POINT OF VIEW

"Happy customers pay on time": How poor customer satisfaction harms cash flow

In an increasingly difficult economic environment, many organizations recognize the importance of providing a positive experience throughout the entire customer order process. We sat down with Working Capital experts Robert Orr and Rohit Sinha to discuss the relationship between customer satisfaction and cash flow.

Q. Why do unhappy customers pay late?

Orr: Any dispute or issue caused by an unmet condition in the order process may result in an unsatisfied customer. A customer with a dispute may delay or even not send all or part of a payment. There are several activities that occur from the time a customer decides to place an order to the time they receive or pay an invoice. These activities include the order entry, contracting, billing, order fulfillment and customer service. There are many opportunities for things to go wrong.

Sinha: To further explain this point, consider the following example: A customer receives an invoice in the mail along with delivery of goods or service. Assuming that all goes well with order fulfillment, the customer will pay without delay. If there is an issue, the customer will not pay until it is resolved.

Some issues include deficiency of quantity or quality (e.g., incomplete supply, poor service or bruised goods). Others might involve a mismatch between price and service, a failure to meet delivery dates, or a lack of follow-through on promotions or credits. There can be several reasons a customer might have an unsatisfactory experience, and thus decide not to pay on time.

Q. What is the impact of late paying customers?

Orr: From a customer's perspective, tackling issues with a supplier can be a frustrating experience. Depending on the good or service in dispute, an incorrect delivery can impact the customer's ability to operate without disruption. Even after the situation is resolved, the customer may decide not to repeat business or to modify their buying habits.

From a business perspective, late paying customers can have a dramatic effect on a firm's operational sustainability. Delayed receivables can equate to millions of dollars and a business may miss out on the opportunity to utilize these funds. This can harm a company that is already strapped for cash by impairing management of short term obligations. Having a strong balance sheet, with cash available, allows a company to take advantage of buying opportunities, to complete short-term operation activities without issue, and to benefit from discounts resulting from the ability to pay upfront.

Sinha: Another thing to consider is the time it takes to actually receive payment, even after a problem is resolved. Every customer has a cycle for receiving a good or service and then paying for it. Getting out of sync with a customer's payment cycle can further delay the receipt of expected funds. For example, if a customer only pays bills on the 1st of the month and a billing problem is not resolved until the 2nd of the following month, then the company may be waiting until the 3rd month to be paid.

Q. What solutions can be employed to keep customers happy?

Orr: A firm should conduct a review of internal processes to improve visibility into potential issues. To keep customers happy and paying on time, a company must be able to understand every point in the customer life cycle. Companies need to know what disputes a customer may have, the impact of the dispute, the people responsible for resolving the dispute, and how long the resolution is going to take.

Q. Which operational indicators suggest that an organization's cash flow troubles are related to customer satisfaction?

Sinha: You cannot assume there is always an obvious link between cash flow problems and customer satisfaction. It is important to examine all issues that can influence satisfaction. This includes the collection process, cash application process, or customer type and profile (i.e. high risk) problems. It is important to take a view of the entire process which includes a review of supporting tools, policies, and procedures, including dispute management.

Receivables management is one key component to consider. A firm's philosophy and activities with respect to receivables management can constitute either an art or a science. If it is an art, then intuition guides the approach to collect funds. If it is a science, then there is a repeatable process in place. Assessing where a firm stands will help guide the solutions that are administered.

Q. Does the relationship between customer satisfaction and cash flow apply to all industries?

Sinha: Yes, this relationship applies to all industries, both in goods and services. The story is obvious with consumer products or manufactured goods. Within the service industry, though, assets are intangible. In fact, sometimes intangible goods present more risks than tangible goods. At least with a product, if an unsatisfied customer chooses not to pay, the firm can seek to get the product back. With services, once the product is delivered, it is very difficult to obtain funds from an unsatisfied customer.

Orr: Basically, satisfied customers help your cash flow. Especially in these times, it is important to do whatever it takes operationally to keep customers happy.

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