



The Lifeblood of Any Business

DSO (days sales outstanding) is defined as the average number of days that a company takes to collect revenue after the sale has been made. A low DSO number means that it takes a

company fewer days to collect its AR (accounts receivable). DSO should be calculated on a monthly basis and as everyone knows that proactive collection techniques and follow-up are paramount to generating positive cash flow. It's imperative that realistic credit terms and conditions for all current and new customers be established in order to represent reality based on the customer payment history and creditworthiness. If longer customer payment terms are required for a new customer and those terms are not in agreement with your Company's

Goals & Objectives then don't take on that customer. Programs are available that bridge the accounting system that highlight customers with past due accounts. This list should be reviewed daily by your credit department with a subsequent follow-up with delinquent customers. This is especially effective in a retail/distribution orientated environment that could engage with >500 active customers. The DSO calculation as itself does include some inherent drawbacks such as changes in sales volume that influence the calculation. For example, even when the overdue balance stays the same an increase in sales volume will lower the DSO. A better way to measure the salespeople and credit function is past due \$ as a relationship or percentage of current accounts receivable.

In addition to the collection specialists reviewing overdue account and subsequent follow up with customers, one of the key talking points during salespeople/customer "sales calls" is reviewing overdue accounts that should be addressed together with new product offerings, delivery issues, packaging concerns, training, etc. By this we mean, determine the reasons why the invoice is past due, discuss the outstanding issues supporting non-payment and determine the timing as to when the check will be cut. Narrowly focused salespeople in many cases believe collection responsibilities belong solely within the confines of the accounting function. Organizations' should motivate their trailblazing sales staff by offering financial incentive to open new business

opportunities. As a firm we believe that salespeople and reps should be paid a bonus or straight commission on net sales. What we mean by this is the payment be based not on the sale but rather the sales transaction after its been collected. This is a nice motivational tool for company-wide collection practices.

ADD (average days delinquent) another credit metric assessing the success of the collection process. When DSO and ADD increase together, the effectiveness of collection performance is declining, while a decrease shows improving performance. The AR cycle commences when a product is shipped together with the issuance of a customer invoice and ends with the supplier being paid. Company wide customer service improvements by eliminating confusion and lock-tight order processing will in most cases generate faster collections and shorten the AR cycle.

Remember when your company does not collect money for goods and services provided the ability to grow the business, buy new capital, deploy new human capital and pay nice salaries is diminished, commensurately.