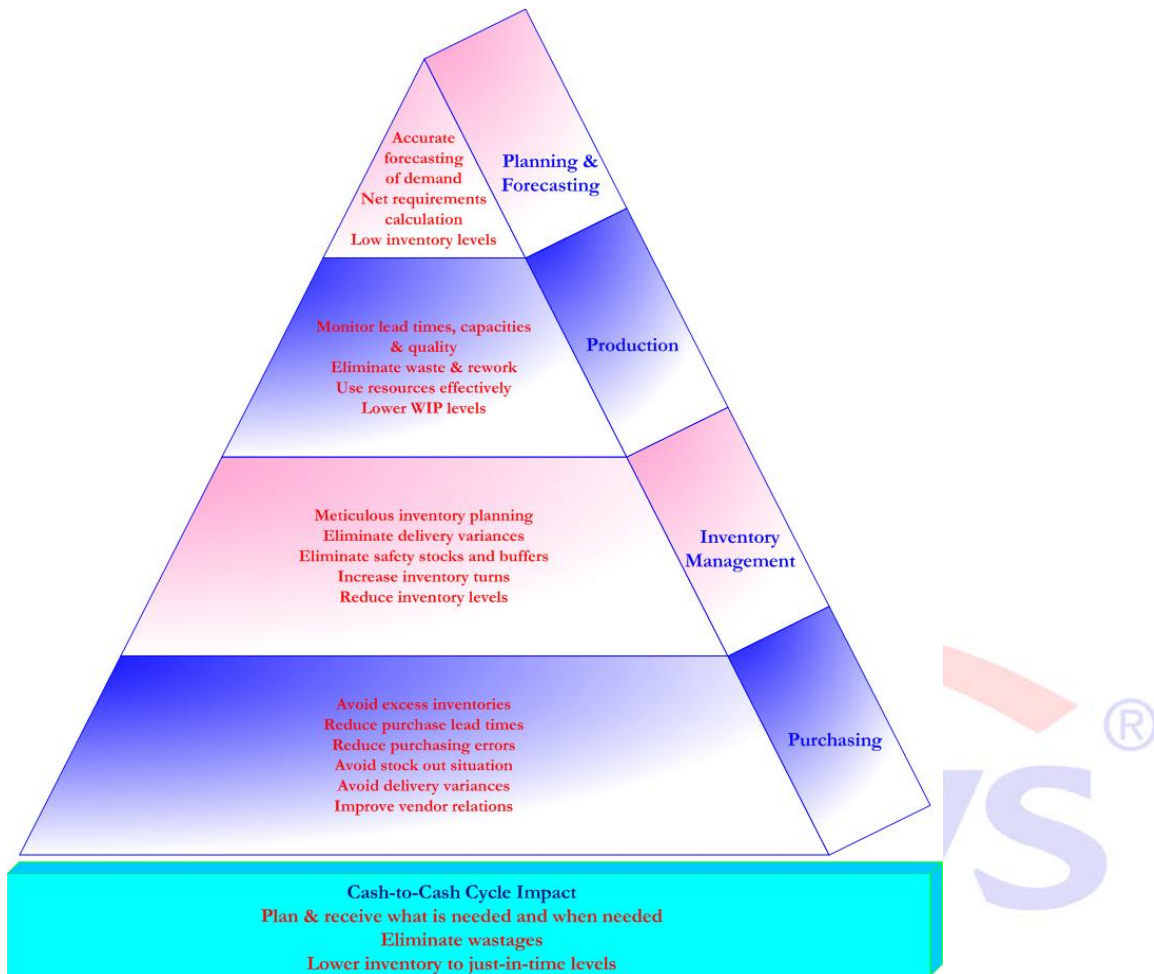
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Thus, only the required inventory is kept, at any point of time, to satisfy an accurately forecasted demand. Since there is no ambiguity around how much to stock and when to stock, the inventory levels are always kept very low.

2. **Production** – eXensys allows enterprises to continuously monitor lead times, production capacities and the quality of the manufactured products. This will help to improve the production efficiency, eliminate wastage and rework and thus the raw materials can be converted into finished goods within less time. Further it avoids excess inventories in the form of raw material or WIP. Planning and execution will work in synchronization, so that only whatever is required is produced, while effectively utilizing the resources.
  
3. **Inventory Management** – eXensys helps in accurate forecasting of demand, meticulous planning of inventory, and eliminates delivery time variances there by eliminating the need for safety stocks or buffers. Forecasting and planning, improvement in production efficiency and order methodologies all contribute towards reducing the safety stock and thus lower the inventory levels. eXensys facilitates proper planning of the ordering methodologies and the order quantities for raw materials and these could be defined separately for individual items. For items with huge inventory carrying costs, eXensys helps enterprises to plan order methodologies in such a way that more number of orders will be placed frequently. Although, the ordering costs increase marginally, there will be significant cost cuts in terms of carrying costs. Further, this will increase the inventory turns and hence lower the inventory levels.

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4. **Purchasing** – eXensys helps in purchasing only the required materials in required quantities there by avoiding excess inventories. eXensys converts planned orders into purchase requisitions and requisitions into contracts and orders with just a click of a mouse, thus reducing purchasing errors. Since purchasing is driven by production planning, lead times and the ordering methodologies, there is no scope for purchasing errors. This will not only reduce the inventory levels but also avoids stock out situations. Further, detailed schedules with multiple delivery dates can be directly sent to the vendor based on the planning run and thus avoid any delivery variances. Early and late deliveries in spite of delivery schedules and the delivered quantities against scheduled quantities can be monitored against a vendor and the necessary actions can be taken to improve relationships with the vendor while managing only the required inventory levels. Long term contracts with vendors by taking their confirmations to the schedules, helps to avoid delivery variances. Thus, the inventory will be exactly received at the required time and place.

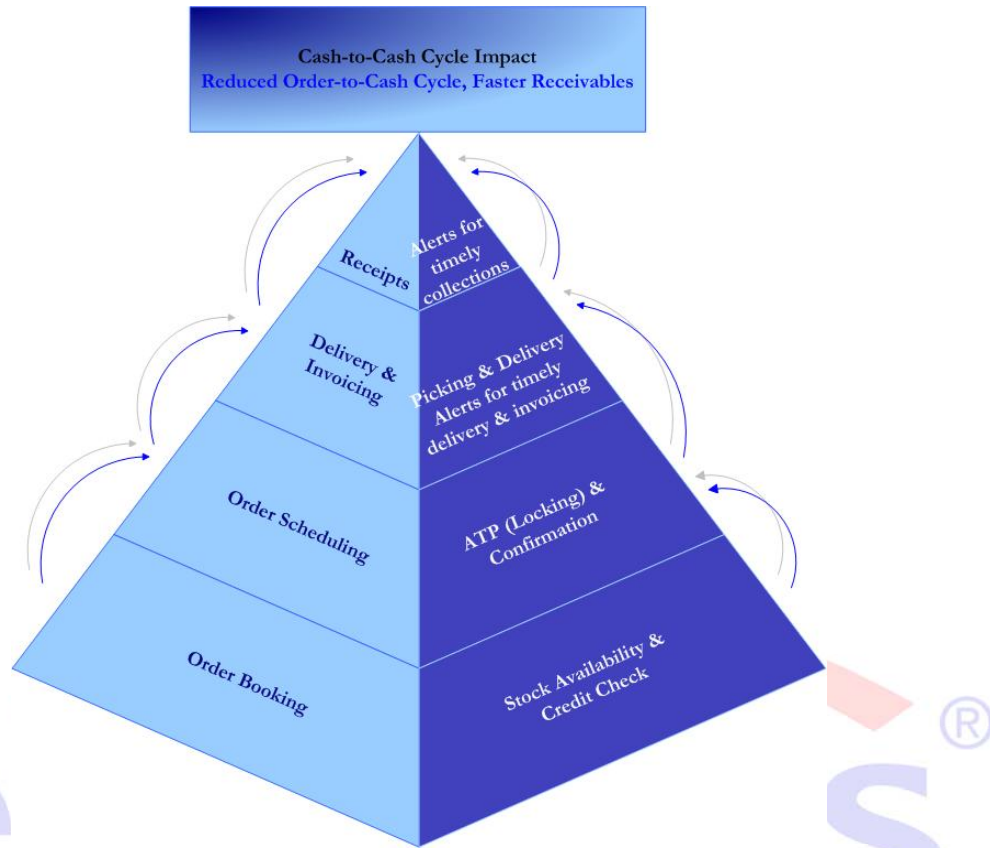
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All the above processes help in planning and receiving the required materials on time and eliminate wastages. Thus, the inventory levels are lowered to just-in-time levels and hence reduce the Cash-to-Cash Cycle.

## 2. Order-to-Cash

Primary reasons for delays in the order-to-cash cycle are non-availability of stock details leading to delays in order confirmation, credit limit verification, errors and delays in customer invoicing, and delays in collections. eXensys eliminates all these delays through 5 simple steps of the order-to-cash cycle.

1. eXensys eases the sales order creation and approval processes, while automatically checking for the stock availability and customer credit limit. Price, taxes, discounts, schemes and payment terms are assigned by default, based on the customer selection.
2. eXensys facilitates sales order scheduling through ATP (Available-to-Promise). ATP is calculated automatically based on the stock on hand, scheduled receipts and scheduled issues and the required quantity can be locked against a particular sales order. This facilitates timely confirmation of orders and timely delivery of goods to the customers.
3. eXensys triggers alerts and messages when the sales orders are ready for shipment based on which the items can be picked, packed and delivered on time to the customer. It totally eliminates manual verifications on the sales orders due for delivery. Alerts can be viewed for the respective dates and the items can be delivered on time.
4. On delivery of items, eXensys prompts the user to raise invoices. Payment and discount due dates are automatically calculated by the system based on the terms applied. Invoicing process is simplified to eliminate errors and thus a lot of time is saved and customers are billed on time and hence the receivables could be made on time.



5. eXensys triggers alerts and messages when the payments are due from the customers for timely follow ups. For delayed payments, the system automatically calculates the interests based on the ageing. However, the focus is on enabling timely collections from the customer by providing the right information at the right time without any manual interventions.

All the above processes help in speeding up the order-to-cash cycle and improving the customer experience and satisfaction. eXensys speeds up invoicing, eliminates billing errors and delays, speeds up the response to overdue bills and reduces bad debts, thus, lowering the Cash-to-Cash Cycle time.

### 3. Procure-to-Pay

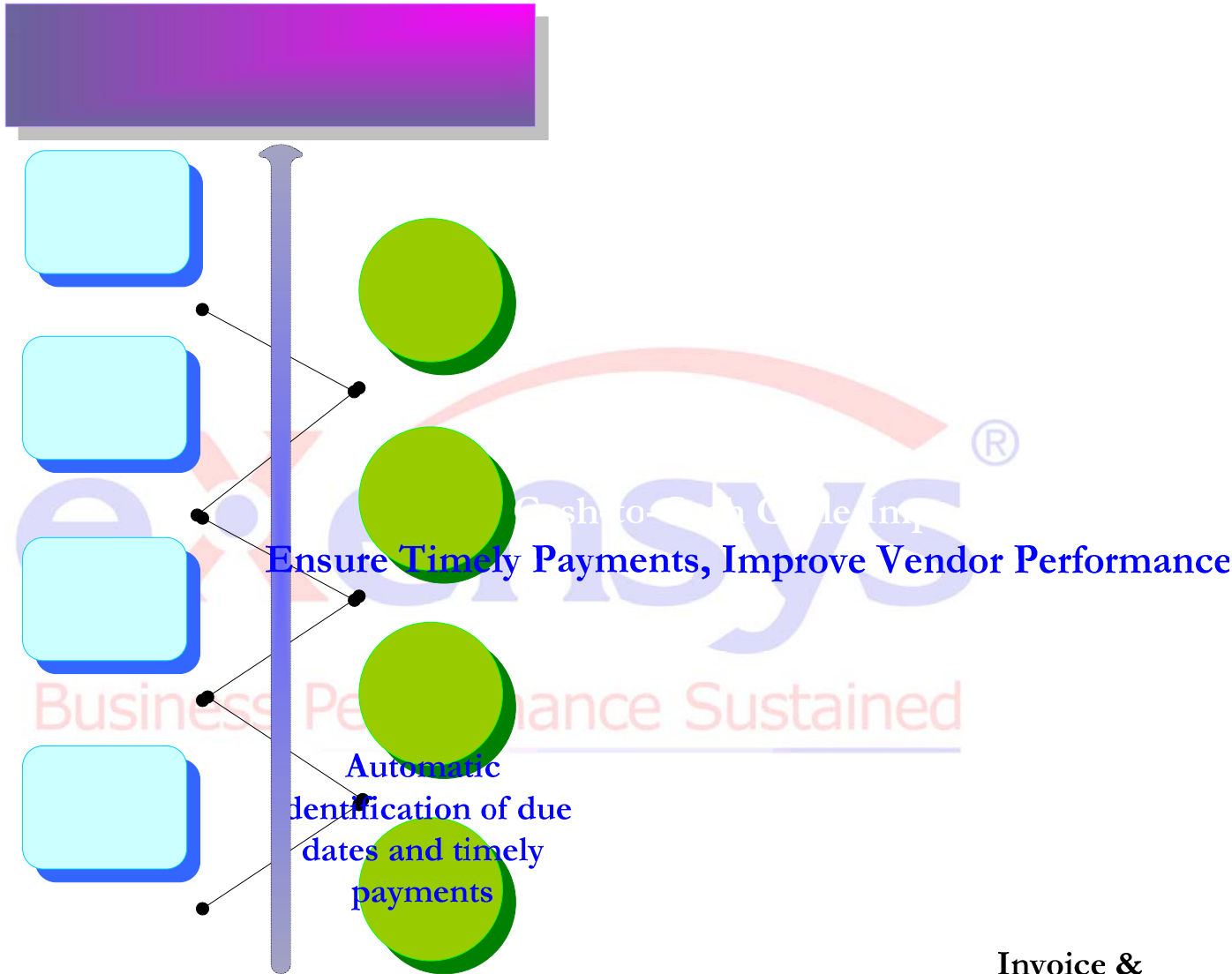
The three important bottlenecks in the procure-to-pay cycle are:

1. Request consolidation
2. Vendor sourcing and
3. Invoice verification

The Cash-to-Cash Cycle can be reduced by reducing the purchase lead times and improves the vendor delivery reliability. Purchase lead times can be reduced through requirements consolidation and vendor sourcing.

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Planned orders and re-order indents can be converted into purchase requisitions with a click of mouse. These requirements can be consolidated at the time of creating requisitions or the requisitions can be consolidated in purchase orders. This speeds up the request processing and the ordering processes, reducing the purchase lead times.



### Invoice & Payments

Vendor sourcing alone takes away 80% of the purchasers time due to non-availability of consolidated sourcing information. Any mistake done in vendor sourcing might lead to penalties in terms of delayed deliveries, increased ordering costs and increased lead time between purchase requisition to order. eXensys eases the whole process of vendor sourcing by providing the information on readily available vendor contracts for the requested items, quantity comparisons on various parameters including price, delivery, payment terms etc. It avoids manual errors in converting

Order follow ups for timely delivery  
Monitor vendor performance

o-Pay Cycle

Goods Receipt

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requisitions to RFQs, contracts or orders. Thus eXensys streamlines and reduces the procure-to-pay cycle time.

Further, eXensys ensures timely delivery of goods by triggering alerts and messages to the purchase team when a vendor delivery is due or over due. Necessary actions can be taken based on the same. Moreover, vendor delivery performance can be monitored through vendor performance reports and vendor evaluations. Thus it ensures that order is placed only to reliable vendors, lead times are reduced and facilitates timely delivery.

The procure-to-pay cycle also influences one key component of the Cash-to-Cash Cycle viz., the payables. Although, Cash-to-Cash Cycle can be reduced by delaying payments to the vendor, considering the advantages of good vendor relationships for proper inventory management and timely delivery of goods, eXensys ensures that the payments are made on time. eXensys speeds up the invoice verification process through automatic invoice matching with the goods receipt and the order price. Based on the payment terms attached in the invoice, eXensys calculates the invoice and discount due dates automatically and triggers alerts when the invoices are due for payments and ensures timely payments.

### Benefits

- Ensures no cash-out-of-reach situation
- Convert non-utilizable current assets to utilizable cash
- Manufacture or deliver goods to customers only when it is required or pulled
- Purchase raw materials only when it is required by the manufacturing system
- Invoice customers immediately on delivery
- Ensures timely collections from customers
- Ensures timely payments to vendors
- Increases inventory turns
- Low inventory levels and hence reduces the inventory costs and carrying costs
- Fast order-to-cash cycle
- Eliminates billing errors
- Reduces bad debts
- Reduces wastage across the value chain
- Reduces Cash-to-Cash Cycle to an ideal 40-50 days

### Conclusion

- eXensys Cash-to-Cash Cycle integrates inventory, manufacturing, sales, procurement, payables and receivables enabling perfect automation and synchronization of business processes.
- eXensys Cash-to-Cash Cycle synchronizes inventory and production with the demand by implementing some of the best practices such as demand forecasting,

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- master scheduling, master planning of resources, order methodologies, re-order planning, and available-to-promise.
- eXensys Cash-to-Cash Cycle is supported with minimum and easy data entry options to increase data accuracy and reduce errors in data entry.
  - eXensys Cash-to-Cash Cycle ensures that there is no cash-out-of-reach situation.
  - eXensys Cash-to-Cash Cycle improves customer satisfaction owing to faster order-to-cash cycle and improves vendor relationships owing to timely payments and thus helps in lowering the inventory levels and costs.

