

# Delivered additional profit of US\$ 1.2 million per annum while decreasing the Days Payable Outstanding (DPO)

## BUSINESS CASE

### Organization trends

- The organization contracts with over 3,000+ vendors to provide their logistic services, and service their customers
- The total annual payments to vendors equals US\$ 27.1 Million.
- Typically the agreed payment cycle is 30 days post acceptance of invoice
- The organization plans to continue to expand its operations using a combination of internal services and by contracting with vendors

## CHALLENGE

### What and how much is the challenge

- It was observed that the average payment cycle during YTD Mar 2015 for vendor payments is 56 days, which is 1.87 times the recommended average credit period of 30 days
- Decreasing the Days Payable Outstanding (DPO) will have a negative impact on the overall working capital and increase cost of capital in absolute numbers

### Where is the challenge

- Across the country

## IMPACT

### What is the impact

- Based on an **informal** survey conducted amongst top 10 vendors, it was found that due to an increase in the days payable outstanding (DPO), the cost of sales (COS) was inflated by US\$ ~800 K
- Decreased vendor satisfaction levels as the payment cycle time is not being adhered to vis-à-vis as in the contract
- Few vendors demanding penalties as per the contracted terms and conditions
- Brand image of the organization significantly decreasing due to negative word of mouth. The largest vendors were reluctant to enter into long-term discounted contracts with the organization

## TARGET

### What is the Target

- Decrease the average cycle time for vendor payments
- Decrease the Cost of Sales where possible thereby decreasing the operational cost

### How much is the target

- Decrease the cost of sales by at least at least US\$ 500 K
- Decrease the DPO to 30 days

## OUTCOMES

### Improved Profits

- Decreased the Days Payable Outstanding (DPO) for vendors to less than 5 days against the recommended 30 days for specific customers
- Delivered an additional savings i.e. profit of US\$ 1.2 million per annum by reducing the Cost of Sales

### Intangible Outcomes

- Improvement of Brand Image of the organization in the eyes of vendors
- Vendors with higher market share are approaching the organization for contracts
- Increased competitive advantage with a significant increase in the number of responses to RFQ's (Request for Quotation)
- Improved negotiation power for the organization

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