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OPTIMIZING CASH APPLICATION & DEDUCTIONS MANAGEMENT



MARK BROUSSEAU

Strategic Director, CMLI

CRAIG JEFFERY

Founder & Managing Partner, Strategic Treasurer



WHAT

Discussing challenges in cash application and deductions management, as well as leading practices to optimize both.



WHEN

Tuesday, October 1, 2024
11:00 AM - 12:00 PM EDT



WHERE

Live online presentation
Replays at StrategicTreasurer.com



This presentation is provided by Strategic Treasurer and CMLI.

ABOUT THE SPEAKERS

GET TO KNOW TODAY'S SUBJECT MATTER EXPERTS



MARK BROUSSEAU

Mark Brousseau is Strategic Director at CMLI.

Over the past 29 years, Mark Brousseau has established himself as a thought leader on accounts payable, accounts receivable, payments, and document automation. A popular speaker at industry conferences and on webinars and podcasts, Brousseau advises prominent end-users and solutions and services providers on how to use automation to improve document- and payments-driven business processes.

Brousseau has chaired numerous educational conferences and has served on several industry committees and boards. He resides in Center City Philadelphia with his wife and three sons.



CRAIG JEFFERY

Craig Jeffery formed Strategic Treasurer in 2004 to provide corporate, educational and government entities direct access to comprehensive and current assistance with their treasury and financial process needs.

His 30+ years of financial and treasury experience as a practitioner and as a consultant have uniquely qualified him to help organizations craft realistic goals and achieve significant benefits quickly.

TOPICS OF DISCUSSION

KEY AREAS OF FOCUS &
ANALYSIS



CASH APPLICATION

IMPLICATIONS ON LIQUIDITY
AND WORKING CAPITAL



MEASURING EFFICIENCY

VARIOUS AVAILABLE FORMULAS



DEPOSIT TIMING

AR VS. TREASURY



CHALLENGES

CASH APPLICATION AND
DEDUCTIONS MANAGEMENT



SOLUTIONS

OPTIMIZING CASH FLOW AND
EFFICIENCY



KEY TAKEAWAYS

AND FINAL THOUGHTS

DEPOSITS AND CASH APPLICATION

WHAT ARE THE IMPLICATIONS?

If payments are in the bank . . .



Amount



Account

When the deposit clears, treasury has access to cash (liquidity)

How could cash application impact liquidity and working capital?



Payment details



AR subledger

When AR is relieved, goods can ship, and DSO is impacted

BALANCE SHEET

GAINING INSIGHT INTO WORKING CAPITAL



Assets

Cash	\$500K
AR	\$1M
Inventory	\$500K
Equipment	\$1M
Land	\$3M
Total	\$6M



Liabilities

AP	\$1.2M
Notes due	\$800K
Total	\$2M



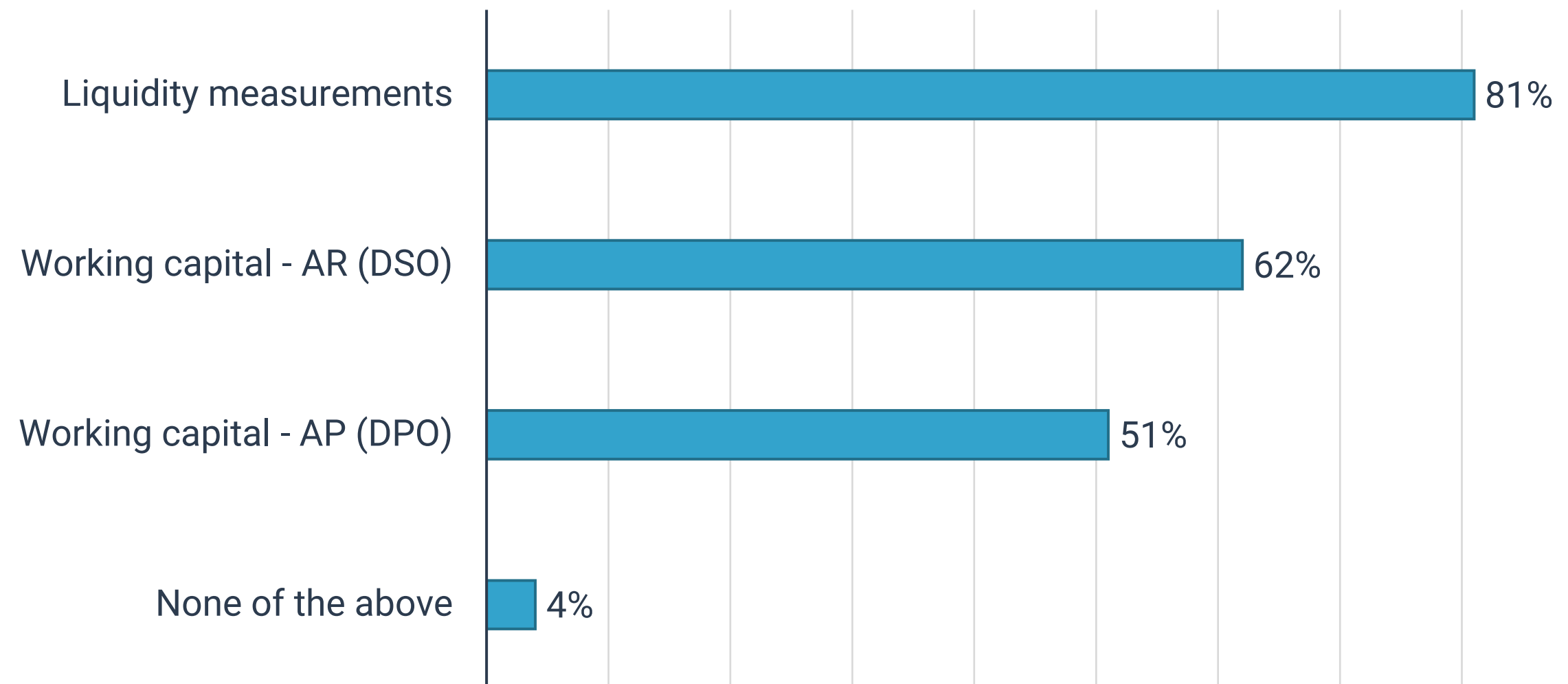
Owner's equity

Total	\$4M
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Assets = Liabilities + Owner's equity

POLL QUESTION

Poll 1 - We focus on the following metrics: (all that apply)



WORKING CAPITAL

TWO DISTINCT APPROACHES



Accounting

Working capital

Current assets

- Current liabilities

Working capital



Treasury

Net adjusted working capital

AR

+ Inventory

- AP

Net adjusted working capital

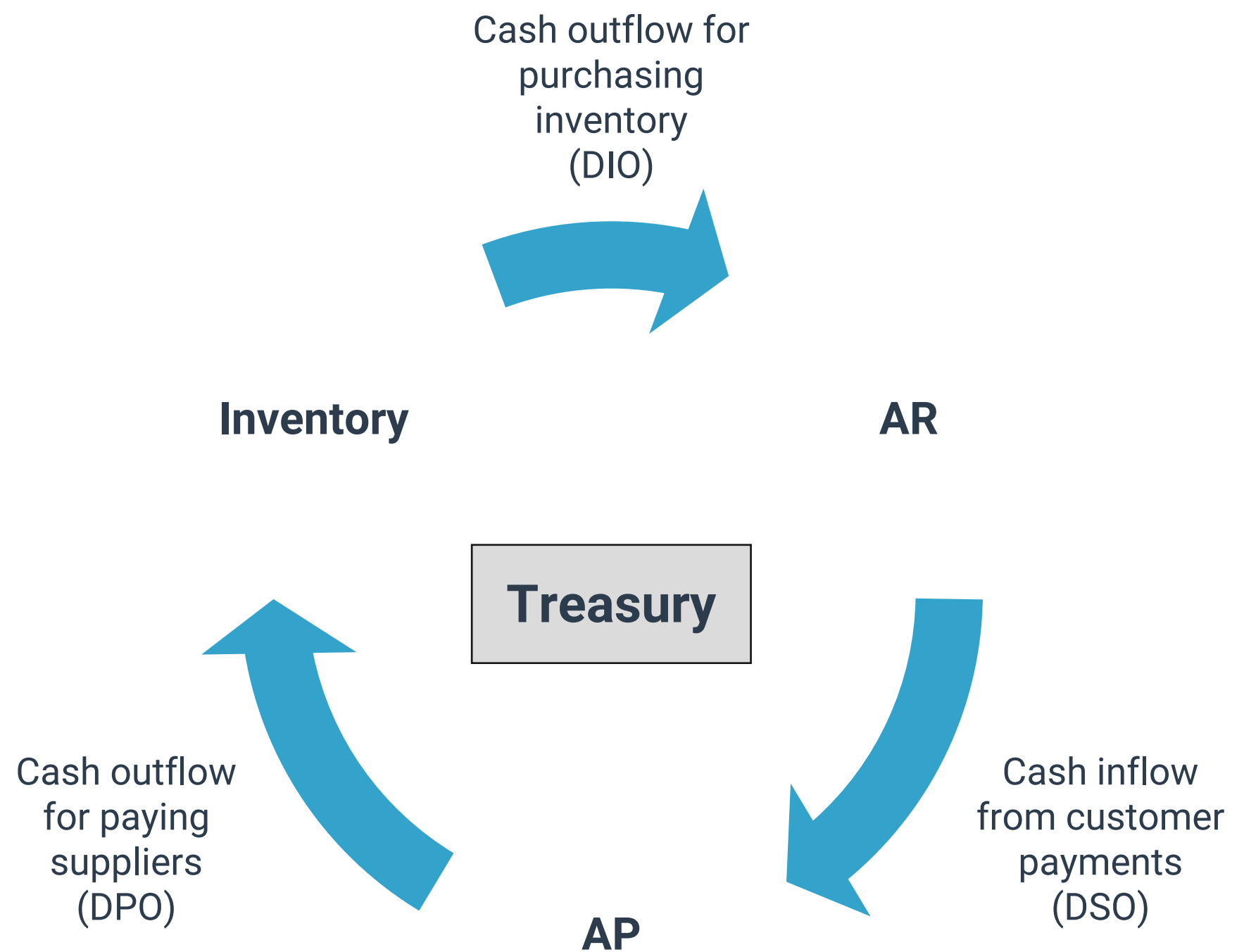


How much working capital: More or less?

Optimize, don't maximize or minimize.

CASH CONVERSION CYCLE

TREASURY HAS VISIBILITY TO LIQUIDITY AND EFFICIENCY



Days Inventory Outstanding (DIO)

- How long it takes to sell inventory



Days Sales Outstanding (DSO)

- How long it takes to collect payment after sale (AR)



Days Payable Outstanding (DPO)

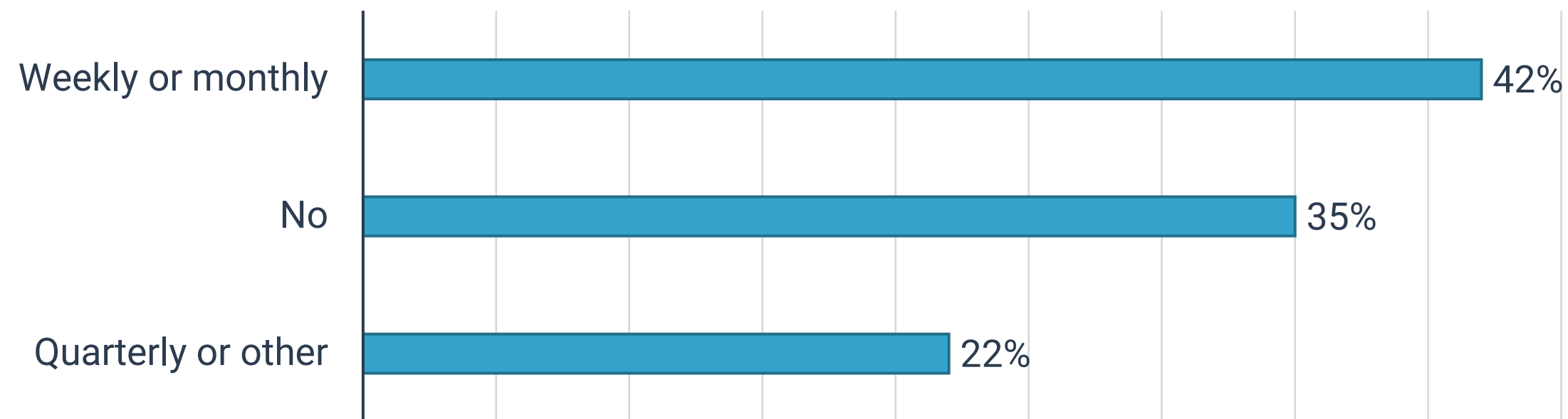
- How long it takes to pay suppliers (AP)

Cash Conversion Cycle (CCC)

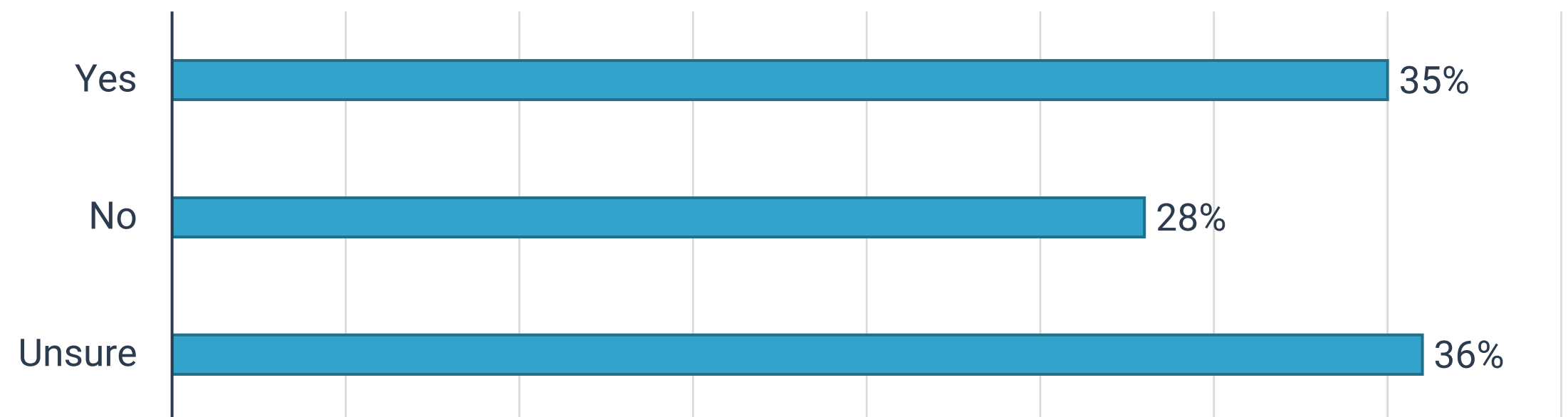
- Measure of process efficiency in days
- Less is better

POLL QUESTION

Poll 2 - Do treasury and AR have a regular meeting cadence?



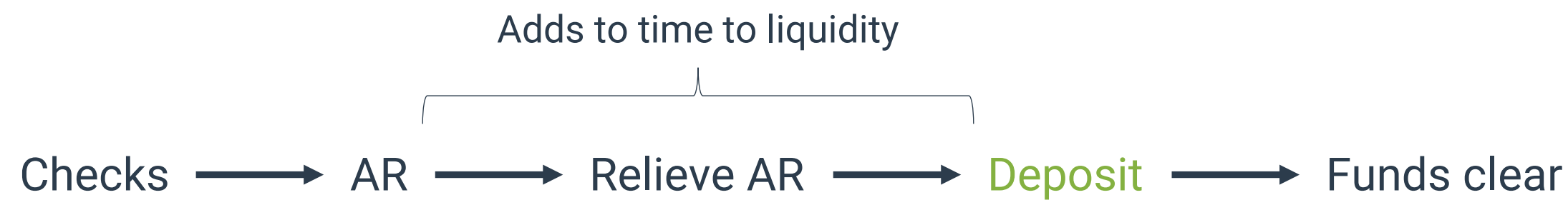
Poll 3 - Do treasury and AR have any combined KPIs?



COMPETING INTERESTS

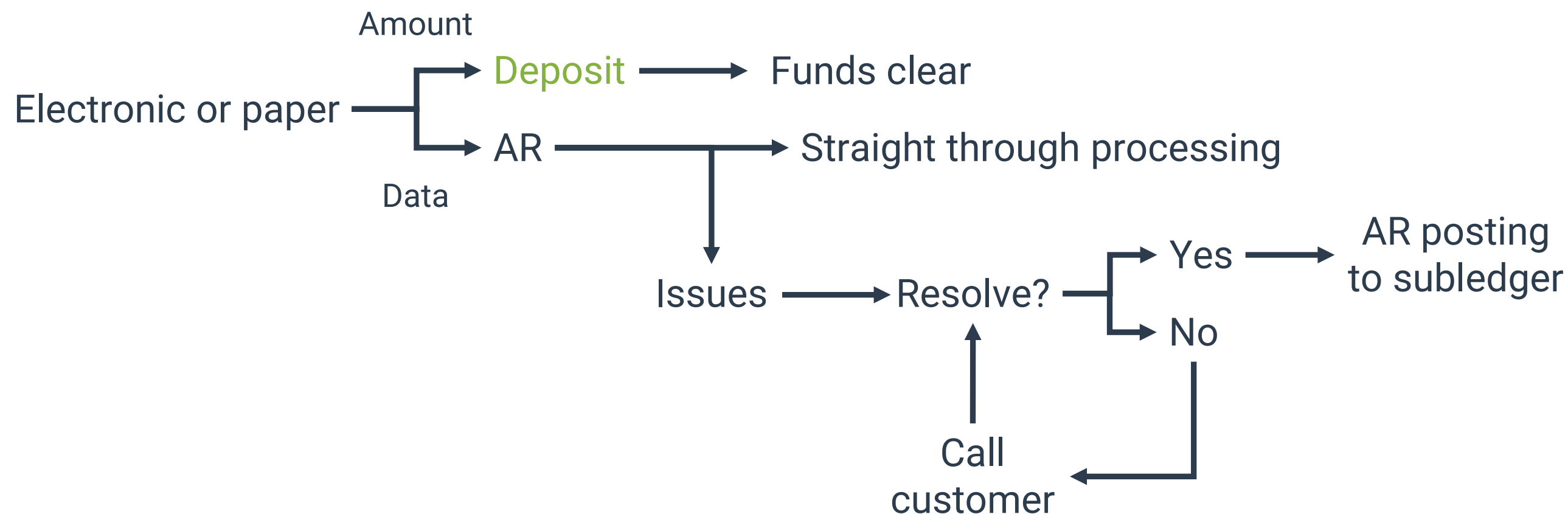
AR AND TREASURY

AR is focused on relieving AR



In the linear process, the order-to-collect (AR and cash application) impact the timing and availability of liquidity

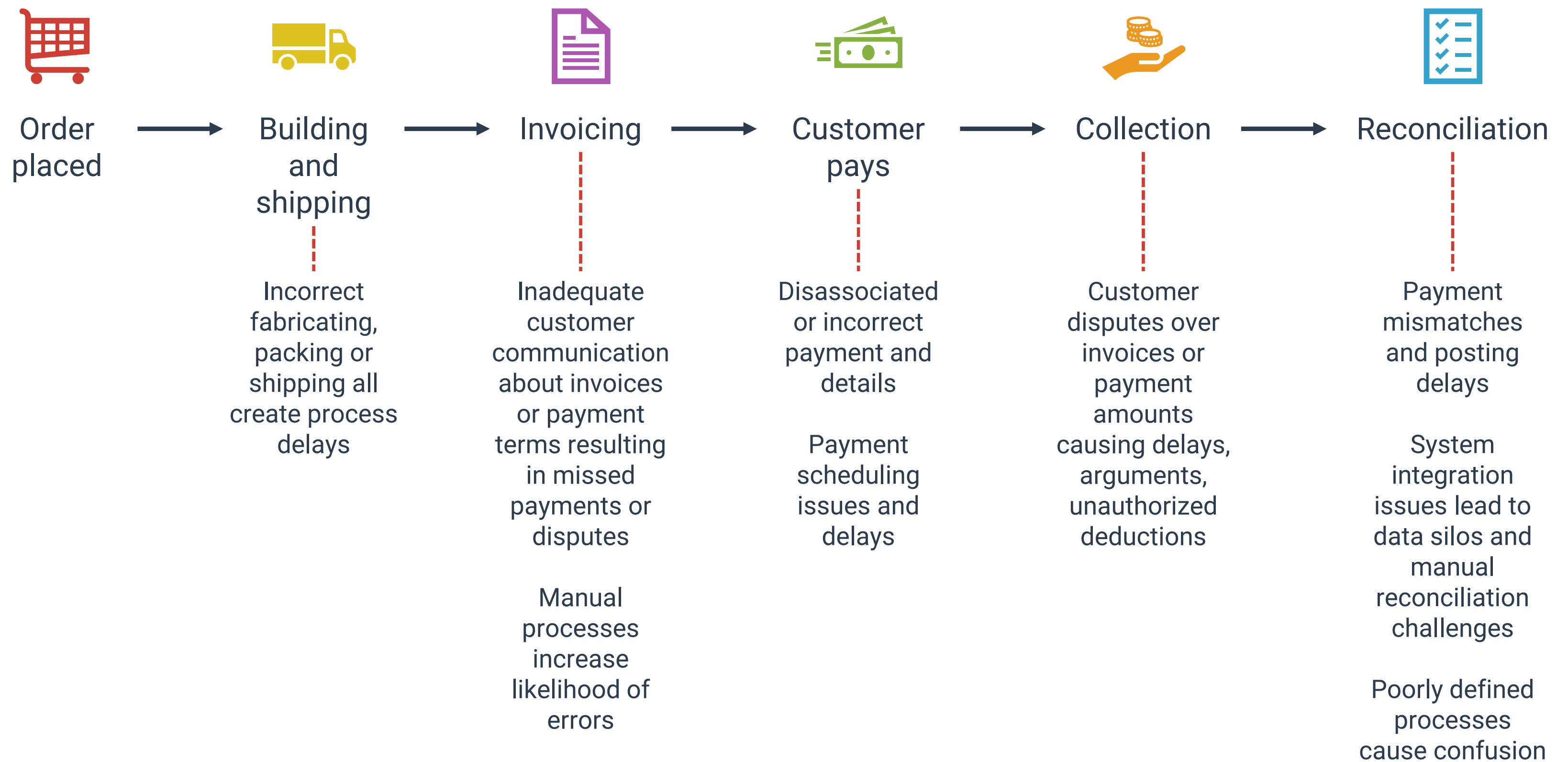
Treasury likes the earlier liquidity



Liquidity may come before posting – they are on parallel tracks

CASH APPLICATION CHALLENGES

SLOWER PAYMENT MEANS LOWER LIQUIDITY



UNAUTHORIZED DEDUCTIONS

WHAT CAUSES THEM



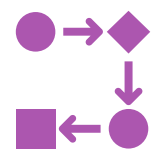
Poor communication

- Miscommunication between departments or with customers leading to misunderstandings about charges and deductions



Data entry errors

- Mistakes during data entry resulting in incorrect billing or payment records, prompting unauthorized deductions



Inefficient dispute resolution processes

- Slow or ineffective handling of disputes encouraging customers to make deductions without proper justification



Inconsistent policies

- Vague or poorly communicated policies regarding deductions resulting in varied interpretations and unauthorized adjustments

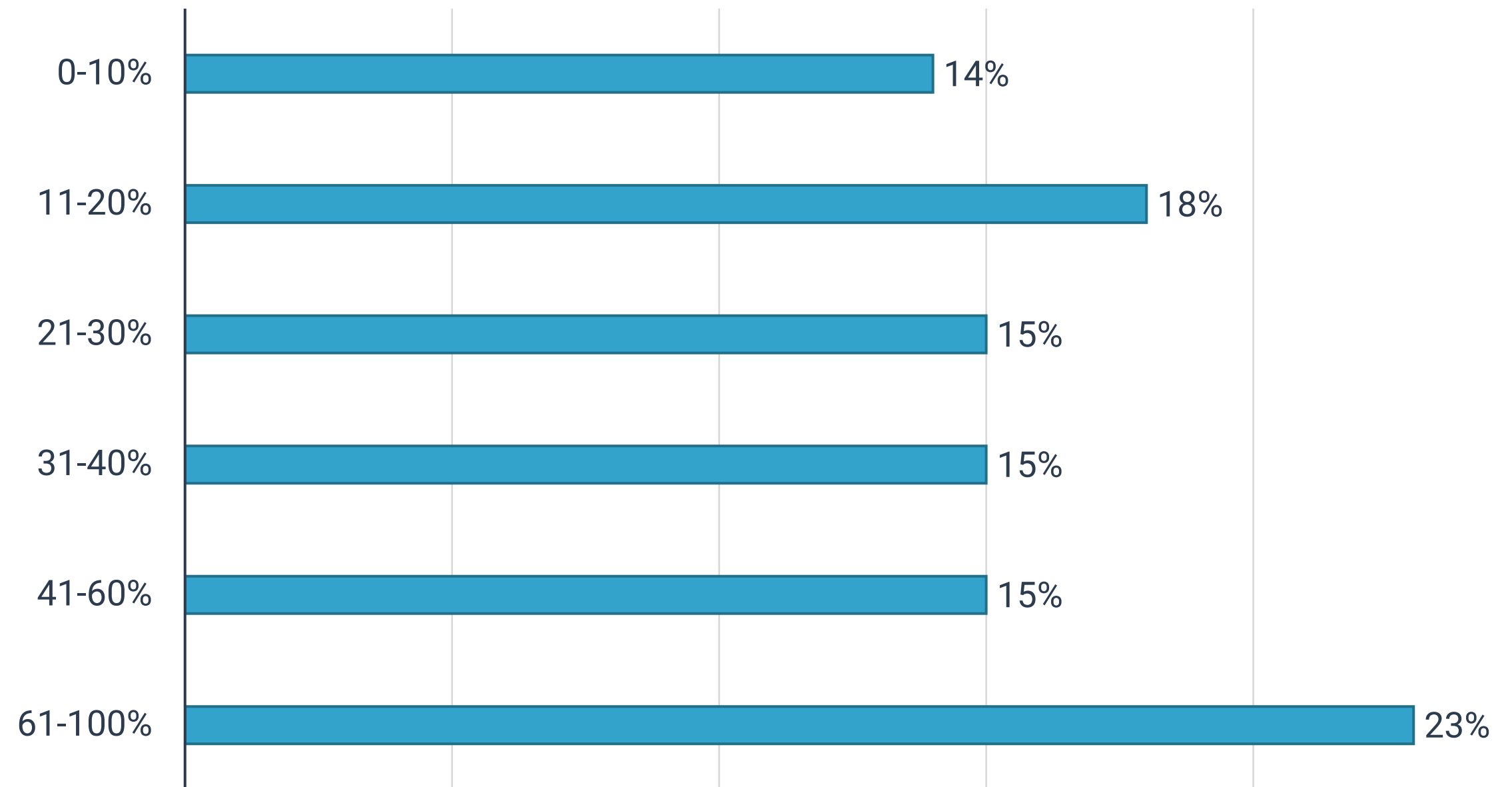


Training gaps

- Employees may lack the necessary training to recognize and properly handle unauthorized deductions or disputes.

POLL QUESTION

Poll 4 - What percentage of payments in your organization require human operator intervention for posting?



CASH APPLICATION

LEADING PRACTICES



- Automated flow of info to AR
- AI-enabled
 - Natural language processing



- Clean, efficient process from end to end
- Ensure consistency across departments



- Integrated systems
- Real-time updates on cash flow and payment status



- Customer payment portal
- Make payments, view invoices and track payment history



- Staff training on cash application standardized processes and use of tech
- Improve efficiency and accuracy

DEDUCTIONS MANAGEMENT

LEADING PRACTICES



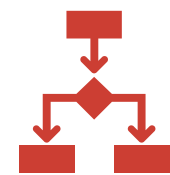
Centralized deductions team

- Training on handling unauthorized deductions
- Root cause analysis
 - Regularly analyze
 - Machine learning



Collaboration with sales and customer service

- Quickly address and resolve customer disputes



Standardized process for dispute resolution



Track and analyze KPIs

- Resolution time and percentage of deductions resolved
- Identify areas of improvement

WORKING CAPITAL

LEADING PRACTICES



- Cash flow forecasting
 - AI-driven analytics



- Inventory management
 - Optimize timing to reduce excess stock and improve cash availability



- Supply chain financing
 - Delink to achieve win-win



- Customer credit management



- Cross-departmental collaboration through working capital council
 - Aims to promote mutually beneficial initiatives and eliminate competing KPIs across departments

FINAL THOUGHTS

HOW TO PROCEED



AUTOMATE YOUR PROCESSES

- Implement AI-enabled tools and automated workflows
- Streamline cash application, reduce errors, and ensure faster processing of payments



ENHANCE SYSTEMS INTEGRATION

- Integrate cash application systems with AR and treasury
- Get real-time updates
- Improve visibility into cash flow and enable faster access to cleared funds



STANDARDIZE DISPUTE RESOLUTION

- Develop standardized procedures
- Minimize delays in payment processing and ensure smoother cash application



LEVERAGE DATA ANALYTICS

- Use machine learning and root cause analysis to regularly analyze processes
- Tracking KPIs such as resolution times can help identify opportunities for process improvements

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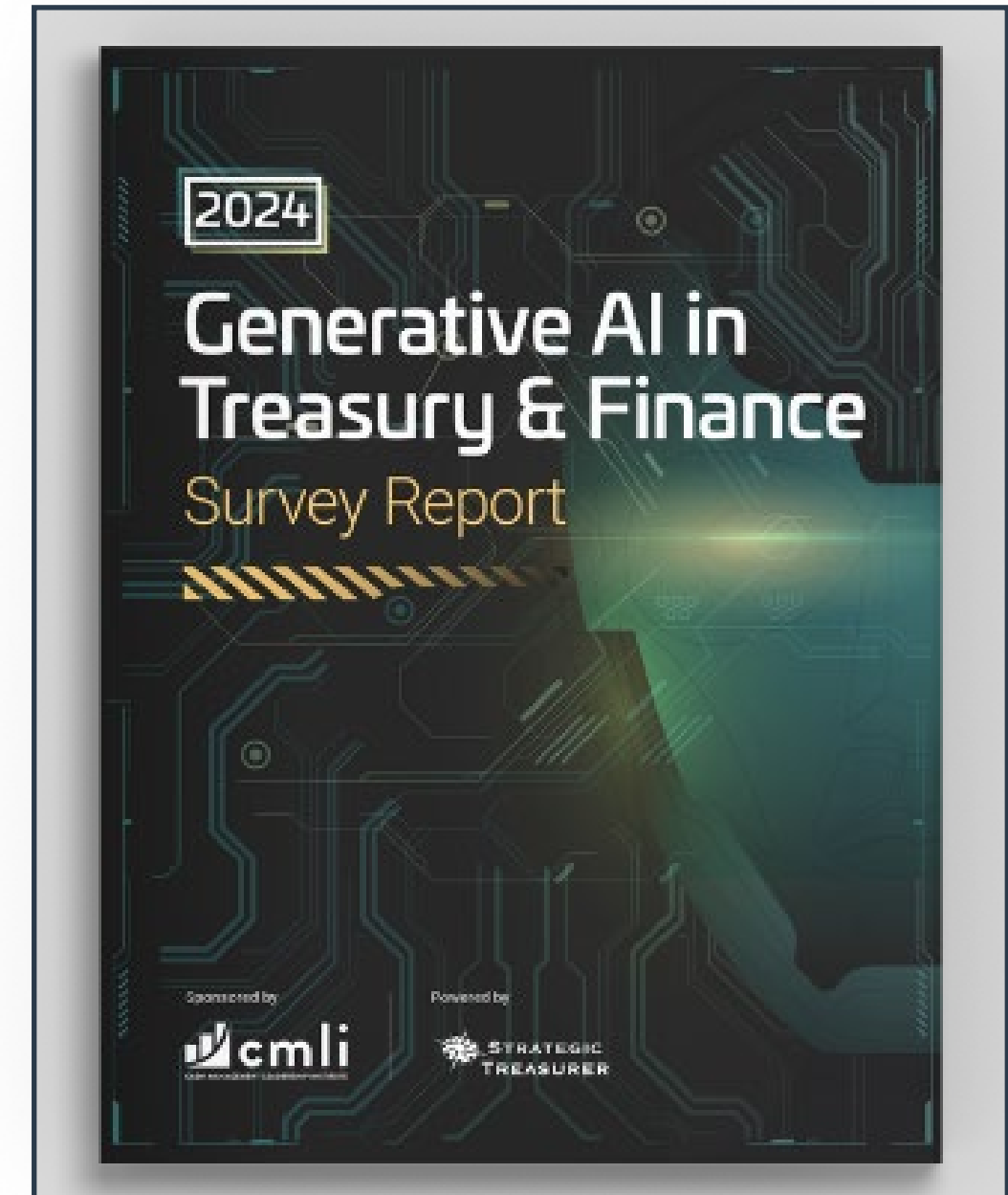


CASH MANAGEMENT LEADERSHIP INSTITUTE

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Download the Generative AI in Treasury and Finance Survey Report for in-depth commentary.



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