

IS IT EASY TO BE EACI?

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This case is about a real Canadian company that experiences a problem with its days sales outstanding (DSO). As a member of the Finance team, I have been assigned to the project about analyzing the key reasons for this issue and recommending corrective actions. For confidentiality reasons, the company requested that names and significant amounts be modified.

EACI

Engineering Architecture & Construction Inc. (EACI) is a Canadian construction public company with 140 years of history. EACI consists of 47 business units and operates in four main industry segments:

- Energy – construction and maintenance of power generation stations, power transmission systems, highways, light rail transits, telecommunication systems and lines
- Infrastructure – construction of airports, roads, rail, tunnels, hydroelectric generating stations, industrial buildings
- Mining – mine construction, resource extraction, environmental restoration
- Concessions – Canadian and international public-private partnerships (3Ps)

Recently, the Board of Directors commenced a new initiative called “The EACI Way” which purpose is to achieve vertical and horizontal integration. The EACI Way offers to the customers one contract for large-scale full-scope multiple stages projects that require the expertise of different divisions.

ABSTRACT



In 2014, EACI’s days sales outstanding reached an average of 107 days, when the average for the industry was only 75 days. That is, with total annual revenue of \$2.6 billion, approximately \$750 million of sales were outstanding for the year. Consequently, the company’s credit rating dropped to single A resulting in higher costs of borrowing.

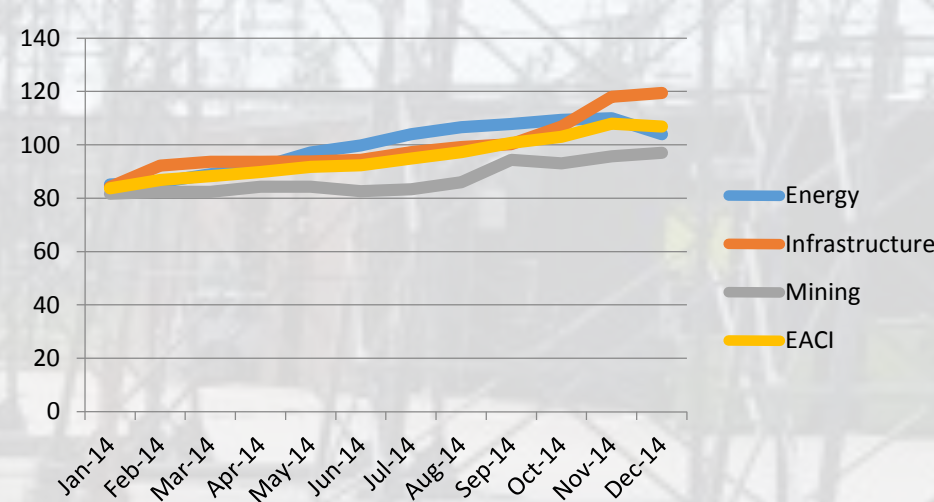
The case study aims to identify and analyze the main causes of the disturbing results by:

- Highlighting key statistical data: average time from start of a project to sending the invoice to the customer; average period the receivables are outstanding; customers with largest DSO
- Discussing key processes: contractual billing agreements and cut-off dates; EACI’s billing processes; how major gaps are addressed
- Identifying and analyzing project and personnel controls

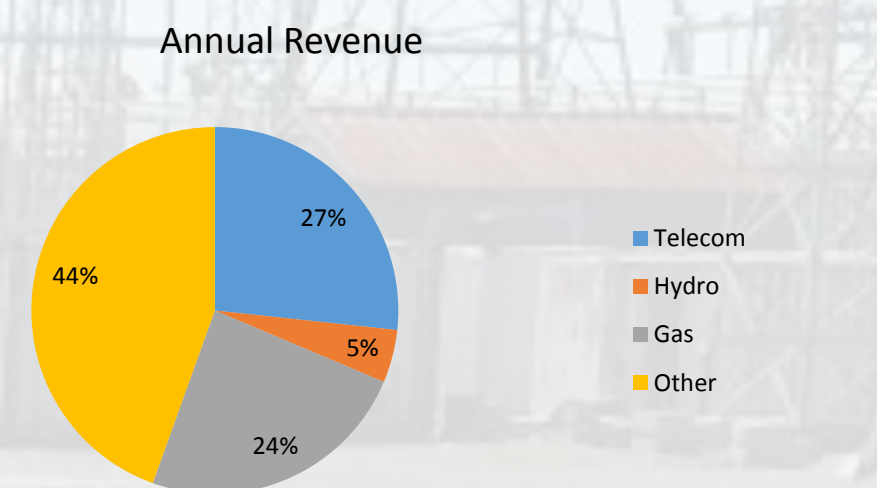
Given the complexity of the company and its business operations, I concentrated my work mainly on one of the company’s divisions.

THE REALITY

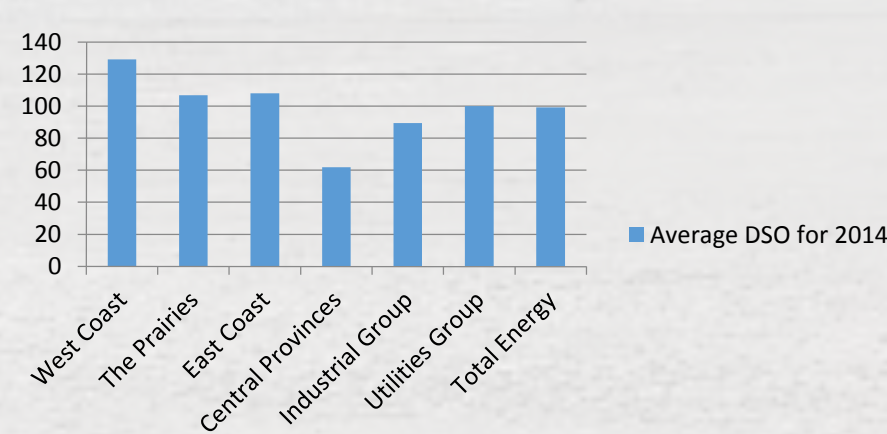
Trending DSO by Revenue Segment for 2014



The Utilities Group: Major Customers



Average DSO for 2014 for the Energy Segment



The Telecom Company: DSO per Billing Phases

	Start to inspection	Roadblock Approvals	Inspection	Billing Approval	Sending the invoice to receiving the payment	Total DSO
Urban Utilities	38	5	14	43	86	186
Designs	35	7	10	28	45	125
Utilities Other	30	7	8	38	73	156
Cable splicing	37	3	7	22	39	108
HIGH Voltage	39	3	7	24	42	115
Total	36	5	9	31	57	138

Days Sales Outstanding (DSO):

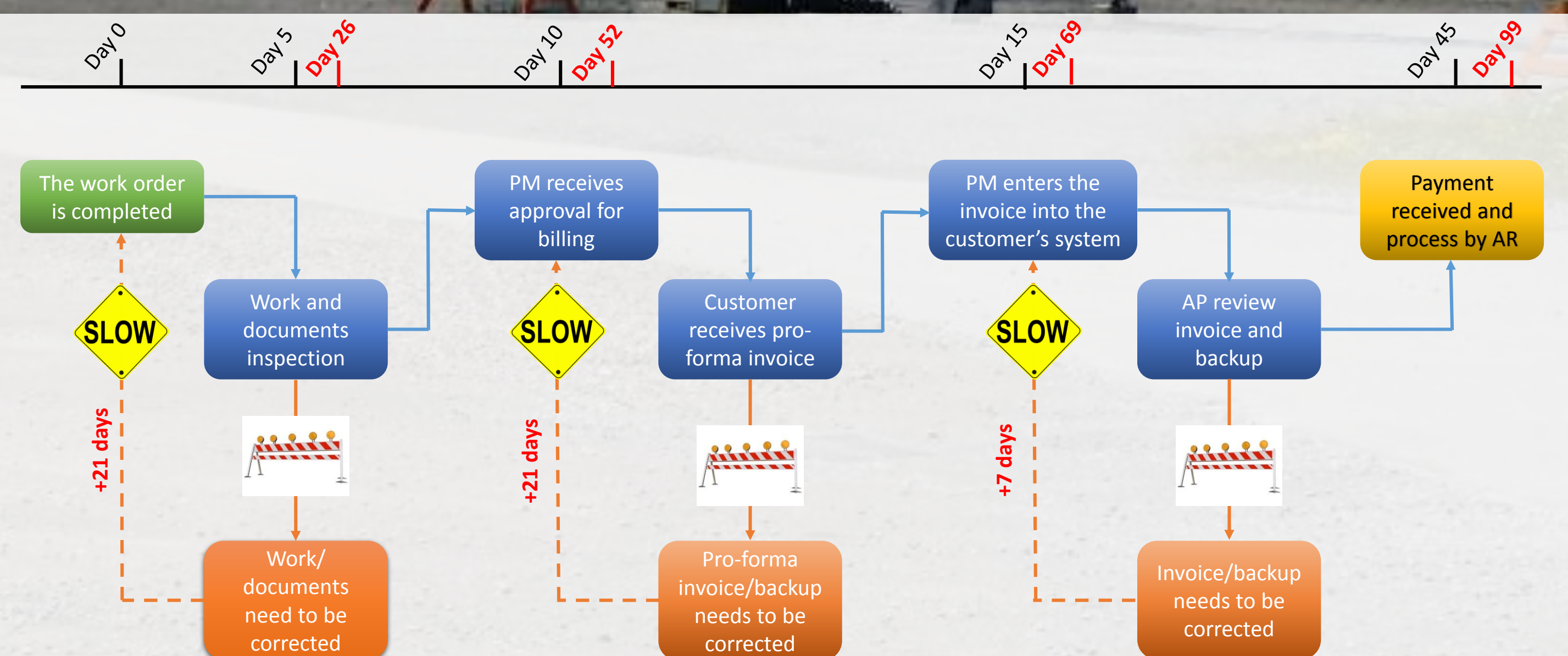
DSO are the total days from the beginning of a project to collecting the payment from the client. For a company like EACI, the DSO period consists of three phases:

- Phase 1: The physical execution of the work: 1 to 45 days
- Phase 2: The inspections and obtaining billing approvals: up to 7 days
- Phase 3: The outstanding accounts receivables: up to 30 days

In average, the DSO period should be 75 days long. Sounds easy?



THE BILLING PROCESS MAP



POSSIBLE SOLUTIONS

- Provide weekly AR and DSO reports to the PMs, general managers and business units’ directors
- Require explanations for any 60+ days outstanding receivables and projects with DSO of 75+ days
- Include the DSO as part of the project and/or general managers’ performance objectives