

Interchange alert

Order to cash: key to a business restart

There is no better way to derail a restructuring or carve out than by leaving the order to cash (OTC) cycle to chance.

Reestablishing positive cashflow is essential to any business restart. And the means to restarting cashflow is making sure all the elements of a business are operational on Day One. The OTC cycle is the mechanism that translates all manner of business activity into positive cashflow. Understanding the state of the OTC cycle requires a disciplined mapping of the complex interrelationships between supply, production, sales, logistics, treasury, finance and any of a range of related processes.

OTC is in fact one of the most demanding challenges within any restructuring, divestiture or similar corporate transaction. And yet, among all the competing details and excitement of the overall deal, all too often, OTC is overlooked. Even though the business appears ready for Day One errors and oversights multiply. The result is delayed restarts, added costs, lost sales and damaged relationships and reputations. This is to say nothing of diminished cashflow – at precisely the time when it's needed most.

Off to a bad start

Companies simply cannot afford to ignore the details of reestablishing an OTC process. Consider the following scenarios. Just out of restructuring, a company forgets to obtain a new import/export license in the name of the new business entity. The slip-up is simple, but the result is potentially disastrous. First, a critical customer order becomes severely delayed when a pallet of essential sub-components gets stalled in customs. Now the customer wonders whether it needs to find a new supplier.

Or let's say a customer payment gets lost, because it's sitting in the lockbox of the old bank account. Result: the customer is erroneously re-notified for payment – not the best first impression.

Thinking ahead is essential. Often, long lead times are involved when organizing the OTC process. This is especially true of regulatory approvals and information technology changes. Regulatory approvals, including licenses and permits, can take many weeks or even months, particularly overseas. Similar intervals are required for updating essential Information Technology (IT) routines such as ordering, processing, configuring, shipping and billing.

Sequencing

Step one is recognizing the criticality of the OTC process. In a restructuring or carve out, an effective OTC process is a priority, not a luxury.

Step two is understanding the complexity of the challenge. Building a multi-functional team that can identify the elements needing attention is essential. Creating a new OTC process requires input from virtually every function within a business including finance, production, marketing, logistics, IT, legal and compliance. An array of managers must work together to map the essential elements and then initiate the needed changes.

Much of the work will be sequential in nature. For example, companies will not only need to capitalize new entities but also open new bank accounts and obtain tax IDs and, in many countries, VAT IDs. None of these tasks, however, can be accomplished without a name for the new business entity. This may seem obvious, and indeed it is a relatively routine 30- or 60-day process in most cases. But the process can take six months in some countries and almost a year in China.

For this reason, rather than waiting for a transaction to close, it often makes sense to begin establishing new business as soon as a deal seems probable. Should the deal fall through, this might appear to have been an unnecessary cost. But it is a small price to pay compared to the trouble and expense of being forced to implement a more frantically devised workaround.

The challenge and complexity of order to cash (OTC)

Internal function	Lead times	Complexity
Tax	1-3 months	3
Communications	1-3 months	3
Research and development	2-6 months	3
Finance and accounting	3 months	3
Sales and marketing	3-6 months	4
Information management	3-6 months	3
Treasury	3-6 months	4
Environmental health and safety	3-6 months	4
Legal	3-6 months	4
Internal controls (SOX)	3-6 months	5
Supply chain / Mfg / Distribution	3-6 months	5
Human resources	3-6 months	5
Compliance and regulatory	6-9 months	4
Information management	6-9 months	5

Complexity: 1= least time consuming/multi functional and 5= most time consuming/multi functional

The checklist

The list of items requiring attention is extensive. For starters, companies will have to re-register all products going into the new legal entity. Regulatory licenses must be transferred or reapplied for. There are issues around inventory, service providers and sales channels. Updating the OTC process will require collaboration across most functions of the organization.

To avoid problems out of the gate, companies should begin their work early and comprehensively. In the event that issues are detected that cannot be resolved prior to Day one, the company will give itself enough time to devise the most effective workaround—instead of reacting to post-close business failure. But when it comes to a business restart, companies can not afford any mistakes that might slow the flow of cash.

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