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## Big Firms Are Quick to Collect, Slow to Pay

By SERENA NG and CARI TUNA

Large corporations are tightening the screws on their smaller counterparts as the credit crunch intensifies companies' efforts to hold on to their cash.

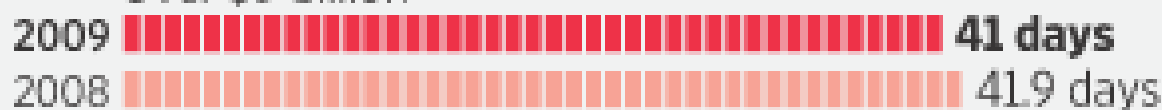
### Power Play

Companies with more than \$5 billion in annual sales sped up collections from customers and slowed payments to suppliers in the second quarter of 2009—compared to a year earlier—while companies with less than \$500 million in sales paid more quickly and collected more slowly.

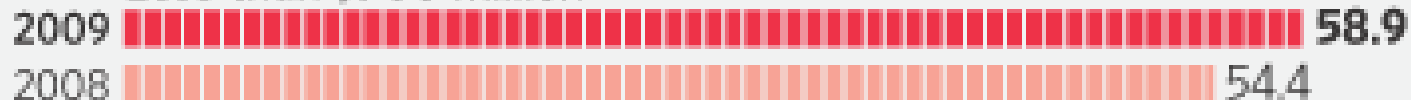
#### Bill collection

Companies with sales:

Over \$5 billion



Less than \$500 million



#### Bill payment

Over \$5 billion



Less than \$500 million



Source: REL Consultancy, a division of Hackett Group

In an example of corporate Darwinism at work, the recent round of quarterly earnings results showed companies with annual revenue of more than \$5 billion sped up their collection of cash from customers while slowing their own payments to suppliers.

Firms with less than \$500 million in annual sales, on the other hand, generally took longer to collect cash and paid their bills faster than in the same period a year ago, according to an analysis conducted for The Wall Street Journal by REL Consultancy, the working-capital division of business-consulting firm Hackett Group in Atlanta.

As credit markets remain tight and banks rein in lending, corporations are being

forced to squeeze more cash from their day-to-day operations at a time when revenues are slowing and the economy remains weak. Companies are finding they can rely less on external funding and costly bank lines if they can bring cash in the door faster and hold on to it longer. The cash they save can be used to pay off debt or be invested in other parts of the business.

So far, the biggest and fittest companies are often flexing their financial muscle, benefiting at the expense of smaller and weaker ones.

"There's a power struggle going on as the credit crunch has moved to Main Street," says Sung Won Sohn, a former chief economist at Wells Fargo who now teaches at California State University, Channel Islands. "Big firms can force their terms on suppliers and customers. And if you're a small business or a small store in a mall, you have no bargaining power and have to take what's given, which is not much today."

Some of the world's biggest corporations have imposed tough payment terms on vendors. Early this year, Anheuser-Busch Cos., owned by Belgian brewer InBev NV, told suppliers it would take as many as 120 days to pay its bills from 30 days previously. General Electric Co. freed up \$3.8 billion in cash last quarter through steps such as shortening cash-collection times, collecting past-due accounts and stretching out payments, a spokeswoman said. Consumer-goods giant Procter & Gamble Co. recently said it is "relentlessly focused" on managing cash flows, entailing, among other things, speeding up collections from customers.

Aaron Leventhal, Hero Arts chief executive, said his company has snubbed appeals from small customers to pay for goods in 60 days rather than 30. But he said he can do little when a major customer decides to pay late.

Companies with more than \$5 billion in annual revenue took an average 55.8 days to pay suppliers and trade creditors in the second quarter, up 5% from 53.2 days a year earlier, according to REL. They also collected faster on their bills, taking an average 41 days versus 41.9 days a year earlier.

Businesses with less than \$500 million in sales paid vendors in an average 40.1 days, down 6.5% from 42.9 days, REL found. They took roughly 8% longer to collect payments, or an average 58.9 days, versus 54.4 days a year earlier.

The data show that even before this downturn, smaller companies paid their bills faster and waited longer to get paid, but the recession exacerbated the split. "It demonstrates the extent to which smaller companies are a victim of scale, given that they have weaker balance sheets and are less able to borrow," said Mark Tennant, president of Americas for REL.

The effects of the latest tug-of-war over cash are showing up in a number of businesses, including the film, retail, auto, travel and leisure industries.

At Hertz Corp., a companywide effort over two years has seen the vehicle and equipment-rental firm collect faster on its bills and lengthen payment times to vendors, which include travel agencies and auto-parts suppliers. Hertz tied the compensation of some employees to cash-management goals and renegotiated contracts with some suppliers, according to Chief Financial Officer Elyse Douglas.

Now, if contracts allow Hertz to pay in 60 days, it will take advantage of those

terms and pay at the end of the period. "We had found we were paying faster than our contract terms," Ms. Douglas says. The result: Hertz shortened the average time it takes to collect on its bills by 10%, and lengthened the average time it takes to pay its bills by 3%.

Point.360, a small provider of video post-production services, said in May that customers now take 66 days on average to pay their bills, up from 54 days a year earlier. The reason: major studios had "generally delayed payments in response to the general economic slowdown," Point.360 said in a financial filing. A spokesman for Point.360 declined to elaborate.

Point.360's customers include Walt Disney Co. and Paramount Pictures. A Disney spokeswoman says its policy "is to pay vendors on a timely basis." A Paramount spokeswoman had no comment.

Corporate treasurers and chief financial officers have long tried to reduce cash tied up for day-to-day expenses like payroll and rent. But the credit crisis has intensified that focus for many companies as outside funding sources like commercial paper and bank lines become less reliable or more costly.

If corporations can manage their inventory well, collect on their bills faster and take a longer time to pay their trade creditors, they can rely less on borrowings and free up cash for other purposes.

But in practice that often involves bare-knuckle negotiations between companies and their customers and suppliers. There is also a balancing act involved. If companies force untenable terms on their suppliers, they risk putting vendors out of business, which could end up disrupting their own operations.

There's a "relative power play that's going on," says Steven Ehrenhalt, a principal at Deloitte Consulting LLP who specializes in financial management. Consumer-products companies, for example, are often able to negotiate more aggressively with customers and suppliers than industrial-products manufacturers, for whom the supply chain is more carefully tailored and rigid.

Some large companies throw their weight around by agreeing to pay more quickly if their suppliers speed up deliveries or offer significant discounts. Some big customers also demand a discount if they pay early, small suppliers say.

To gain sway in the fight for cash, some executives say they are spending more time than ever managing relationships with customers, suppliers and lenders.

Sandeep Sood, chief executive of Monsoon Co., a Berkeley, Calif. software company, says his firm is "completely at the whim of our clients paying on time."

Monsoon's customers, which include large corporations, have slowed payments to an average of 70 days after being billed, up from 40 to 45 days a year ago, Mr. Sood says. That's led Monsoon to slow payments to its own suppliers -- mostly independent contractors in India -- to as long as 40 days compared with less than 30 days a year ago.

Mr. Sood is spending more time planning payment schedules with small clients and "figuring out the system" with big customers. "We've become savvier," Mr. Sood says. "We've started learning who actually has power within the departments we are working with to fast track things."

At Hero Arts Inc., in Richmond, Calif., Chief Executive Aaron Leventhal has found himself on both sides of the negotiating table. The firm, which supplies inks, rubber stamps and other items to both independent arts-and-crafts stores and large chains, has snubbed appeals from small customers to pay for goods in 60 days rather than 30.

"We kind of drew the line, knowing that we could potentially be risking" business, says Mr. Leventhal.

However, Mr. Leventhal says he can do little when a major customer decides to pay late.

Big companies "have the power over small vendors. At this point we have kind of swallowed and accepted that indignity," he says, adding that "we've had more trouble managing our cash flow this year than in any year in the history of the company."

Hero Arts, with 105 employees and \$12 million in 2008 revenue, tapped a previously unused \$100,000 credit line and applied for additional credit. Mr. Leventhal says he loaned the company \$250,000 "in order to cover even basic things" like payroll and electricity "when cash flow really got tight."

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