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Slow Pay: Trouble in Tough Times



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A troubling business trend, as reported by Transport Topics recently, is slower payment of invoices and “extended receivables.” Slow pay restricts cash flow and could put carriers out of business – even carriers with otherwise excellent operations. Carriers, intent on their core business of moving freight, sometimes overlook key opportunities in the critical business process that follows successful delivery.

How important is this process?

Some years ago, one carrier supervisor yelled at clerks who didn’t have bills processed by a certain point in the afternoon. So at lunch time, a particular clerk would take the bills she didn’t think she could finish and simply hide them. The carrier couldn’t figure out why revenue was off - until much later when they found \$1 million in unbilled work in the basement.

These days, of course, most carriers run a report that compares what was delivered with what was billed - obviously a good idea. But there’s much more to it, particularly in hard times when business is slow and payments are slower.

It’s called the delivery-to-cash cycle – what happens between delivering a load and depositing actual payment in the bank. When cash does not arrive in time to meet expenses, carriers have to do one of three things – tap cash reserves if available, turn receivables over to a factor for cash, or float a loan. These options cost money or reduce interest received, sometimes enough to make the difference between profit and loss.

In the delivery-to-cash cycle, time is money. The longer the cycle, the more risk to the carrier. On the other hand, the delivery-to-cash challenge can become an opportunity for carriers to create new efficiencies and improve financial performance.

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To take advantage of this opportunity, carriers can recognize and measure four distinct slices of time in the delivery-to-cash cycle:

(1) How long does it take from delivery of a load until the driver transmits proof-of-delivery (POD) documents?

(2) After POD's are received by the carrier, how long does it take for someone to begin processing the documents?

(3) How long does the process normally take before the invoice is actually sent to the customer? How much extra time does it take for exceptions or discrepancies?

(4) How long after the invoice is sent does payment arrive?

Carriers can manage each of these time slices to improve cash flow. For example, there are ways to cut the time between delivery of a load and receipt of POD documents.

Assuming the driver is on the road, he or she can send the documents to the carrier by snail mail. Or send them overnight by UPS, FedEx or a transportation-specific service and cut a day or more from the cycle. PODs also can be scanned at a truck stop and sent electronically for virtually instant receipt. In all cases, the carrier has the POD documents sooner, and that slice of time is reduced by days or even weeks.

What happens next? Do the POD documents sit in someone's desk inbox? Do they wait on a hard drive or on a company server?

Who is responsible for receiving the documents and taking action to begin the billing process? How long does it take that person to act on arriving documents?

Once the process begins, how long does it take to generate an actual invoice, before supporting documents are gathered and attached? Does it all have to be printed, stuffed in envelopes, stamped, and mailed out? Or is it a digital process done on computer screens? Either way, how long before that package of invoice and supporting documents is readied and actually sent to the customer?

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And how is it sent? Does the invoice go to the post office in a stamped envelope, does it go out as an email, or is it transmitted via EDI (Electronic Data Interface)? Electronic delivery obviously cuts days from the process. And as the cost of technology to move data and images comes down, electronic processing is becoming the new standard for speeding cash flow, reducing costs and improving operating efficiency.

Finally, how long after invoicing does it take for the check or electronic payment to arrive? This slice of time may be beyond a carrier's direct control, but not beyond its influence.

For example, when setting up a significant new account, the carrier should call and ask what the customer requires for on-time payment. A customer might answer that he doesn't pay if the lumber receipt is not attached or if his order number is not on the invoice. Whatever the response, the carrier now knows what he needs to do and the customer knows that the carrier is paying attention.

After the first bill has been sent and before it is due, the carrier should call the customer again, this time to say: "This is the first bill we've sent. It's not past due, but you're an important customer to us, and we want to make sure everything is okay."

Again, the message is clear. The carrier is paying attention, will meet the requirements, and expects to be paid timely.

But carriers themselves have significant influence and control: they can take actions to optimize what happens between delivery and receipt of payment.

How they address it could be the key to immediate improvement in cash flow, reducing operating costs and improving near term financial results.