ACCOUNTS **RECEIVABLE**

5 KPIs YOU SHOULD TRACK & SHARE WITHIN YOUR ORGANISATION

ESKER®

INTRODUCTION

For most credit managers and accounts receivable (AR) leaders, monitoring AR performance is an important part of the job. That's why getting instant visibility on relevant Key Performance Indicators (KPIs) is such a valuable tool. But among all the figures and data you already have access to and analyse, which are the most relevant, not only for you to track, but to share within your organisation? And why does sharing matter?

Sharing certain KPIs matters because expanding the cash culture through the organisation is a major part of an AR leader's job. Furthermore, AR performance should be everyone's concern so it's a good way to keep people involved and mindful about one of the company's biggest assets.

This document highlights five of the most relevant KPIs that can help you get accurate insight into your global AR performance, and that can — and should — be shared internally.

01

DSO (AND BEYOND)

Let's start with the most obvious and famous one: **Days Sales Outstanding (DSO)**. DSO remains one of the most commonly used KPIs to get insight into your performance by providing the average number of days it takes you to turn your receivables into cash.

However, remember that to be really relevant, DSO should always be analysed:

- With context according to your industry, your payment terms or collection policy
- Over time, as evolution and trends matter at least as much as the figure itself
- By business units, subsidiaries, etc.
- By splitting it into Best Possible (BPDSO) DSO and Average Days Delinquent (ADD) so you can better analyse the overall DSO

ADD

Your goal

41 — DSO

BPDSO
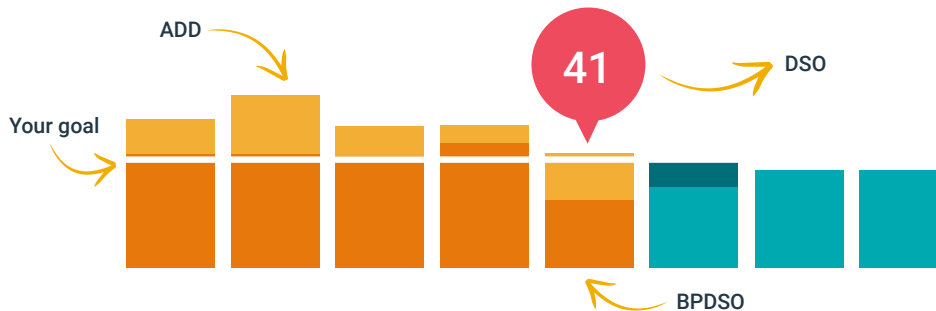
The c-suite, the sales team, Customer Service Reps (CSR), legal, subs — basically all people involved in the order-to-cash (O2C) cycle and that may have impact on DSO at some point.

WHY?

To give visibility on average payment terms and their evolution over time. Increasing payment terms can be an indicator of customer issues, increased risk of insolvency, lack of performance in the collection process, extended credit terms or more. In other words, you definitely don't want to neglect it.

CEI

02

Collections Effectiveness Index (CEI) is an interesting measure of pure collections performance. It's a ratio between the amount of cash **collected** during a given period compared with what was **available for collection** in the same period. The closer to 100%, the better your collections performance!

Do you know how to calculate CEI? If not, here's how:

$$CEI = \frac{\text{Beginning receivables + Monthly credit sales} - \text{Ending \textbf{total} receivables}}{\text{Beginning receivables + Monthly credit sales} - \text{Ending \textbf{current} receivables (not overdue)}} \times 100$$

The entire AR team (from collection to control)

WHY?

To show your team how they perform, keep them involved and congratulate them each time they reach a big step! CEI is important to share with other stakeholders as well because it focuses on the effectiveness of collections efforts over time. A declining CEI is a warning of potentially serious cash problems that organisations should keep a close eye on.

25%

CREDITS & DISPUTES

A significant number of credits and/or disputes may not only impact your DSO but also your customer relationships and can be the sign of deeper failures within the organisation (e.g., billing errors, deductions, disputes, etc.).

Disputed invoices also have a negative impact on the cash tied out and that may never be recovered. In addition, it can negatively impact the image of your organisation or hide failing internal processes or issues that need to be solved.

That's why keeping an eye on both ratios of credits/invoices and disputes/invoices is so essential.

Total Disputed at Month End ⚙

	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
%	0%	2%	6%	9%	15%	3%	2%	<1%	2%	2%	<1%	<1%
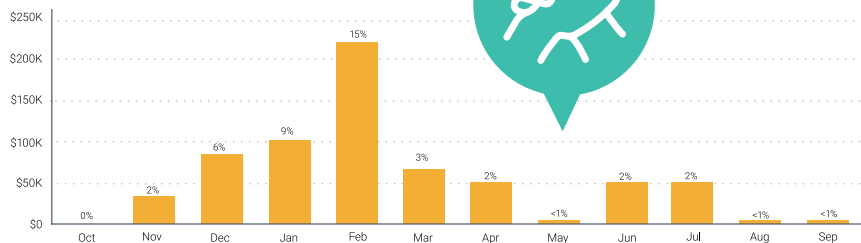
WHO
TO SHARE IT WITH?

C-suite, sales team, any other team according to results (e.g., CSRs, sales admin, production, logistics, etc.)

WHY?

To provide insight on credit and dispute levels on the AR outstanding and alert O2C cycle stakeholders if needed.

25%

ROOT-CAUSE ANALYSIS

04

Getting figures is not enough. If you really want to know why you're getting paid late, you need to know what's wrong and where the issue lies — **get to the root cause!**

For example, why, despite great collection efforts, do your customers keep on paying late? Do they receive invoices on time? Are all their billing requirements fulfilled to release payment? You can't change what you can't measure so you need to dive deeper into reasons why your cash is being delayed so you can adjust and improve accordingly.

WHO
TO SHARE IT WITH?

C-suite, any team that may be impacted (e.g., sales admin, sales team, quality, logistics, etc.)

WHY?

To proactively solve internal process issues that may impact your DSO and reputation and prevent potential damaging situations before it's too late.

Root Cause Analysis: Reasons for Lateness   Filter

100%   Reasons for Lateness Root Causes Recorded

05/01/2018 - 05/15/2018

	% of invoices	# of invoices
Cannot get ahold of the customer	33.1%	43
Customer did not receive invoice	52.3%	68
Customer dispute	7.7%	10
Customer doesn't have the money	1.5%	2
Customer has unanswered questions	0.8%	1
Missing or invalid PO number	4.6%	6
Total		130
No Root Cause Entered		0

| Invoice Date	Pay Date	Invoice #	Customer	Customer ID	Amount	Stage	Vendor	PDF
Dec 11 2017	Jan 10 2018	1240526	Gears by Gary, Inc.	15071	$312.00	Open	Amazing Widgets	View
Dec 06 2017	Jan 05 2018	3816787	Coffee Delivered	52730	€194.00	Open	Amazing Widgets	View
Dec 14 2017	Jan 13 2018	1276023	Stuffed Toys, Inc.	53325	€867.00	Open	Amazing Widgets	View
Dec 04 2017	Jan 03 2018	8086413	Email-n-Bulk, Inc.	77447	€771.00	Open	Amazing Widgets	View

COLLECTIONS FORECAST

Estimating the amount of cash you can expect to receive within the next couple of days/weeks/months can be very helpful — not only for you to adjust your collecting effort according to your organisation's potential needs for cash, but to provide controllers or the treasurer with accurate data for their cash forecast.

WHO
TO SHARE IT WITH?

CFO, controller, treasurer, the AR team

WHY?

It provides the finance teams with valuable visibility into the cash to be received within the next couple of days/weeks/months so they can adjust their cash forecast accordingly and optimise cash flow. It can also be a good way of challenging your team with goals to achieve by the end of the month.
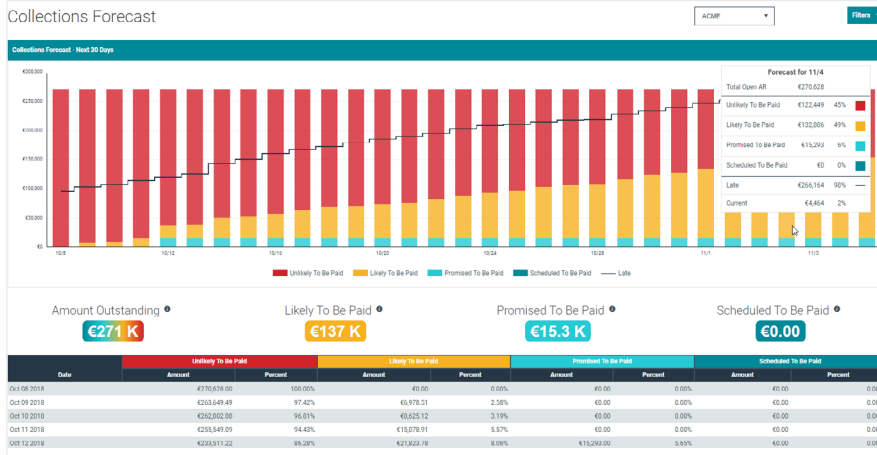
CONCLUSION

Monitoring KPIs of your AR performance level is crucial to any business. And sharing those key metrics should be at least as important to get the help and level of involvement needed to improve or maintain AR performance.

Cash is king and it is your responsibility to get everyone aligned toward optimising the speed, efficiency and effectiveness of AR processes.

Best indicators are also those that can be built-up based on your needs according to your own organisation. Esker provides dashboards, built-in KPIs and customisable reporting capabilities to help you get the visibility you need to control (and share!) your AR performance as you wish.

ABOUT ESKER

A WORLDWIDE LEADER IN AI-DRIVEN PROCESS AUTOMATION SOFTWARE

That's us. At Esker, we're proud to offer a cloud-based automation solution specifically designed to help AR departments reduce DSO, operate more efficiently and improve the customer experience — but our expertise doesn't stop there. Companies of all sizes and industries use other Esker solutions to drive added value in business processes such as order processing, accounts payable, purchasing and more.

Used by more than 11,000 companies worldwide, Esker operates in North America, Latin America, Europe and Asia Pacific with global headquarters in Lyon, France, and U.S. headquarters in Madison, Wisconsin.

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