

Reduction Of Account Receivable Reserve

PROBLEM:

Bad debt provision had an adverse impact on the company's financial standing

BACKGROUND:

This was the case of a company in the telecom sector that designed, manufactured and installed equipment. Inadequate controls in the billing and collection process adversely impacted the organization's cash flow.

SOLUTION :

Six Sigma project was identified to help reduce the provision for bad debts. A pareto analysis of previous year's bad debts helped in identifying the major customers contributing to bad debts. It was also observed that the DSO (Day Sales Outstanding) was as high as 90 days. The project team member also visited several customers and found gaps in understanding the customer process of billing and payment. DSO was analyzed using descriptive statistics and control charts. Some of the issues addressed were: not understanding the customers billing process, inadequate follow up, no appropriate payment terms and legal issues.

RESULT:

The successful completion of the project led to the reduction of bad debt provision from 2.9% to 0.5%. It also dropped down the high DSO of 90 days to 75 days. The overall savings had an improvement of \$556K per annum.