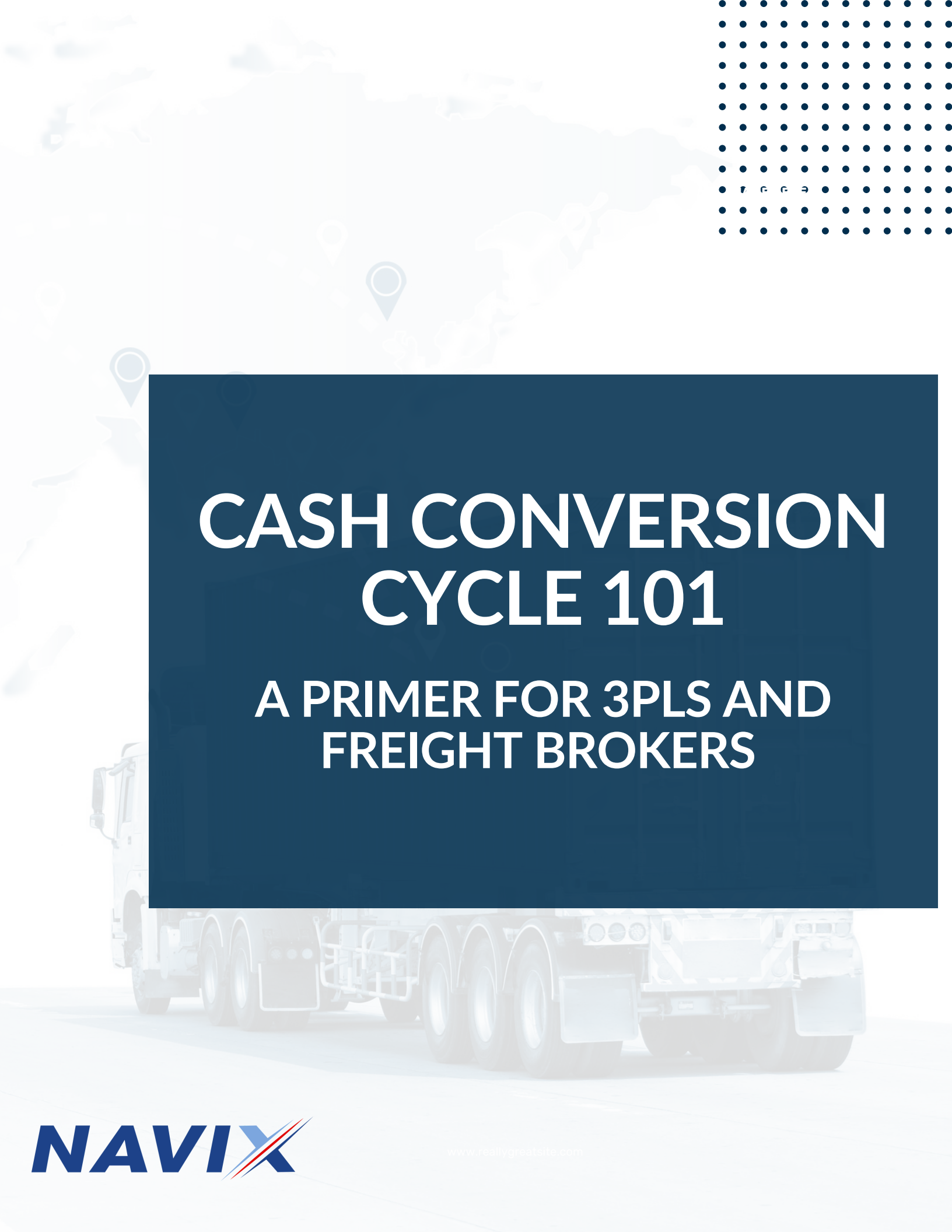




CASH CONVERSION CYCLE 101

A PRIMER FOR 3PLS AND
FREIGHT BROKERS

Introduction

The efficient management of the cash-conversion cycle is crucial for the financial health of third-party logistics providers (3PLs) and freight brokers. However, this aspect of the supply chain often presents numerous challenges that can hinder operational efficiency and impact the bottom line.

In most organizations, the focus on cash conversion has been the role of the Chief Financial Officer and other finance-specific roles. However, the impact of cash flow on a business is so crucial, it needs to be the focus of everyone in the business, which is why we have published this primer.

For organizations to mature their cash conversion process it is important that all roles get an understanding of the basics, learn how their roles apply, and understand how artificial intelligence (AI) and machine learning (ML) can help optimize this critical business function.

The Basics of the Cash Conversion Cycle

As a freight broker or 3PL, mastering the Cash Conversion Cycle is crucial for maintaining a smooth and efficient operation and for the long-term growth of the business. This cycle encompasses all the steps involved in processing customer orders, from the initial order placement to the receipt of payment. By understanding and optimizing this fundamental process, companies can improve cash flow, enhance customer satisfaction, and increase profitability.

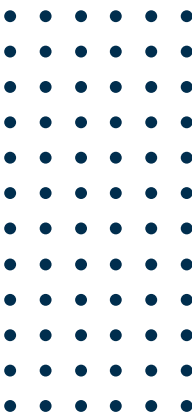
It is important that all roles within an organization understand what the cash conversion cycle is and what steps it entails so they can do their part to reduce the time to receive payment and thus improve their company's financial health

What is the Cash Conversion Cycle?

The Cash Conversion Cycle, also known as the Order-to-Cash Cycle represents the end-to-end process of receiving, processing, and fulfilling customer orders, culminating in the collection of payment for goods or services provided. For Freight Brokers and 3PLs, this cycle starts when a customer requests transportation services or freight movement and concludes when the payment for those services is received and accounted for.

Key Stages of the Cash Conversion Cycle

There are various stages within the cash conversion cycle that involve numerous roles within an organization. Understanding and optimizing these steps will help improve the operations of any 3PL or freight broker. On the next page, we detail the 10 steps that are a part of the cash conversion cycle.



Step 1: Order Initiation

The cash conversion cycle commences with the customer initiating an order for transportation or logistics services. This can be done via various channels, such as phone calls, emails, online platforms, or electronic data interchange (EDI).

Step 2: Order Processing

Once the order is received, it is entered into the company's systems for processing. This stage involves verifying the order details, ensuring product availability or transportation capacity, and confirming pricing and the contractual terms.

Step 3: Arranging Shipment

This stage involves coordinating with carriers, freight forwarders, or independent truckers to secure the transportation capacity required to fulfill the order. Negotiating competitive rates and ensuring timely pickups are also crucial aspects of this stage.

Step 4: Documentation and Shipping

Proper documentation, including bills of lading, shipping labels, and any required customs paperwork, are prepared to accompany the shipment. Once completed, it is then that the goods are dispatched to the designated destination.

Step 5: Shipment Tracking and Customer Communication

During transit, it is essential to monitor the shipment's progress and keep the customer informed about its status. Proactive communication enhances transparency and customer satisfaction.

Step 6: Delivery and Confirmation

Once the goods reach their destination, the customer acknowledges receipt. In some cases, this might involve obtaining a signed delivery receipt or proof of delivery (POD).

Step 7: Invoicing

Following successful delivery, the freight broker or 3PL Provider generates an invoice for the services rendered, detailing the charges, any applicable fees, and payment terms.

Step 8: Accounts Receivable and Payment Processing

The customer reviews the invoice and processes the payment, adhering to the agreed-upon payment terms. This could involve electronic funds transfer (EFT), credit card payments, or other accepted payment methods.

Step 9: Cash Application

The payment received is matched with the corresponding invoice and posted to the customer's account in the financial records. This step ensures accurate tracking of outstanding balances and overall cash flow.

Step 10: Audit & Reporting

Periodic reconciliation of accounts receivable and cash receipts is carried out to ensure accuracy and identify any discrepancies. Comprehensive reporting allows the finance team to gain insights into the company's financial health and identify areas for improvement.

Having a detailed understanding of the various stages allows organizations to optimize every step in the process and ensure there are no weak links in the value chain. With this understanding in hand, it is now important to see how the cash conversion cycle impacts both short and long-term growth.

Why the Cash Conversion Cycle Is Important for Business Growth

It is not an overstatement to say that an optimized cash conversion cycle can be the difference between a business that is thriving and one that is merely surviving. Many companies have felt the squeeze that a limited cash flow has had on their business both short and long-term. By optimizing the cash conversion cycle, freight brokers and 3PLs can alleviate this burden and begin strategically building their businesses.

When it comes to short-term growth, an optimized cycle can deliver the following benefits and business flexibility.

Improved Liquidity: A shorter cash conversion cycle at its most simplistic means access to cash in a shorter amount of time. This healthy cash flow enables companies to cover immediate expenses such as payroll, fuel costs, and other operational overheads. This liquidity also ensures that the company can meet short-term financial obligations without relying heavily on external financing or having to leverage debt.

Enhanced Profitability: By reducing the time it takes to convert inventory into cash, freight brokers can free up capital that would otherwise be tied up in the supply chain. This, in turn, leads to increased profitability as the company can deploy the surplus funds for investment in growth initiatives or debt reduction.

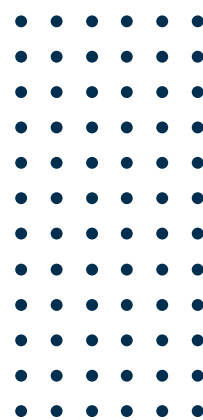
Stronger Carrier Relationships: A streamlined cash conversion cycle allows freight brokers to settle payments to their carriers and service providers promptly. This fosters trust and reliability, leading to better negotiation power, preferential treatment, and access to higher-quality services, which further improves the overall efficiency of the supply chain.

The Cash Conversion Cycle also has a significant impact on long-term growth and business viability including

Working Capital Efficiency: An optimized cycle indicates that the company is effectively managing its working capital and operational efficiency. This can attract potential investors and lenders who are more inclined to support businesses that demonstrate strong financial management practices.

Scalability and Expansion: As 3PLs and freight broker's businesses grow, so does the demand for working capital. A well-managed cash conversion cycle allows organizations to scale up operations without being bogged down by excessive debt or insufficient cash reserves.

Competitive Advantage: A freight broker or 3PL with a shorter cash conversion can offer competitive pricing and better payment terms to customers, attracting more business, scaling faster, and gaining a competitive edge in the market.



The Use of AI and Machine Learning to Optimize the Cash Conversion Cycle

Trying to optimize the cash conversion cycle manually will be virtually impossible and using non-integrated point solutions will not get you much further in the process. Today's leading 3PLs and freight brokers are experiencing the value that AI and ML deliver in optimizing their Cash Conversion Cycle.

These technologies can streamline processes, improve efficiency, and ultimately enhance financial performance. Here are a few key areas where AI and ML can have a transformative impact on business.

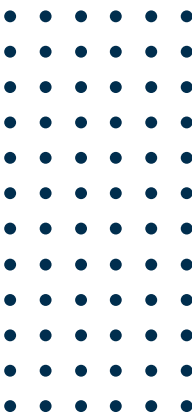
Automated Freight Matching: AI-powered freight matching platforms provide the ability to connect shippers with carriers more efficiently. By leveraging predictive analytics and historical data, brokers and 3PLs can identify the best-fit carriers for specific shipments quickly. Automated matching reduces the time and effort spent on manual carrier selection, expediting the process from shipment acceptance to delivery and subsequently improving cash flow generation.

Smart Invoicing & Payment Processing: AI-driven Intelligent Document Processing (IDP) technology can automate the extraction of relevant data from invoices, streamlining the invoicing process and reducing the risk of errors. Additionally, ML models can help identify and address discrepancies, enabling faster dispute resolution and reducing payment delays. By optimizing invoice and payment processing, organizations can accelerate the cash collection process and reduce Days Sales Outstanding (DSO) by more than 50 percent.

Risk Assessment and Mitigation: Machine Learning algorithms can be employed to assess customer creditworthiness and carrier performance. By analyzing historical payment data, credit scores, and other relevant metrics, we can make informed decisions about the payment terms offered to customers and assess the reliability of carriers. This proactive approach minimizes the risk of non-payment or carrier-related issues, further reducing the CCC.

Learning from Historical Data: One of the most significant benefits realized from machine learning is its ability to learn from historical data. 3PLs and freight brokers generate massive amounts of data over time through their freight audit and invoicing alone. Machine learning has the ability to recognize patterns in past invoices, enabling them to predict future billing anomalies more effectively. With each iteration, the system becomes smarter and more precise in identifying errors and anomalies and improves accuracy and efficiency.

Incorporating AI and Machine Learning as a means to automate the cash conversion cycle presents an exciting opportunity to optimize financial performance. By leveraging AI technologies to improve freight matching, invoice processing, and risk assessment, brokers and 3PLs can streamline operations, reduce costs, enhance carrier satisfaction, and ultimately expedite the conversion of resources into cash. Embracing these technologies will position organizations to maximize their value and enable them to scale operations and profitability.



Why It Takes More Than Finance

As with almost anything in business, rarely does anything of importance get handled and managed by just one department; the same applies to the cash conversion cycle. While finance will take on the lion's share of management in the process, it is important for organizations to understand the various roles that need to be involved in order to ensure a cash conversion cycle that is optimized. Beyond finance, here are the following departments that will play a significant role in streamlining the cash conversion cycle at any 3PL or freight broker.

Operations



The operations department is at the heart of the logistics process and because of this, they have a significant impact on the cash conversion process. By optimizing transportation routes, warehouse management, and shipment consolidation, operations can minimize carrying costs and improve inventory turnover. Streamlining these areas of operations results in faster order processing and delivery, which in turn leads to quicker cash receipts and reduced inventory holding periods.

Sales



Sales teams play a pivotal role in the cash conversion cycle by managing customer relationships and credit policies. By evaluating customer creditworthiness and setting appropriate credit terms, the sales department can reduce the risk of bad debts and improve cash inflows. They are also responsible for promoting prompt payment from customers, helping to accelerate the collection process, and shortening the cash conversion cycle. Ensuring their understanding of their role in the process is one-way organizations can improve.

Procurement



Procurement directly impacts the cash conversion cycle via vendor management practices. Carriers that negotiate favorable payment terms with suppliers, avail early payment discounts, and source cost-effective materials can go a long way to enhancing the cash position of a carrier.

By collaborating closely with finance to identify opportunities for improving the cash conversion process, procurement will have a significant impact on managing working capital efficiently, and ultimately contributing to the company's overall success.

Customer Service



Ensuring carriers have an excellent experience is what breeds loyalty and will help maximize the lifetime value of the relationship. Delivering this service is more than just addressing customer inquiries and complaints. It is an integral part of the cash conversion cycle, as it influences customer satisfaction and, in turn, payment behavior. Satisfied customers are more likely to pay on time and maintain a long-term business relationship with favorable terms. Moreover, efficient complaint resolution prevents payment delays which helps maintain a healthy cash flow for the business.

IT



IT is a crucial role for any organization. However, with the emergence of AI and machine learning IT's role is only expanding. IT's role in delivering automation for the cash conversion cycle cannot be understated. It is more than just implementing the tools, but ensuring they are optimized and delivering the value worthy of the investment. While some technology providers will deliver a "white glove" service, it will not preclude the involvement of the IT department, and ensuring they understand the necessity of this involvement in optimizing the conversion cycle is paramount for success.

The reality is that optimizing the cash conversion cycle is an organizational team sport and requires the active involvement and cooperation of all departments. By embracing this approach, 3PLs and freight brokers can significantly impact cash flow, profitability, and the overall financial health of the organization.

Conclusion

There are many ways that 3PLs and freight brokers can optimize their business, but perhaps there are none more important than optimizing the cash conversion cycle. Logistics providers who invest in AI and machine learning to automate and optimize the process and align the various organizational roles in improvement will experience an exponential boost to their business including:

- More than 50 percent reduction in their cash conversion cycle
- A 4x increase in volume without the need for additional resources
- More than 25 percent increase in personnel efficiency
- Incremental increase in organizational profitability - 10x in two years

If you would like to learn more about maximizing cash flow by optimizing the cash conversion cycle of your organization, [contact us](#) or [visit our Cash Conversion Resource Center](#).

