Ebook

6 Simple Ways to Reduce DSO & Improve Cashflow

A Pragmatic Guide for Proactive AR Leaders

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Introduction

Why should you read this ebook?

On paper, accounts receivable (AR) is a simple process: Services are rendered, invoices are sent and payments are received. However, the reality is far more complex, as today's AR teams must perform their job facing a barrage of operational inefficiencies, external pressures, emerging technologies, and a set of ever-evolving customer and employee expectations.

This ebook aims to give AR and Finance leaders some much-needed clarity to their challenges and six practical strategies for addressing them — all with the goal of reducing DSO, improving cashflow and empowering every stakeholder, from Collections Specialist to Office of the CFO.

What's at stake

The new AR department

Ongoing disruptions in supply-chain dynamics, interest rates and economic outlooks have propelled AR teams into a more strategic role within the enterprise — acting as lead navigator of cashflow and other financial challenges.

Yet, despite 8 out of 10 businesses seeing AR as "more crucial" to company success in recent months, less than half of them (44%) believe their AR teams have the skills, tools and resources needed to contend in the current landscape.[1]

77%

of AR teams are behind schedule on collections[1]

The cost of high DSO

One of the tried-and-true barometers of a business's AR performance and financial well-being is Days Sales Outstanding (DSO). Not only does DSO measure the average number of days it takes to collect from customers after a sale, it also reflects important customer information (satisfaction levels, payment patterns, creditworthiness, etc.) that helps inform decision-making.

A consistently high DSO can have many unintended consequences, including:

Cashflow challenges
that lower a business's liquidity and prohibit future growth investments

Increased operating expenses
related to the cost of personnel, overhead, hiring more staff, etc.

Poor forecasting
due to uncertainty and inconsistencies around when you will get paid

Staff frustrations
stemming from tedious, unfulfilling activities and expanded work schedules

Key considerations

DSO is not the end-all-be-all

When it comes to analysing cashflow performance, the importance of DSO can't be overstated. However, it has its limitations. Be sure to keep this in mind when comparing your DSO against other companies and/or industries and always evaluate what additional metrics would be beneficial to measure alongside DSO.

AR doesn't operate in a vacuum

Improving AR performance goes a long way in the quest for better DSO. Unfortunately, AR can't control the inefficiencies in other processes (e.g., order management) that also affect DSO. Should you opt to pursue digital solutions, consider providers with robust capabilities that extend beyond AR.

People, process & tech need alignment

There's never a wrong time to implement the strategies outlined in this ebook. However, their impact is maximised when all elements involved are harmonised. For example, if your AR team is motivated and aligned to improve, but your internal processes are outdated, reaching your goals may prove more difficult.

Let's get started ...

The following pages highlight six simple ways to improve DSO and cashflow within your AR department (along with some helpful "tech tips" for good measure).

Strategy No. 1

Reevaluate & refine your credit management procedures

The importance of credit management — the process of extending credit to customers and assessing their creditworthiness — can't be overstated. A lackadaisical approach to internal credit management procedures can have catastrophic effects on AR's ability to stabilise cash inflow, keep DSO in check and safeguard their business from financial risks.

Here's a simple yet effective checklist to help your AR team tighten its credit management practices and foster long-term financial success:

Knowing your customers

- When onboarding new customers, be sure to thoroughly assess their creditworthiness and provide them the right terms and right amount given their payment history from credit bureaus.
- Ensure that internal credit management policies are adhered to and reviewed at least annually (and more frequently for accounts with high exposure).
- Create an internal, standardised credit scoring model to facilitate better risk assessment and credit decisions across your entire team.

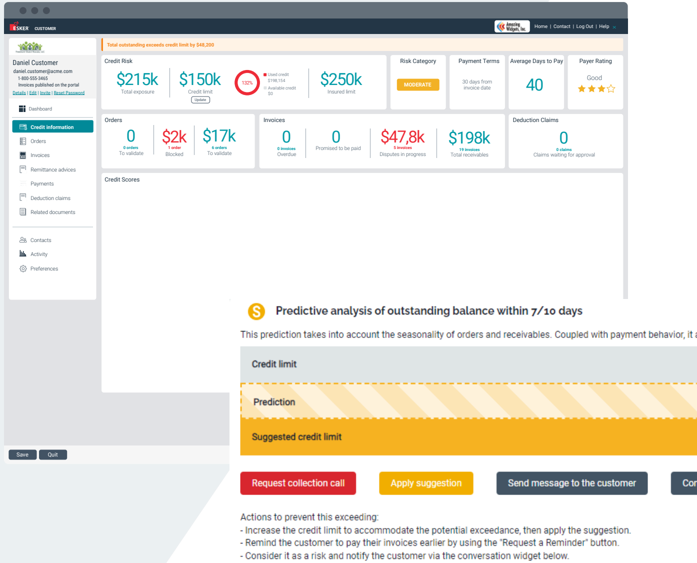
Performing ongoing assessments

- Set defined timeframes to perform routine, periodic reviews.
- Be diligent about managing limits to lessen company exposure (adjust as needed based on economic changes).
- Create criteria that alerts team members when a review of creditworthiness is necessary (e.g., A customer's average days to pay has changed: Does this put us at an increased risk?).

Tech tips

Don't discount the benefits of automation in the credit management process. With so much unpredictability and volatility riding on credit risk, the right solution can make a difference in terms of lowering DSO and securing receivables for credit management. Here are some standout capabilities your team could take advantage of:

- **Predictive & prescriptive AI tools that:**
  - Project future credit needs or changes in risk profile
  - Provide suggestions of credit terms
  - Predict and anticipate the risk of blocked orders and facilitate their release
- **Real-time alerts** to trigger actional events both internally (e.g., current payment behaviours) or externally (e.g., insights from credit bureaus) manual data entry)



"[Automation] made so many aspects of AR easier for us — whether it's giving our team daily snapshots of what accounts they should be calling or getting more credit reviews done of existing accounts."

Director of Credit, Temperature Equipment Corporation (TEC)

Read their success story

Strategy No. 2

Shore up your invoice delivery process

Getting the right invoice to the right customer at the right time can be harder than it sounds. An internal lack of focus in this area of AR combined with external risks often lead to an all-too-common and damaging result — inconsistent invoice delivery and unpredictable cashflow.

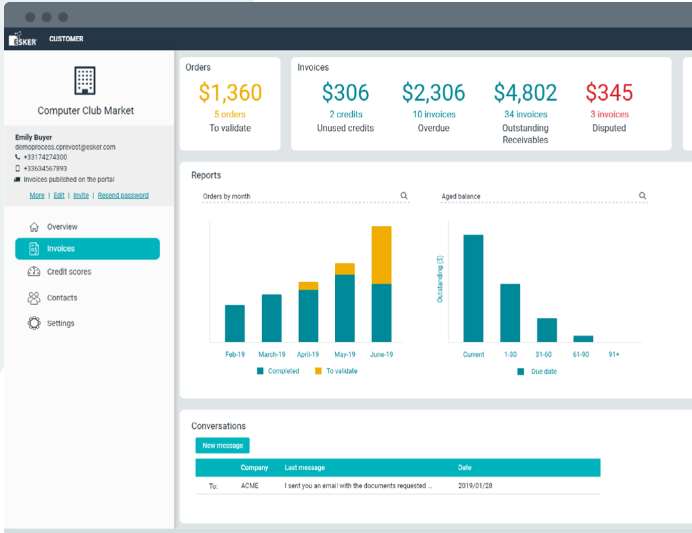
Here's the good news: Despite all the variables effecting invoice delivery, there are several things your AR team can focus on right now that can have a transformative impact on the quality of your invoice delivery process. **This includes ensuring:**

- Instructions on how to process and present invoices to clients is included in your terms and conditions (e.g., "As part of your onboarding, we need to have an AP contact," "What methods do you accept invoices — EDI, email, portal, mail?")
- Invoices are sent out daily in easy-to-read formats with the same date for invoice and delivery
- A clear, well-thought-out preparation plan is in place to migrate to e-invoicing (if feasible)
- Avoiding mailing invoices (if possible), as delivery can take up to 3-5 days and even longer to circulate on someone's desk
- Avoiding manually inputting invoices into portals (if possible), as staff requirements to upload invoices to AP portals can lead to delays that negatively impact DSO

Tech tips

Like credit management, automation makes a great addition to any invoice delivery process. Besides its primary function — automating the delivery of customer invoices in any media without forcing customers to change or sacrificing compliance — digital solutions offer a night-and-day difference in terms of visibility. This is done through:

- **Real-time status updates into invoices received**, including read receipts, which reduces the need to hound customers — when they get it/see it, you'll always know!
- **Real-time status updates into AP portals**, which requires the buyer's confirmation before invoices are uploaded (e.g., "Yes, we accept this invoice," "promise to pay," "invoice in dispute")



CLARIO.

Automating its invoice delivery process helped Clario reduce the time spent manually submitting invoices by 80% — contributing to a 13% lower DSO and a 71% reduction in past-due payments.

Read their success story

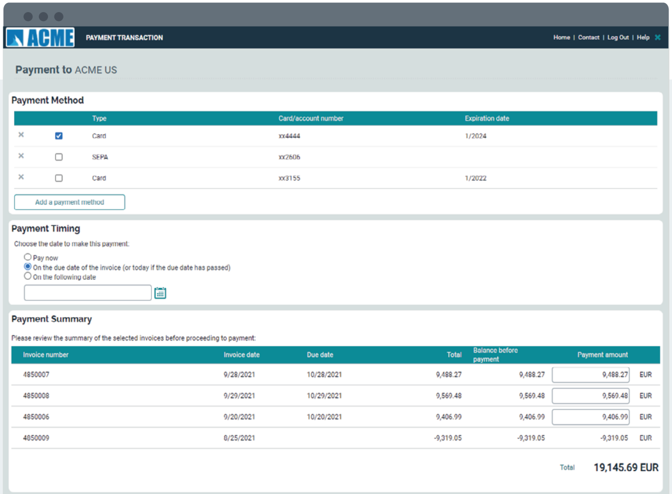
Strategy No. 3

Make payment a top priority

Naturally, an essential step to getting paid is the payment process itself. To ensure timely invoice payment, today's businesses need to understand the mindset of modern B2B customers — they expect convenience, transparency and, most importantly, options. Translation: If you're not easy to do business with, they won't be either.

Try these two tips for better payment processing:

- Transition customers to e-payments — cash hits your account sooner!
- Be more aggressive: If you accept cards at net 30, for example, start doing it at net 10 (or accept cards and surcharge).



Tech tips

Automated payment solutions help your customers help you by providing a faster, more convenient and transparent buying experience. This is thanks to a customer portal that enables customers to make payments without delay, including credit and debit card payment and direct debit (ACH, SEPA, BACS, ACSS, etc.). Dynamic surcharging in these instances can also help your business recover the potential costs associated with accepting card payments.

Let's pause ...

To talk about AI

You may have noticed this ebook mentions AR automation solutions that use a mix of AI technologies. Naturally, this may stir some uneasiness among receivables teams. Before going any further, let's briefly talk about AI's use in AR and address some lingering anxieties.

What's behind AI's use in AR departments?

More AR teams are recognising that AI — a once novel technology that's become ubiquitous in our lives — can be quite useful in the AR setting. However, **rather than replacing workers**, AI can be used as a discrete, digital assistant for everything from extracting data and supplying analytics to making predictions and even recommendations.

What kind of AI tech is being used — is it safe?

Machine learning (ML), deep learning (DL), natural language processing (NLP) and generative AI (GenAI) are AI technologies that fit well in typical AR environments. Best-in-class providers ensure that any AI used in their solutions is done so in a **safe, trustworthy and ethical way**. For example, your private data would never be used by a public entity.

What's the risk in not adopting AI in AR?

While it's true that AI tech might not be for every AR team, the trend line is clear: AI is the future. With the right provider on your side, its impact on **productivity, decision-making, cashflow, CX and employee satisfaction** is nothing short of indispensable — especially in an era of economic uncertainty and digital transformation.

Strategy No. 4

Tighten loose ends in your cash application process

Cash application is a process that involves matching incoming payments to outstanding invoices and the proper account. Only once this information is verified can the payment be used to fund payroll, make investments or disburse profits to shareholders. The faster the cash is applied, the faster your company can use it. Inaccuracies within cash application are tied to inefficient credit and collections performance which, in turn, directly affect DSO.

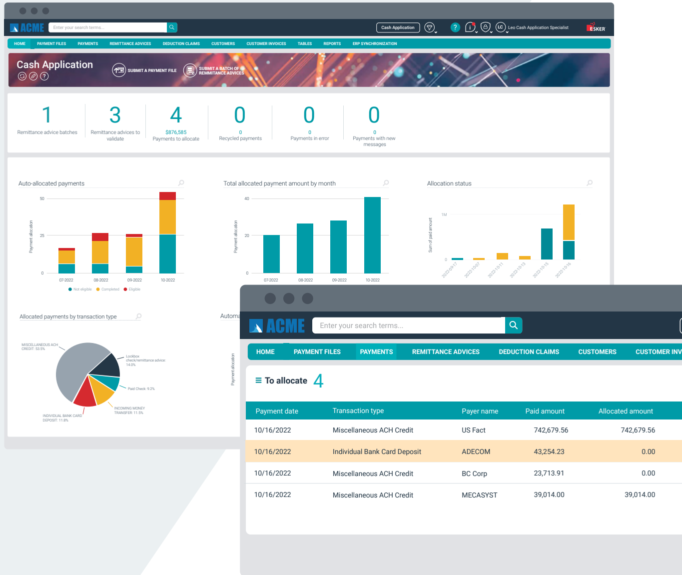
Unfortunately, several factors can bring chaos to the cash app process, including incomplete and/or inaccurate remittance advice, invoice/payment amount discrepancies, and deductions. If quick-and-easy cash app improvement is what you're looking for, **start with these three strategies:**

- Make sure there's no "spill over" to the following day to apply cash (i.e., same-day application).
- Require all customers to provide remits (i.e., when making a payment, customers must specify what the payment is for).
- Follow up on unapplied cash ASAP.

Tech tips

If any AR process was primed for automation, it's cash application. Best-in-class solution providers offer several amazing functionalities to accelerate payment processing and control cashflow in real time. These include:

- **AI-powered remittance management**, which automatically extracts and routes data from complex remittances, even when seen for the first time
- **Automated payment allocation** using 2- or 3-way matching, which auto-learns from users and improves its performance over time
- **Intelligent suggestions powered by AI** to facilitate better decision-making for your team
- **Configurable rules** to automate specific cases and eliminate time-consuming exceptions



"[Automation] has significantly reduced processing time for large remittances with 800+ line items from 2+ hours to mere minutes."

National Credit Manager, Fletcher Steel

Read their success story

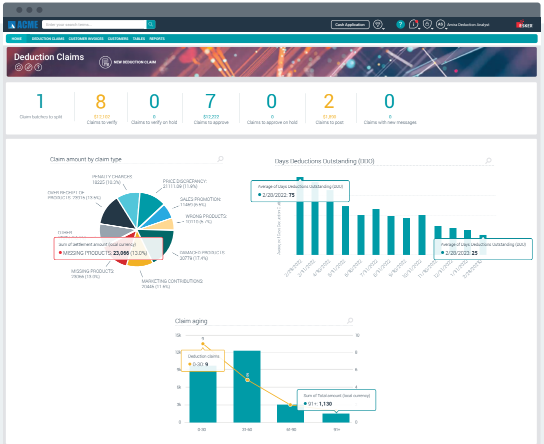
Strategy No. 5

Don't sleep on deductions

Discrepancies in the amount on the customer invoice vs. what the customer actually pays are of major importance for AR departments. Not only does deductions management affect your team's workload (time spent validating disputes, amending invoices, issuing credit notes, etc.), when done poorly, it can lead to delayed or inaccurate payment postings, strain customer relationships, and lead to financial losses (the average margin loss for written-off amounts is 3.7%).[2]

Here's where to focus your attention:

- **Stringent policy adherence.** Make sure it's clear who needs to review deductions (and when) to resolve in a timely fashion. This may include creating resolution timeframes.
- **Strong terms and conditions.** Institute clear policies on what's allowed and what's not for short pays and enforce penalties if necessary. However, orchestrating this back and forth via email can be messy (i.e., you losing money).



Tech tips

Given its complexity, it should come as no surprise that automation is a welcome addition to any deductions management process thanks to capabilities like:

- **Automated work list** of open deductions, providing instant visibility into who's working on what, where it's at in the process, etc.
- **Predetermined criteria** to generate automated workflow (customers, sales, amounts, products, etc.)
- **Automated approvals** (i.e., if it hits these criteria, it gets approved)
- **Aggregation of all details** (BoL, invoices, remittance, promotion sheet, etc.) to ensure a quick, "research-ready" resolution

Strategy No. 6

Be diligent when it comes to collections management

It should go without saying: Collections management plays a vital role reducing DSO and maintaining a healthy cashflow. During extended periods of uncertainty and economic angst, however, customers are more willing to wait until full term to pay or even paying late to hold on to their cash longer.

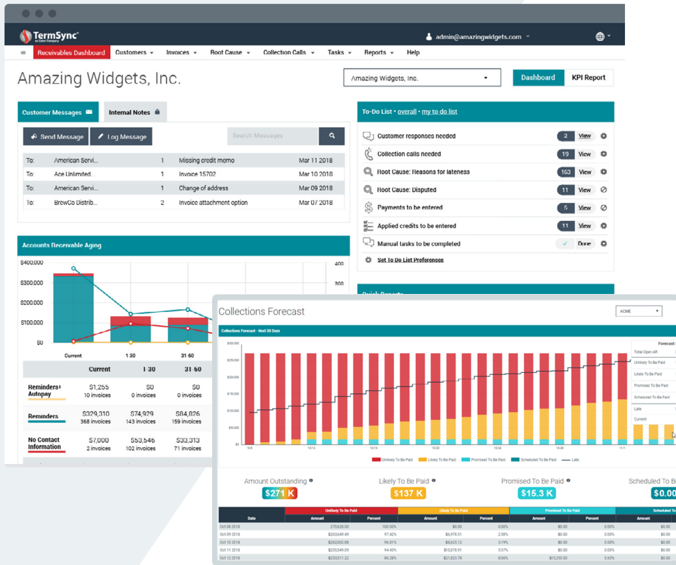
Of course, this doesn't mean your collections team is helpless or doomed to a ceaseless fate of late payments. **Below are five simple and practical practices** you can institute immediately as a way to curb slow- or late-paying customers and help your team work more efficiently:

- Send dunning or payment reminders BEFORE invoices are due.
- Send statements on a routine basis with the right details needed to remit payment — leave no room for excuses! Beyond the invoice and amount, you can also include the PO number or any other piece of information that removes any doubt or confusion in the customers' eyes.
- Follow up on promise-to-pays (e.g., calling them the day before).
- Accept payments for credit card to avoid delinquent payments (instead of waiting until customers have the funds).
- Formalise a dispute process so you can respond to resolve them quickly.

Tech tips

The most efficient collections process is one that's adapted to your organisation, customers and unique needs. Automated solutions allow you to do just that thanks to a myriad of powerful, easy-to-use collections tools such as:

- **Automated dunning statements**
- **AI-driven prioritisation** of which accounts to contact based on payment predictions and risk level
- **Risk classification** based on payment behaviour, helping your team determine who to prioritise
- **Suggested responses powered by GenAI**
- **Automated task creation** for disputed invoices to route for resolution, with SLAs and reminders



Hillcrest foodservice

Automating its collections management process helped Hillcrest Food Service achieve a 97-99% Collection Effectiveness Index (CEI) and a 30% reduction in workload per full-time employee.

Read their success story

Conclusion

Against a backdrop of an uncertain economic outlook, inflated interest rates and ongoing labour shortages, cashflow optimisation has moved up the priority list of the Office of the CFO. This has put even more pressure on AR teams to contain costs, reduce DSO and preserve customer relationships. Yet, despite these seismic challenges, there's reason to be optimistic.

As this ebook has shown, improving receivables can start small — instituting a few practical strategies can go a long way in terms of impacting overall invoice-to-cash performance. Automated solutions, particularly those powered by AI technologies, play a significant role in helping these strategies succeed, while opening the door for other, more future-defining improvements.

of businesses saw their DSO improve after automating their processes[3]

Sources

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2 How Automating the Management of Customer Deductions Reduced Time, Complexity and Cost in Accounts Receivable. 2018. IOFM.

3 How CFOs Can Take a Holistic View to Transform the Finance Function. December 2, 2022. EY Global.

Hi, we're Esker

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