Five KPIs Credit Departments Should Use to Improve Collection Process

Key performance indicators (KPIs) can help credit departments measure the effectiveness of their processes. While creditors may differ on how they apply metrics, here are five KPIs that can help paint a clear picture of how their credit department is performing.

Days Sales Outstanding (DSO)

DSO is a popular metric that shows the average number of days customer loans are past due from the time the invoice was created. However, DSO does not solely reflect the performance of the credit department because it encompasses a more global view of your company's effectiveness, according to Thomas Reuters.

Collection Effectiveness Index (CEI)

This index can provide a precise view of how the company is handling debts. By comparing the amount of debt collected over a given time frame with the number of receivables that were still outstanding, creditors can set a firm target to increase their collections during the next time period. CEI may be confused with DSO at times, however, when DSO numbers go down, the CEI should increase, per Thomas Reuters.

Profit Per Account (PPA)

This KPI shows the average profit being generated from each account you're collecting from. It is calculated by dividing your company's gross profit over a specific period of time, and dividing that by the total number of delinquent accounts managed during that period, Thomas Reuters said. Monitoring this metric can allow creditors to better understand how changes directly impact their bottom line.

Promise to Pay Rate (PTP)

Measuring how many customers are promising to pay provides the percentage of calls made that ended with said promise from the debtor, per Thomas Reuters. A bonus KPI that can be analyzed in conjunction with PTP is right party contacts rate (RPC). This measures the ratio of outbound calls that were made to the correct entity in which you are seeking payment. Ensuring you are contacting the correct entity is step one in the collection process; and establishing a promise to pay from that entity can significantly increase the rate at which you collect.

Accounts Receivable Turnover Ratio (ART)

This KPI is pretty cut and dry because it measures the rate at which you collect on outstanding accounts. Getting this number as close to 100% as possible is the goal for any credit manager because it ensures the credit department is maximizing the amount of cash flow going into the company.