Cash is King: Dangers of Not Paying Attention to A/R in a Transaction

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Deals are being done in today's M&A environment but due diligence is more stringent and buyers want to buy companies that do not bleed red ink. This is certainly a positive trend (shouldn't M&A be about making smart deals?) However, when buying a cash-flow positive company, it can quickly become a negative cash flow company. How? Of course, sloppy integration is the main culprit.

But an area that is often overlooked in the process is accounts receivable management. Smart companies understand the power of A/R management and cash flow. It explains why a company like Dell can make money in seemingly any environment. It's all about running a lean and mean organization. So, before signing off on a merger agreement, the buyer needs to have a plan for integration of A/R. After all, in just about every case, the A/R policies and systems will be different.

What are some strategies? Here are some things to consider:

Due Diligence: How strong is the A/R of the seller? This should be an early priority in the due diligence process. Is the collection time to lengthen in the A/R? Does the seller have high credit limits or easy terms or discounts? What part of the A/R is realistically uncollectible? How well does the company keep track of its' receivables, such as through documentation? Do things fall through the cracks? After asking these questions, you may realize that the company is really a basket case and should be avoided. Or, it can be ammunition in getting a better price.

Staffing: If the A/R staff of the seller knows they will be fired, how much effort will they put into collecting A/R? Obviously, there will be a big problem. Make certain that the A/R collection process is centralized and handled by personnel that knows they will continue to be on board.

Written Plan: Make sure the integration plan is in writing and deals with key logistical matters, such as meshing the two computer systems, synching up phone systems, coordinating customer numbers and dealing with duplicate customers. Furthermore, each A/R department has its' own culture and unwritten rules. So, the buyer should conduct a variety of interviews to get a sense of how the seller's department operates. Customers do not like to see major changes and by learning the processes of the seller, it can help make a smoother transition.

Outsourcing: As the buyer goes through the A/R accounts, there may be some customers that do not fit requirements. Perhaps a customer is constantly late on paying its bills, for example. For those accounts that will not be maintained, it is a good idea to outsource these to an outside agency. This frees up more resources to handle existing accounts.

Sales Price: Having part of the sales price dependent on the collection of A/R can be an effective policy. It will provide an incentive to for the seller and his personnel to be attentive with the collection efforts.

Conclusion: Simply put, the longer it takes to collect A/R, the higher the odds it will ultimately become uncollectible. Thus, it is imperative to set up an integration policy to streamline the A/R process as much as possible. If not, an M&A transaction can quickly deteriorate into a nightmare.