Cutting down DSO by streamlining credit processes

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When addressing mounting payment delays, credit managers may be tempted to blame their slower paying customers. While a late payment does hurt a department's metrics, there are often holes within a business's broader operations that also weigh on the credit department's numbers.

Why it matters: To cut down Days Sales Outstanding (DSO) without straining relationships with customers, credit managers can review internal processes from shipment, billing to dispute management, to find efficiencies.

Efficiencies can be created through automation or an overhauling of procedures, unlocking the full potential of the order to cash process.

"The first place you can look to lower the amount of time it takes for a customer to pay is reviewing how long it takes your credit department to send an invoice," said Kevin Chandler, CCE, ICCE. "The terms are usually based on the number of days from invoice date or invoice receipt, so you can decrease your DSO by simply cutting down the time it takes to invoice your customers."

Streamlining your invoicing system, whether that means implementing an ERP system that automatically invoices customers upon shipment or reworking work habits to prioritize timely invoicing, can help decrease the time between shipment and payment. Paying close attention to detail while invoicing and ensuring they are accurate can further cut down on delays by decreasing customer disputes.

An efficient invoicing procedure is still only one piece of a larger system. Despite credit managers' best efforts, disputes will still happen. What matters is that there is a system in place to organize and address errors efficiently.

"In my experience, most of the time when a customer disputes something they are usually right," Chandler said. "When a customer files a dispute, that cash is essentially trapped in your balance sheet as an invoice that cannot be paid until that dispute is resolved. Once you see the dispute, send it back as quickly as possible to the group that can research and solve it. The faster they solve it, the faster you get paid."

The best approach to managing disputes is a proactive one. By identifying where problems occur and logging each dispute, credit managers can begin to understand where there may be holes in their shipping or billing operations fueling disputes.

"If a majority of your disputes are pricing errors, for example, you can begin to work with the front end of the business to ensure that these pricing problems are solved before an invoice is sent out," Chandler said. "By collecting this dispute data, you can make targeted changes to the upfront part of the process to eliminate those mistakes moving forward."

Another way to speed up payment is reaching out to your customer early on, and not waiting until a payment is late. "The first thing I would do on any invoice that is considered a large dollar invoice is start the process of communicating with your customer before the invoice is even due," said Chandler.
"I would reach out a week before an invoice is due and see that they received the invoice and confirm that

there are no issues with the shipment or billing. This helps figure out if there are disputes and issues early, ultimately helping get paid faster."

Ensuring cash applications are posted as soon as possible can also drop DSO. "Nothing slows the collection process faster than unapplied cash," Chandler said. "If a customer sends $75,000 while having multiple invoices for $100,000, there is a tendency to wait until that money is posted before reaching out to the customer about the remaining $25,000. Employ auto-cash posting, if possible. Make sure that there are enough people to help the cash posting process to get things done or even offer to help the cash posting people yourself."

It is impossible to decrease DSO without thorough procedures for shipping, invoicing disputes and billing. Refining and improving processes require strong documentation across departments. "You have to create reporting along all of these processes," Chandler said. "You want the sales team to communicate what is going on with the customers, and so on. You need to enlist the help of the rest of the business in the order to cash process."

The bottom line: While it may be easy to look at high DSO and assign blame to your more troubling customers, looking inward at procedures within the credit department and beyond can reveal unlikely sources of delays. Creating efficiencies within your business operations can decrease payment delays and even improve customer relationships.