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How Accounts Receivable Outsourcing Can Drive Consumer Electronics Vendor Growth

BY JOEL WOLITZER, VICE PRESIDENT, CIT COMMERCIAL SERVICES

No one has to tell you that today's consumer technology business is fiercer than ever. Product vendors in particular are faced with more complicated market-share, mind-share, and shelf-share issues than ever before. At the same time, they have to solve the impossible equation of trying to grow profits in the face of shrinking margins. It's also a challenge to stay-up-to date with new product categories, updated and new technical standards, increased quality and longevity demands, improved intuitive interfaces and apps, and with greener and tougher environmental protections. Then there are the never-ending decisions about which products to make or accessorize—or not—and, of course, pricing.

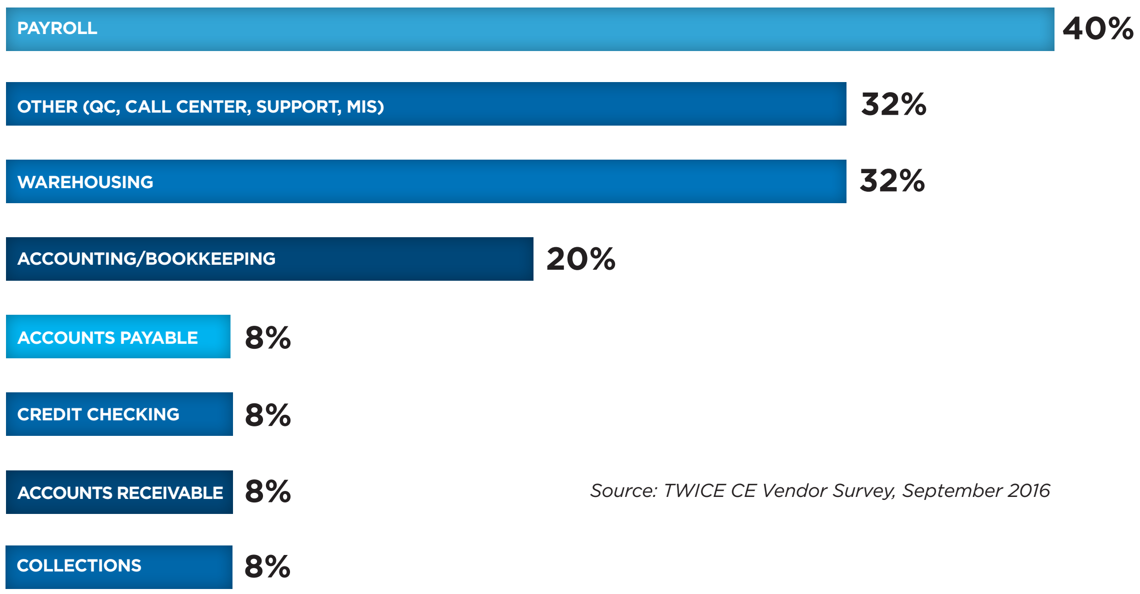
In addition, vendors deal with the daily business issues: competition from the usual suspects and crowd-funded upstarts; brick-and-mortar versus your own e-commerce initiatives versus third-party e-commerce strategies; inventory warehousing and distribution challenges; factory and import issues; fluctuating exchange rates; office infrastructure and logistics; customer service; inventory financing; retailer disputes; elongated cash conversion cycles, and so on.

In addition to all the industry trends to keep up with, vendors deal with the daily business issues: competition from the usual suspects and crowd-funded upstarts, brick-and-mortar versus your own e-commerce initiatives versus third-party e-commerce strategies, inventory warehousing and distribution challenges, factory and import issues, fluctuating exchange rates, customer service, inventory financing, retailer disputes, elongated cash conversion cycles, and so on.

A vendor's initial instinct is to concentrate on the first set of product issues. According to a recent *TWICE* survey of Consumer Electronics (CE) industry business leaders, 42.5 percent of CE executives have smartly minimized the concerns of the second set of company operational overhead issues by outsourcing many functions—primarily inventory/warehousing, payroll, and advertising/PR.

But for some reason, most of the survey respondents manage their own accounts receivable (AR) and collections.

BUSINESS OPERATIONS OUTSOURCED BY CE VENDORS



Source: TWICE CE Vendor Survey, September 2016

The instinct to keep receivables management in-house is almost visceral. The vendor who makes the product wants to receive and bank the proceeds of the sale. Getting those checks or ACH payments is a symbol of success, regardless of the problems and rising costs of maintaining an in-house AR operation.

But the inevitable "will-I-get-paid/when-will-I-get-paid" AR uncertainties stretch already elongated cash conversion cycles to the breaking point. This makes it tough for companies to meet their daily operational responsibilities, much less have working capital to finance new product growth.

Considering the costs and inconveniences, why would a company continue to pour an ever-increasing percentage of profits into building their own AR operation? Why not, instead, invest a smaller, more predictable percentage of your revenues and engage seasoned professionals to handle your accounts receivable?

Just as a third-party logistics (3PL) provider is a more efficient way to handle inventory and warehousing, and a payroll company can better manage payroll, a firm that specializes in managing AR can perform collections better than any in-house operation. Not only is an AR outsourcing company familiar with most accounting systems as well as with most varieties of payment methods, but it also has existing relationships with most retailers. This multi-vendor representation means a full-service AR outsourcing firm has more clout and so can handle retailers more effectively and efficiently than on-staff personnel.

In short, outsourcing AR is a win-win-win—vendors get paid with less uncertainty and with fewer operational headaches for less than they pay for in-house AR.

For more information on AR outsourcing, visit the *CE Financial Strategies Center* at http://www.twice.com/ce-financial-strategies

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