CASE STUDY

# A BRAND NEW FACTORING STRATEGY TO PLUG REVENUE LEAKAGES


**Abstract**

Broadspectrum, a global infrastructure management company entered into a factoring agreement with a leading US financial institution in Australia. However, it realized that it was paying unreasonably high interest payments to the financial institution and wanted to trace the reason for the same. Infosys BPM took the initiative to analyze interest payments to the banker, and the customer payments pattern to provide insights on cost saving opportunities.


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## Client profile

Infosys BPM's client, Broadspectrum is an infrastructure management company with 25,000+ employees across 18 markets and 11 countries, and has an annual turnover of USD$3.8 billion. With an established presence across North America, Australia, and New Zealand, it is a global provider of operations, maintenance, social welfare, and construction services for the resources, energy, manufacturing, infrastructure, property, defense, and a few other sectors.

## The Business Situation

To meet working capital requirements, Broadspectrum's treasury team opted for factoring of its receivables, most of them high value invoices of their key clients. In the concept of factoring, a company sells its accounts receivable at a discount to a third-party (called a factor) to meet its immediate cash needs. On the due date of the receivables, the institution collects the full amount of the outstanding dues from the company's debtors either directly or through the company's accounts department. Both the company and the factor benefit from this arrangement – the company in the form of immediate cash flow and the third party in the form of the discounted price of the accounts receivables.

Whenever Broadspectrum faced challenges in managing its cash flow, it would look to factor some of its accounts receivables to overcome the financial crunch. Towards this end, it negotiated a factoring arrangement with a leading US financial institution to increase its working capital.


## The Business Challenge

Broadspectrum had factoring arrangements for several high-value accounts receivables. Often, these invoices were paid by customers well ahead of due dates – in some cases within 10-12 days from date of invoice. However, in its factoring contract Broadspectrum had discounted these invoices at 30 days interest on the receivable. As a result of this, it faced high factoring costs impacting its bottom line.

## Reviewing the factoring strategy

Infosys proactively took the responsibility of reviewing and modifying its end-to-end factoring process so as to minimize factoring cost and reduce the negative impacts on margins.

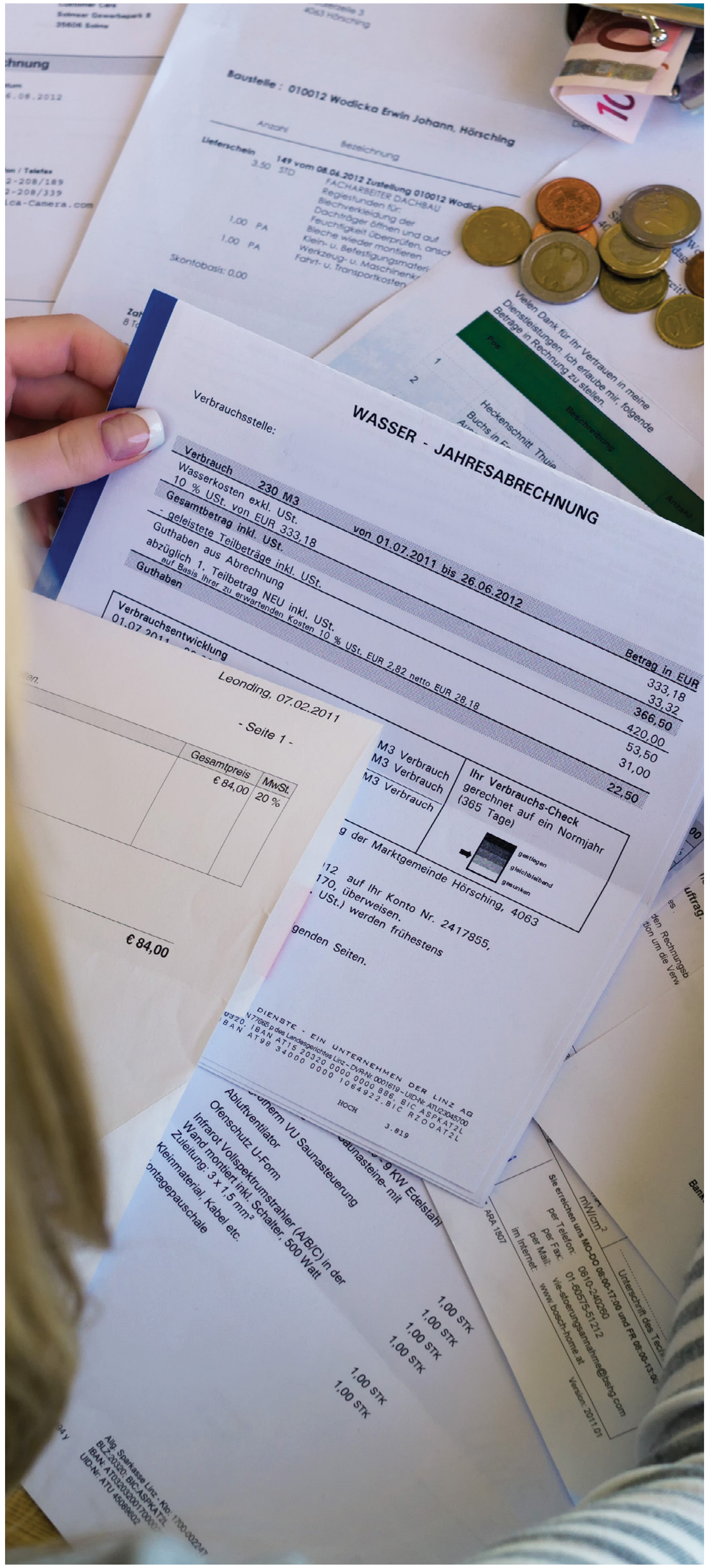
Infosys BPM's approach encompassed the following:

- Analyzing Broadspectrum's payment patterns and their customers' payment patterns to the financial institution
- Identifying those customers who would pay high-value invoices within 10-12 days
- Assessing the history and payment trends of these customers who were picked for factoring
- Supporting Broadspectrum's treasury team to negotiate with the financial institution and reduce the factoring timeline by providing enough data sets
- Suggesting changes needed in future factoring contracts with the financial institution

## Four valuable outcomes

Through the process of reviewing, analyzing, and augmenting Broadspectrum's factoring strategy, Infosys BPM helped with:

1. Creating a payment trend analysis for identified high-value customers
2. Performing a variance analysis between business benefits emerging from factored versus non-factored account receivables (AR)
3. Identifying a 'safe customer zone' on the basis of a periodic credit evaluation of select customers. The classification of safe zone customers was done basis their history of payments well within stipulated timelines.
4. Revising the factoring policy focused towards creating safe (minimized credit risk) cash flows. This was done by balancing the risk on non-factored AR with the safe customer zone classification



## The bottom-line

The revised factoring strategy has led to impressive gains for Broadspectrum. It is seeing faster receipt of payments which has led to a cash flow improvement to the tune of USD$138 MN. Further, through the renegotiated factoring arrangement with the financial institution, Infosys BPM has also helped Broadspectrum save USD 562,000 in factoring fees over the contract period.

For more information, contact infosysbpm@infosys.com

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