HORN & COMPANY

Working capital optimization with Process Analytics

Part 1: Focus Accounts Receivable

Düsseldorf, October 2024

With the right measures, significant WOC and efficiency potentials can be achieved

Extract of Horn & Company project results

Focus of this whitepaper

Optimization of Accounts Receivables

- **30%** Reduction of **payment periods** & harmonization of payment terms
- **90%** Reduction of **lead time** between **delivery and invoicing**
- **60%** **FTE reduction** within the **accounts receivables** department

Reduction of DSO by 20 - 30 % [a]

Optimization of Accounts Payables

- **40%** Increase of the Accounts Payables with the same purchase volume
- **99%** Of the cash discounts are taken automatically
- **85%** Automation rate of the invoice receipt check

Increase of DPO by 25 - 40 % [a]

Optimization of Inventories

- **35%** Reduction of anonymous inventories with an increase in availability
- **55%** Reduction of customer-specific inventories
- **50%** FTE reduction in disposition and inventory accounting

Reduction of DIO by 20 - 35 % [a]

With the H&C approach for Working Capital optimization, high cash & efficiency effects can be achieved – in the short run as well as permanently through sustainable implementation

a) Depending on the maturity of the processes and the previous working capital focus

Content

1.

The Horn & Company
approach for WOC optimization

2.

Typical project results & improvement
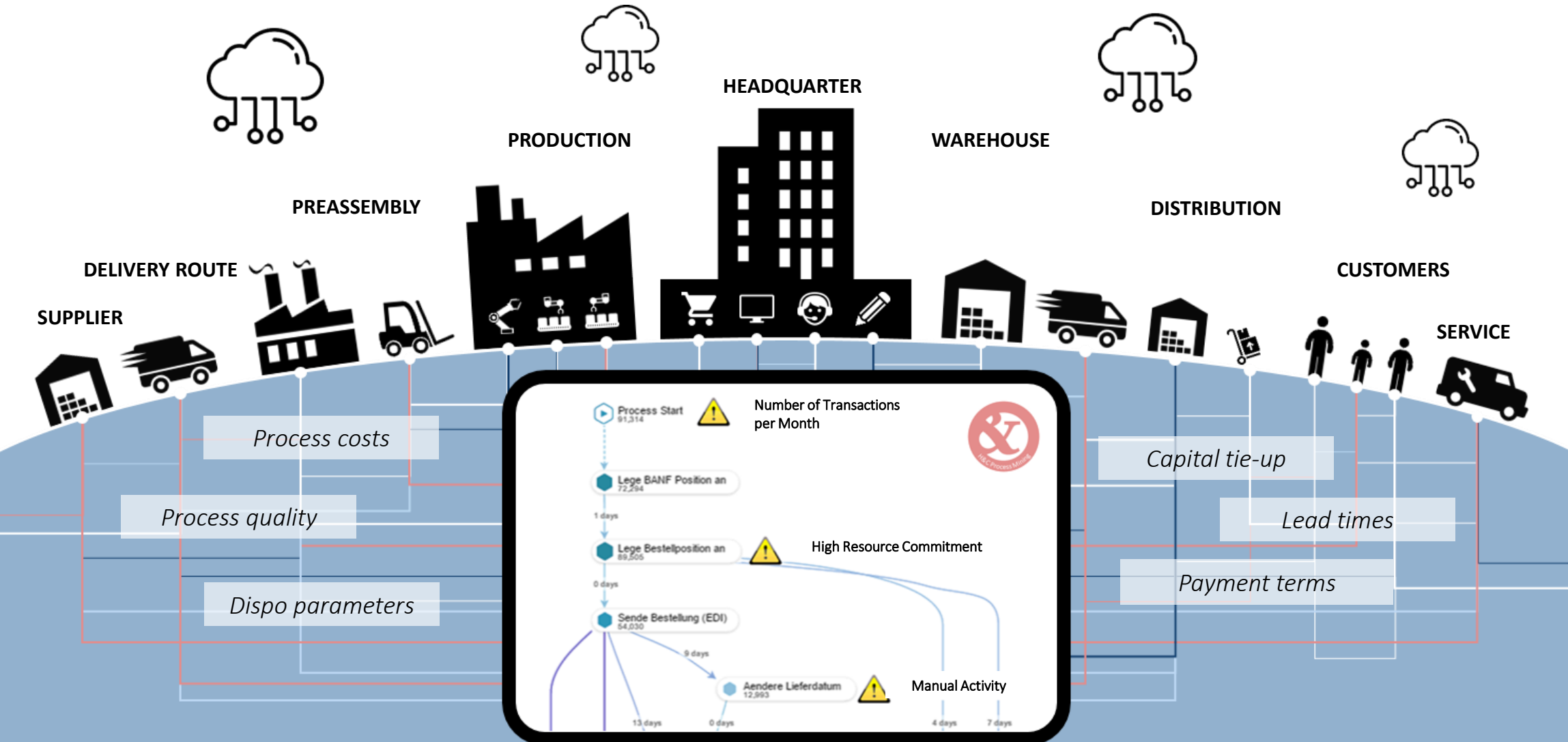measures for Accounts Receivables

3.

Horn & Company profile

We create data-driven transparency - End-to-End from customer to customer.

As an "X-ray machine" Horn & Company Process Analytics identifies stock drivers along the entire process chain

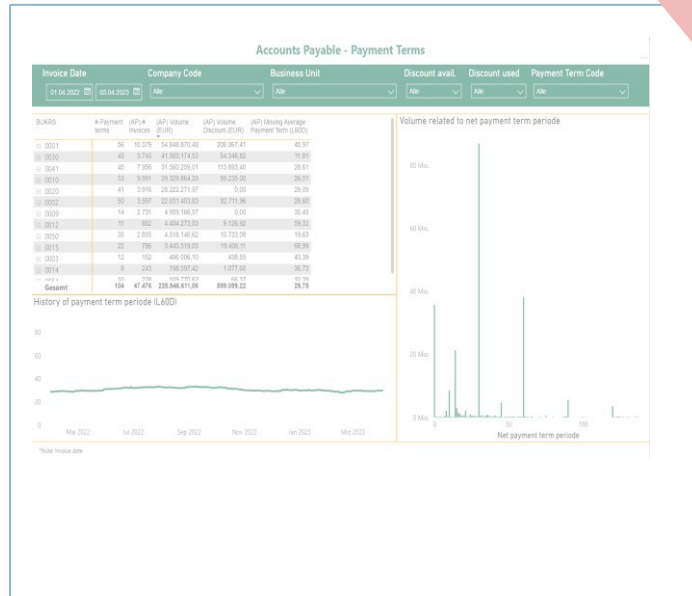# Optimization through combination of process, financial & inventory data

Overview of the Horn & Company approach

Financial Data

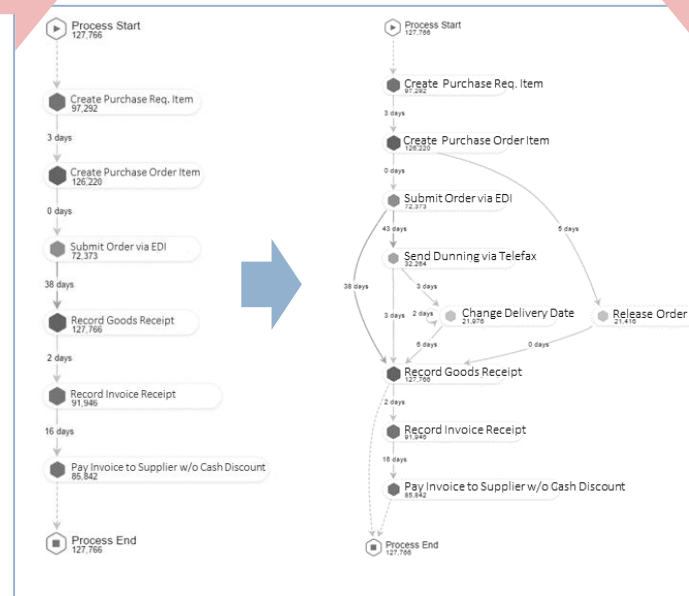- Payment terms
- Payment behavior
- Quantitative simulations

At single invoice level

Process Analysis

- Transparency over processes and behaviour
- Detection of bottlenecks and lost time
- Across all processes, e.g. OtC, PtP, …

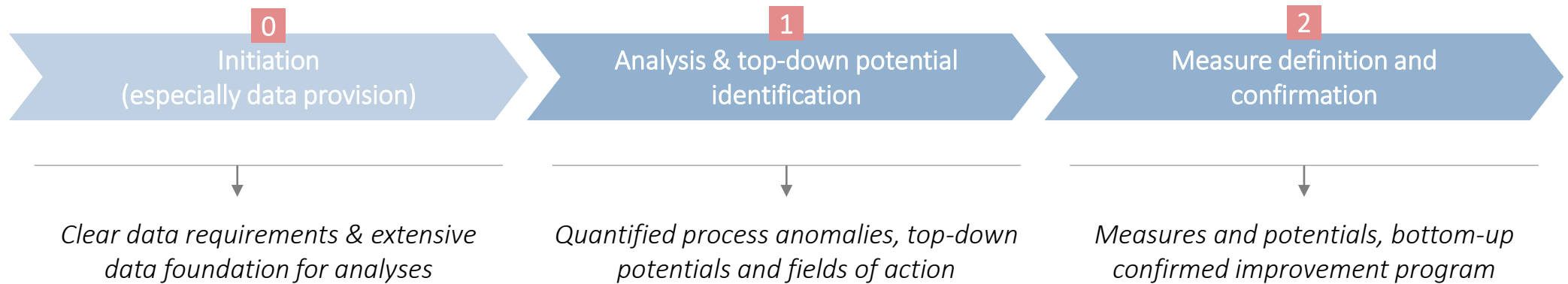**At purchasing/sales document level**

Inventory Analysis

- ABC/XYZ classification
- Stock range and dead stock analyses
- Automatic identification of weaknesses

For every single material number

From data-driven WOC analysis to evaluated & prioritized potentials

Project phases and results

0	1	2
Initiation (especially data provision)	Analysis & top-down potential identification	Measure definition and confirmation

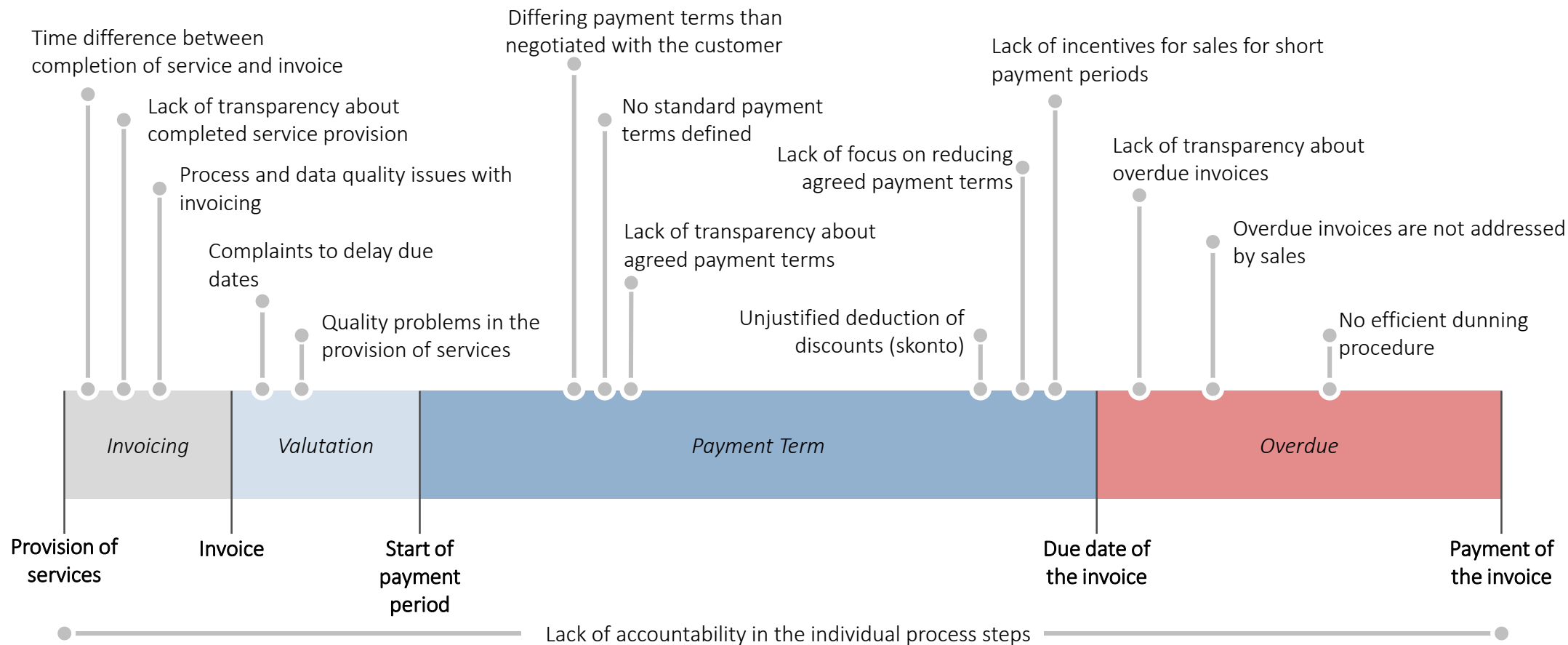| Clear data requirements & extensive data foundation for analyses	Quantified process anomalies, top-down potentials and fields of action	Measures and potentials, bottom-up confirmed improvement program

Content

0   1   2

High accounts receivable are caused by a variety of process issues

DeepDive phase 1: Typical process issues in AR

Accounts Receivable

Time difference between completion of service and invoice

Differing payment terms than negotiated with the customer

Lack of incentives for sales for short payment periods

Lack of transparency about completed service provision

No standard payment terms defined

Lack of transparency about overdue invoices

Process and data quality issues with invoicing

Lack of focus on reducing agreed payment terms

Complaints to delay due dates

Lack of transparency about agreed payment terms

Overdue invoices are not addressed by sales

Quality problems in the provision of services

Unjustified deduction of discounts (skonto)

No efficient dunning procedure

| *Invoicing* | *Valutation* | *Payment Term* | *Overdue* |

Provision of services

Invoice

Start of payment period

Due date of the invoice

Payment of the invoice

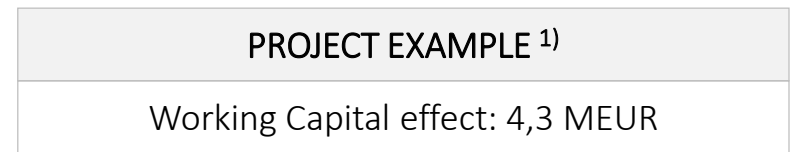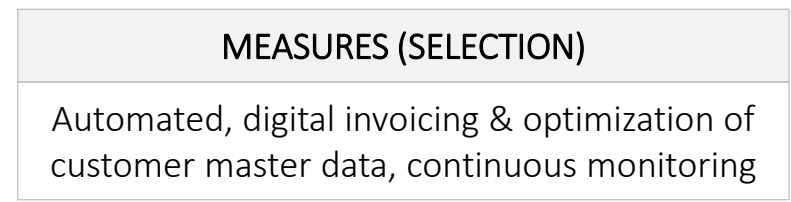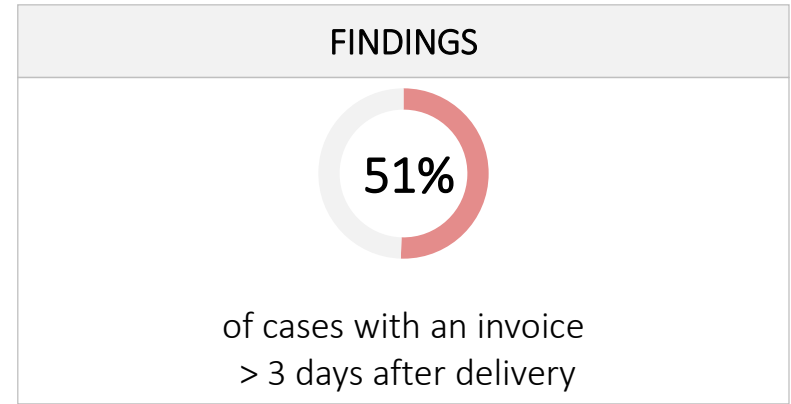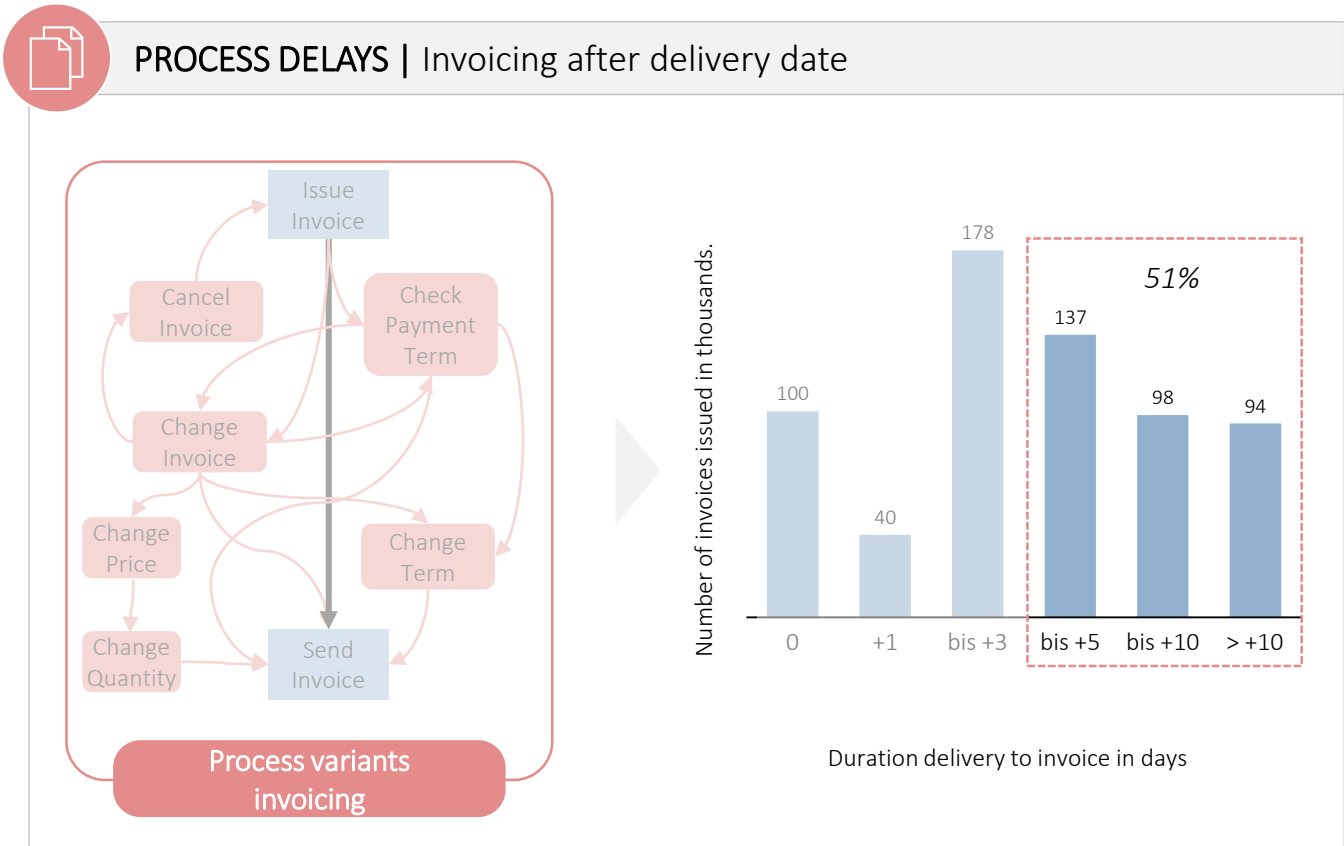Lack of accountability in the individual process steps

We have a proven set of levers from implemented projects to address the typical AR process issues

| 0 | 1 | 2 |

Automate & accelerate invoicing to reduce delays
DeepDive phase 1: Example analysis to optimize delayed invoicing

Accounts Receivable

PROCESS DELAYS | Invoicing after delivery date

Process variants invoicing

Duration delivery to invoice in days

FINDINGS

51%

of cases with an invoice
> 3 days after delivery

MEASURES (SELECTION)

Automated, digital invoicing & optimization of customer master data, continuous monitoring

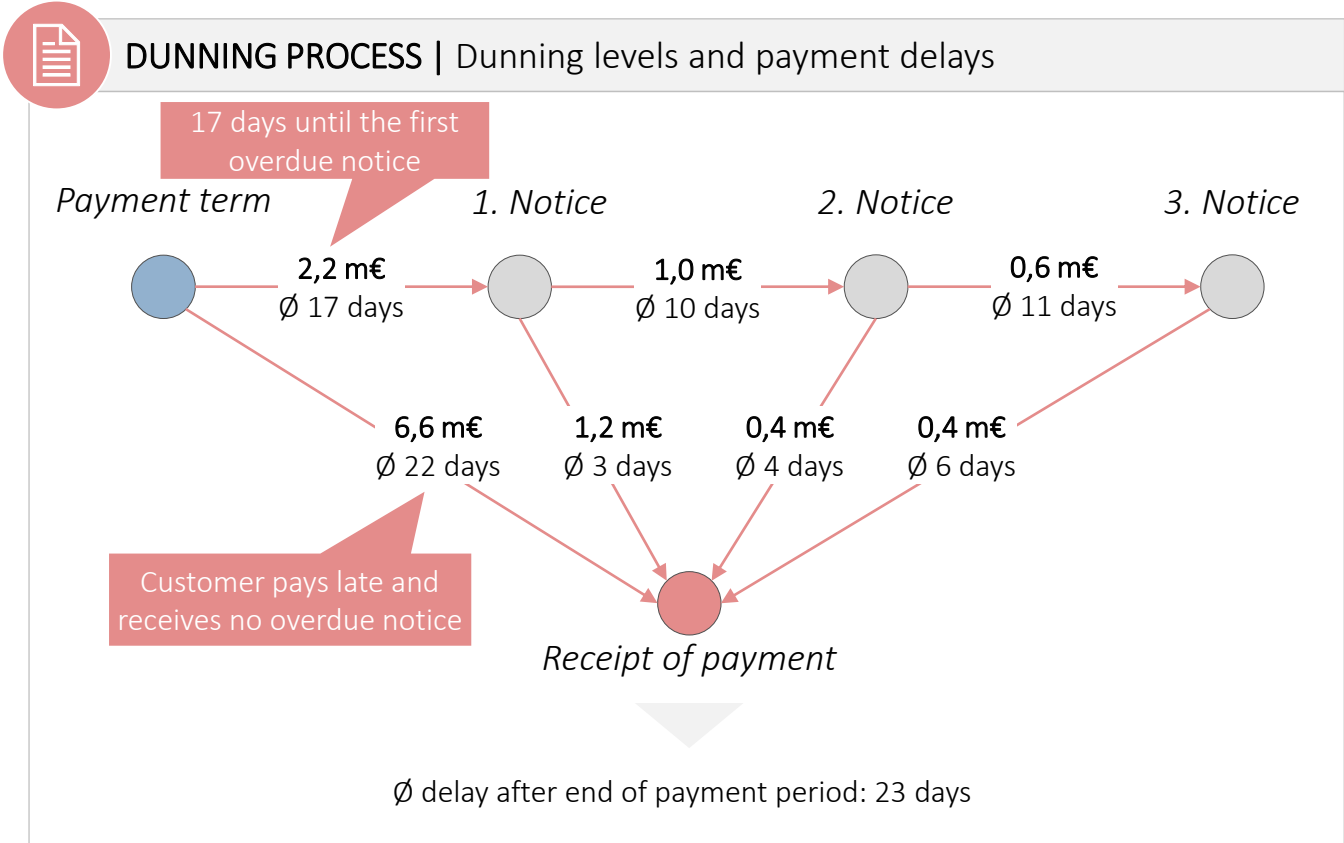## PROJECT EXAMPLE [1]

Working Capital effect: 4,3 MEUR

Sources of error and high manual effort can be identified by means of process analytics in order to accelerate the issuance of invoices.

1) Customer example for a manufacturing company with a turnover of approx. 500 Mio. EUR per year

Strict dunning and monitoring

DeepDive phase 1: Example analysis to optimize dunning

Accounts Receivable

DUNNING PROCESS | Dunning levels and payment delays

17 days until the first overdue notice

Payment term   *1. Notice*   *2. Notice*   *3. Notice*

2,2 m€   1,0 m€   0,6 m€
Ø 17 days   Ø 10 days   Ø 11 days

6,6 m€   1,2 m€   0,4 m€   0,4 m€
Ø 22 days   Ø 3 days   Ø 4 days   Ø 6 days

Customer pays late and receives no overdue notice

Receipt of payment

Ø delay after end of payment period: 23 days

FINDINGS

37%

of delayed receivables will not be dunned within target deadlines

MEASURES (SELECTION)

Monitor dunning; earlier credit freeze for late payers; re-negotiation of payment terms, ...

PROJECT EXAMPLE [1]

Working Capital effect: 2,3 MEUR

Identify and quantify patterns and regularities of defaulting payers based on data, in order to implement structured overdue management.

1) Customer example for a manufacturing company with a turnover of approx. 500 Mio. EUR per year
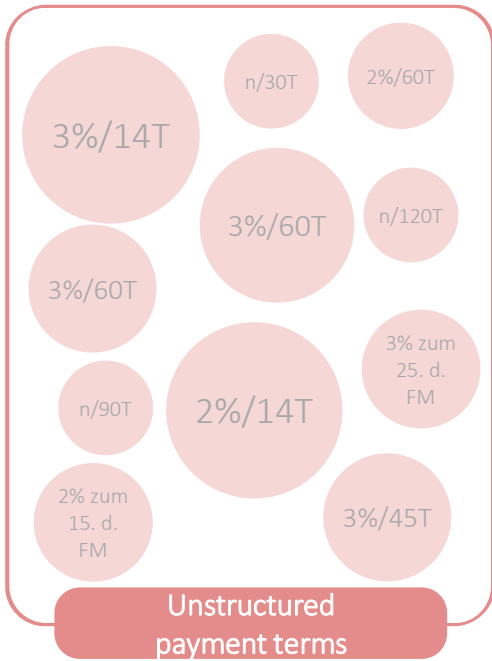
Optimize and standardize payment terms

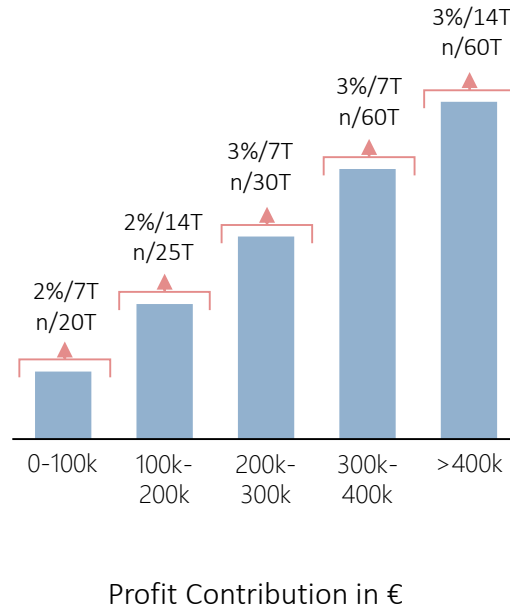*DeepDive phase 1: Example analysis to optimize payment terms*
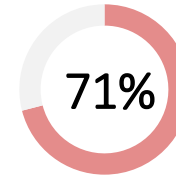
Accounts Receivable

PAYMENT TERMS | Standardization of payment terms[1]

Payment terms linked to customer profit contribution

3%/14T
n/60T

3%/7T
n/60T

3%/7T
n/30T

2%/14T
n/25T

2%/7T
n/20T

| 0-100k | 100k-200k | 200k-300k | 300k-400k | >400k |

Profit Contribution in €

n/30T
2%/60T
3%/14T
3%/60T
n/120T
3%/60T
n/90T
2%/14T
3% zum 25. d. FM
2% zum 15. d. FM
3%/45T

Unstructured payment terms

FINDINGS

71%

of payment terms are too customer-friendly

MEASURES (SELECTION)

Implement standard payment term matrix, incentivice short payment terms for sales, …

PROJECT EXAMPLE [2]

Working Capital effect: >15 MEUR

With Process Analytics, the existing complexity of payment terms can be made manageable, so payment terms can be optimized and uniform standards can be generated.
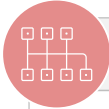
1) 2%/14T = 2% cash discount within 14 days   2) Customer example for a manufacturing company with a turnover of approx. 500 Mio. EUR per year
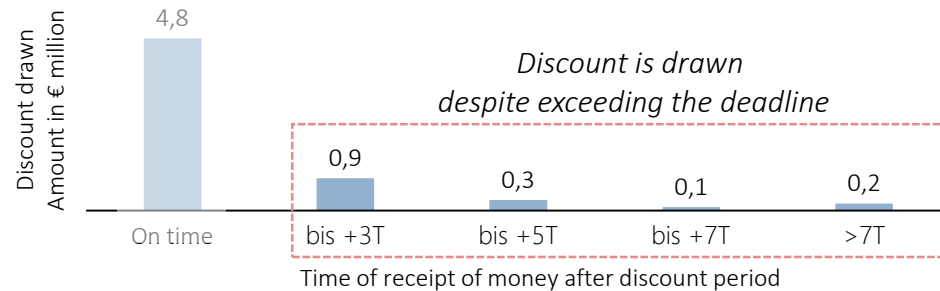
Monitor discounts drawn despite missed deadlines

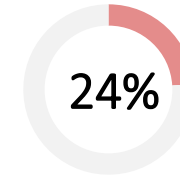*DeepDive phase 1: Example analysis of customers' payment behavior*

Accounts Receivable

PAYMENT BEHAVIOR | Discounts drawn after missed deadlines

Customer	Skonto	Discount period in days	Discount used in €	Thereof after deadline in %
A	3%	14	832.998	10,6
B	4%	7	781.718	26.1
C	5%	7	683.104	31,5
D	4%	12	546.524	21,6
…	…	…	…	…

Discount drawn Amount in € million

4,8

Discount is drawn despite exceeding the deadline

0,9   0,3   0,1   0,2

On time   bis +3T   bis +5T   bis +7T   >7T

Time of receipt of money after discount period

FINDINGS

24%

of discount amounts are drawn despite exceeding the discount period

MEASURES (SELECTION)

Monitor customers' payment behavior, re-negotiate terms with problematic customers, …

PROJECT EXAMPLE [1]

Working Capital effect: 1,4 MEUR

Quantitatively present the effects of customers' payment behavior using process analytics in order to both minimize the amount of receivables and avoid unnecessary P&L effects

1) Considered here as a liquidity effect. P&L consideration is also possible.

0   1   2

H&C can provide a proven set of measures to sustainably optimize AR
DeepDive phase 2: AR measures from previously implemented projects

Overview of implemented measures for Accounts Receivable optimization

- Development of a **Standard Payment Term Matrix**
- Adjustment of the **incentives for sales** with a focus on **shortening payment deadlines**
- Optimization of the **dunning process**
- AI supported **negotiation** of **payment terms**
- Tracking of the **average payment term**
- Up-to-date transparency of **overdue receivables**
- Tracking of **overdues** in **relation to sales**
- Targeted approach to **customers on overdues**
- **Negotiation training** for **sales team**
- Expansion of **down payments** and **prepayments**
- Introduction of **delivery blocks** for **customers** with **overdues**
- Conversion of the **dunning procedure** at **invoice level**
- **Factoring** of **open invoices**
- …

Measures are developed for each field of action and potentials are estimated

DeepDive phase 2: Measure overview for one legal entity

Customer examples

AR measures have been developed with the local team
Measure Overview – Indication in k€

No.	Measure	Process Variant	Addressed Volume	Potential
AR01	Decrease payment terms for after sales	Service	550 k€	120 k€
AR02	Reduce late payments		4.250 k€	730 k€
AR03	Improve dunning procedure			
AR04	Ensure prompt invoicing after delivery	OtC, new vehicles	750 k€	100 k€
AR05	Reclaim unjustified discounts after deadline		230k€	40 k€
AR06	Ensure prompt salesmen visit & invoicing		450 k€	85 k€
AR07	Increase down-payments in payment terms		300 k€	50 k€
AR08	Increase direct debit as payment method	OtC, Rental	1.500 k€	350 k€
AR09	Address customers with poor payment history	All	1.750 k€	365 k€
AR10	Increase DSO awareness via dashboards		-	-
	Total		9.780 k€	1.840 k€

- Identified fields of action are the starting point for the development of improvement measures.

- A multitude of proven improvement measures are analytically examined and evaluated for each field of action.

- Experienced Horn & Company Process Analytics experts support the simulation of the impacts, provide valuable process improvement and system knowledge, and facilitate the process.

Confirmed measures are aggregated into site and overall program

DeepDive phase 2: Comprehensive program of measures

Customer examples

Levers	Addr. Volume in M EUR	Bottom-Up Pot. in M EUR	Responsible	Status
Optimize invoicing after delivery	10.0	3.1	GPOs	buy-in
Targeted approach for customers with poor payment history	21.8	9.8	Regional Manager	buy-in
Increase down-payments in payment terms	8.3	4.5	Sales Manager	buy-in
Optimize payment terms for sales	6.1	4.7	Sales manager	buy-in
Early notification of upcoming due dates	-	High, but no reliable estimate possible	Debtor accounting	Further analysis
Optimization of payment terms for service and after sales	44.7	18.3	Service Manager	buy-in
Reduce unjustified discounts after deadline	8.5	1.3	Service Manager	buy-in
Optimize dunning procedure	7.0	1.9	Debtor accounting	estimated
Total Potential	**106.4**	**43.6 (-41%)**		

Local Prices

SKUs	Supply Chain Level	Improve Process	Adjust Parameter	Improve Forecasting	Strengthen Accountability	Bottom-Up Potential	Addressed Inventory
134.081	Division A	14.5	0.0	0.0		**14.5**	27.9
27.986	Division B	15.0	4.1	2.3	*Flanking Levers*	**21.4**	54.7
41.752	Division C	0.8	4.5	2.4		**7.7**	23.8
184.466	**TOTAL**	**30,3**	**8.6**	**4.7**		**43.6**	**106.4**

Operational Improvement Levers — Performance

- Aggregated identified and agreed-upon measures are consolidated with the respective stakeholders at the site level.

- This allows for an estimation of the overall potential and the potential ramp-up over time.

- Finally, the subsequent implementation program is outlined.

Content

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The Horn & Company
approach for WOC optimization

2.

Typical project results & improvement
measures for Accounts Receivables

3.

Horn & Company profile

Horn & Company: Experienced, pragmatic and high implementation competence
Company profile

Positioning	Top-management-consultancy, founded 2008 – i.a. McKinsey, Roland Berger, Droege
Focus	Strategy – **Performance improvement** – Corporate Restructuring – Digital transformation
Industries	**Industrial goods** – Automotive/Special Vehicles – Consumer goods – Process Industries
Clients	Corporate groups, Large SMEs, family businesses
Consultants	**> 250 highly-skilled consultants**, including 45 partners/associate partners
Differentiation	P&L focus – digital/analytics expertise – implementation
Growth	Merger in 2023 with CON MOTO -> Addition of extensive SSC and operations experience

Awards

Rang	Beratung	Punkte
1	Horn & Company	427
2	McKinsey & Company	403
3	Boston Consulting Group	394
4	Bain & Company	388
5	Oliver Wyman	383

Your contacts for data-driven Working Capital optimization at Horn & Company
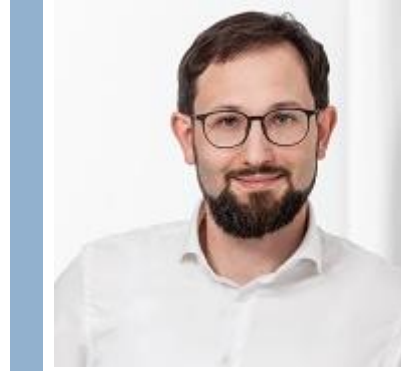*Overview and contact information*

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HORN & COMPANY

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