

5 STEPS

to Getting Paid *(Much)* Faster



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What keeps CFOs and other senior finance executives up at night?

Chances are, a lot of their tossing and turning is the result of concerns about cash flow. CFOs and other senior finance executives worry about Days Sales Outstanding (DSO) — a measure of how long it takes your business to convert receivables into cash (or in other words, to get paid on a sale).

Standard DSO is calculated using the following formula:

DSO = (AR balance/credit sales) x number of days in the period

For example: If a business's net credit sales (sales that aren't paid immediately) are \$950,000 and its accounts receivable (AR) balance is \$125,000 for a year-long period, it takes the business an average of 48 days to collect payment on a sale from its customers. If the business has 30-day payment terms, an average 48-day DSO means the business needs to accelerate the speed at which it receives payment.



Standard DSO

$$(\$125,000 / \$950,000) \times 365 \text{ days} = 48$$



Like most statistics, DSO shouldn't always be taken at face value. DSO should be analyzed:

- 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 DSO (BPDSO) and Average Days Delinquent (ADD) so you can better analyze the overall DSO



But high DSO could deny a business of the cash it needs for:

- The purchase of raw materials and goods
- Manufacturing and distribution
- Sales and marketing
- Salaries and benefits
- General administration
- Investments in the business

Even a small improvement in DSO can have a big impact on a business's financial health. And that's why CFOs and other senior finance executives are so focused on DSO.



There are five proven steps to removing the obstacles that prevent businesses from collecting receivables as fast as possible. From credit approval and invoice delivery and payment to collection and cash application, **this paper shows how to reduce DSO at every step of the AR process.**

STEP 1

Credit management

Stricter credit approvals contribute to reduced DSO.

Therefore, businesses should evaluate the credit of all new customers, ensure that credit terms are appropriate and followed by sales, and put procedures in place for updating credit information on a regular basis. Additionally, customer service should flag any orders from customers who have not completed a credit application. Finally, procedures should be in place to monitor the payment behaviors of existing customers and to take relevant measures, such as adjusting the credit strategy for a customer, to avoid losses. These measures will help suppliers negotiate payment terms or other conditions, such as upfront payments, deposits and penalties, to help ensure timely payment.



**The faster
an invoice
gets to the
customer,
the sooner
you get
paid.**

STEP 2

Invoice Delivery

Taking a hard look at your invoice delivery is the second step towards reduced DSO.

In a manual or semi-automated AR environment, there is no way to ensure that invoices are being delivered and seen by the right person. Making matters worse, in a traditional paper-based billing process, invoices remain stationary until their scheduled delivery at the end of a set time period (e.g., weekly, monthly, etc.), regardless of whether they are ready to be sent.

Reducing DSO requires that invoices are accurate, delivered in a timely manner, and compliant with the purchase order, local regulations, and customer requirements for format and delivery method. Payment terms and due dates must appear on invoices. And, the billing address and/or accounts payable email address for each bill should be verified to ensure they reach the right person.

Automated AR solutions streamline invoice delivery through interoperability with any legacy system and by supporting any invoicing method that a customer chooses, including mail, email, online web portal and fax, as well as electronic invoicing methods such as e-signatures, Electronic Data Interchange (EDI), Business Controls Audit Trails (BCAT) and electronic archiving.

Moreover, automated AR solutions send out invoices as they are prepared in real time, giving customers the chance to initiate their internal payment process as soon as possible.

Customizable Key Performance Indicators (KPIs), on-the-go review and approval functionality, multi-lingual capabilities and template-free technology keep the invoice creation process on track.



With no manual bottlenecks and the ability to track and manage customer delivery preferences, invoices are distributed faster, helping you get paid sooner.



It is not uncommon for businesses to reduce their DSO by 3 to 5 days by migrating from paper invoicing via the mail to electronic invoice delivery.

STEP 2

Continued

Robotic Process Automation (RPA) further accelerates invoice delivery by uploading invoice content to customers' accounts payable portals. Manually submitting a single invoice to a customer portal can take more than 15 minutes and require over 50 mouse clicks (e.g., retrieve the customer invoice, connect to the portal, select the right customer, select the purchase order, find the appropriate data, complete fields, upload the PDF invoice, verify invoice data, and submit the invoice). With RPA, a supplier can flawlessly submit all its invoices to its customers' portals in a minute with three clicks.

Confirming the invoice receipt also is critical to reducing DSO. Late-paying customers frequently say that they never received an invoice. Automated AR solutions track invoices across their delivery lifecycle and automatically notify suppliers when they are received by a customer. Accounts receivable staff also can be alerted to any unopened invoices and prompted to take pre-defined business rules based on criteria such as the delivery date, dollar amount or customer.

Applying these practices to your invoice delivery process is a great first step towards reducing DSO.



The time that suppliers save organizing tasks can be used on collections.



Traditional collections methods often result in important details — **like contacting an overdue account** — to slip through the cracks unnoticed, potentially **leading to longer DSO.**

STEP 3

Collections

Collections are a big contributor to reduced DSO.

Unfortunately, many businesses rely on antiquated tools such as sticky notes, calendar reminders and spreadsheets to manage collections.

Reducing DSO requires businesses to bring their collections into the 21st century. For starters, receivables departments should have a collections process in place. Staff also should be well-trained and have enough time to follow up on past-due accounts. And staff should have the tools they need to prioritize their collection efforts. Finally, sales and customer service should be regularly updated on disputed invoices to assist in their resolution and understand their implication on new sales.

Reducing DSO also requires businesses to regularly review aging reports and forecast collections. Suppliers should consistently follow up on disputed customer invoices and late payments and try to understand why customers are paying late (are invoice discrepancies or product issues to blame?). Additionally, suppliers must measure their collections performance against pre-determined goals.

In some cases, purging customers from your business list is necessary for reducing DSO. Some customers routinely pay invoices late, despite the level of service provided by a supplier. Before dropping a large customer, have your collections staff try to uncover any reasons for late payment.

Additionally, centralizing post-sales-related information with an automated AR solution allows collection teams to access the analytics and actions needed to get paid faster. Whether it's aged balances, allowance for bad debts or other reports, automation makes it easy to create reports, determine recipients and set the frequency.



Many businesses underestimate the ability of payment reminders to reduce DSO.

STEP 3

Continued

Automation also provides internal and external visibility into the performance monitoring and customer insights that have the biggest impact on DSO: collections forecasts, collections team achievements based on possible goals, response time to customer inquiries, root-cause analysis, payer's performance and credit risk management.

This visibility is critical to helping credit managers and AR leaders do their jobs. The automated delivery of reports also makes it easier for collections and AR leaders to engage senior-level stakeholders such as sales teams, sales administration and logistics in the process of reducing DSO, ultimately creating a "cash culture" across the organization.

Automatically reminding customers of past-due payments using the right media, message and scenario adapted to the different types of customers profiles is another proven strategy for streamlining collection efforts.

Most businesses use manual processes for reminding customers of past-due payments, but AR solutions can automatically generate fully customizable reminders at the company, customer group or customer level. Messages can be tailored based on the level of severity: a neutral tone for payments that are less than 30 days over-due, stronger wording for payments that are more than 60 days past-due, and collections verbiage for payments that are more than 120 days past-due. Staff can see the delivery and read-receipt status of each reminder and any undeliverable email reminders. All this ensures that customers are notified in a consistent and effective manner of past-due payments. Automated payment reminders enabled one business to accelerate its DSO and virtually eliminate the number of customers with payments that were more than 90 days past due.

From automated collection call lists and payment reminders to a central location for all account information, businesses need a more efficient, effective collections process to reduce DSO.



Automated solutions provide a wide range of collection management tools to ensure that a receivables team is working as efficiently as possible and nothing slips through the cracks.

STEP 4

Payment

Offering customers online payment capabilities at due date or during the collections process — is the next step to reducing DSO.

Many businesses manually enter customer credit card information through a payment website.

Automated AR solutions provide customers with the self-service options they need to make payments with credit cards or via debit cards. Online portals make it easy for customers to make electronic payments in their preferred method (including instant payment, credit card, virtual card, Automated Clearing House and Single Euro Payments Area direct debit).

Automation also enables users can see the status of a transaction with a single click.

What's more, online portals provide customers with a single platform to view and pay their invoices, download statements, apply credits, request a payment plan, dispute an invoice, sign up for automatic payments, schedule a payment, communicate with your staff and view early payment discount offers.

The self-service payment options offered by an online portal greatly reduce the need for customers to call or email your AR staff with billing questions or to manage their account.

Finally, incentives such as early payment discounts can be an effective measure for reducing DSO. For instance, in cases where the buyer's standard payment terms are "Net 30," suppliers could offer customers a discount for paying within a week or 10 days of invoice approval. Early payment discounts can be easily offset by reduced borrowing costs and better discounts from creditors.

With automation, customers have one less reason not to pay on time.



Simplifying customer payment with **automation** and an **online portal** directly translates to quicker payment.

STEP 5

Cash Application

Timely cash application is a critical step towards reducing DSO.

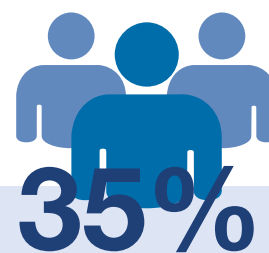
Managing payments and remittance data from multiple delivery channels (such as a shared service center, bank or third-party lockbox provider or a remote office) and delivered in paper or electronic format is an error-prone, time-consuming affair that often results in high volumes of unapplied cash.

Businesses cannot afford to have their cash tied up in unapplied receivables transactions.

Automated AR solutions use Artificial Intelligence (AI) — technology that performs tasks that normally require human intelligence — automates the repetitive processes that extend DSO.

Some automated solutions come with more than 200 built-in business rules for matching payments with invoices and orders. With automated cash application, cash can be cleared in an hour. And sales document references (such as to orders or invoices) make it easy to reconcile payments.

- Automated cash application also helps businesses:
- Improve collections efficiency
- Increase staff productivity
- Get real-time visibility into account status
- Accelerate the identification and resolution of deductions
- Streamline exceptions handling



Thirty-five percent of AR professionals surveyed by Shared Services Link say that the length of time to resolve customer deductions is one of their greatest barriers to improving DSO.



Businesses can make even greater strides towards reducing DSO by rethinking the way they research and resolve customer deductions — payments made on an amount less than the net invoice amount.

Automation provides a digital platform for routing content and collaborating with stakeholders and customers. Deductions can be assigned to an AR representative or analyst. Reason codes can be captured and assigned to customer deductions during the cash application process. In cases where trade discounts are referenced in the note field of an EDI transaction or in the remittance of a check, automation can identify that the credit was taken as a trade discount and assign the necessary deduction reason code. And AR staff can instantly access insights such as the status of deductions, the latest conversations with customers and tasks to perform and research.

GET PAID MUCH FASTER

DSO provides a business with the cash it needs to operate and grow.

DSO also is an important measuring stick for AR performance. Inefficiencies in any step of the AR lifecycle — whether it's invoice delivery, collections, payment or cash application — can significantly impact DSO. Automating the AR process end-to-end can help **remove the all-too-common obstacles preventing today's businesses from getting paid much faster.**

ABOUT

Esker

Esker is a worldwide leader in AI-driven process automation software. Esker offers a cloud-based automation solution designed to help accounts receivable departments improve the customer experience. But its 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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