YAYPAY'S ESSENTIAL GUIDE TO

DAYS SALES OUTSTANDING

WHAT IS DSO?

Days sales outstanding, or DSO, is the average number of days it takes a company to collect payment after a sale has been made. It is also a metric for AR, or accounts receivables. DSO is typically reported and evaluated on a monthly, quarterly, and annual basis. It's important to understand DSO norms over a 12-month period because your numbers may vary month to month due to natural business cycles or seasonality of your business.

WHY DOES DSO MATTER?

DSO relates to how healthy a business' cash flow is. The longer a company must wait on payment for services rendered or products delivered, the less cash the business will have available to cover expenses or fund growth. Trends in DSO are very important because they can indicate if there is a cash flow/payment problem or if DSO is within standard variation or fluctuation.

HOW DO YOU CALCULATE DSO?

(Accounts receivable ÷ Annual revenue) × Number of days in the year

According to the Credit Research Foundation (CRF), the average DSO for Q4 2017 was 39.33 days and the average days delinquent (days late) was 5 days.

DID YOU KNOW:

A high DSO is about your customers. If customers routinely pay late, causing a high DSO, the business may not be properly evaluating the credit risk of its customers.

A high DSO could also signal a lack of attention to AR or collections.

A significantly lower than average DSO might mean a company is too strict with its credit policy, which could limit its growth potential in terms of pricing limits and customer volume.

A sudden rise in DSO can drastically disrupt a business' cash flow and operations.

According to the CRF, cash flow and working capital are increasingly important in today's business environment. This means the AR department must become more proactive in the cash management process and more focused on successful collection of credit to help sustain or grow the business.

> *ACCORDING TO THE CRF AND COMMERCIAL LAW LEAGUE OF AMERICA, THE LIKELIHOOD OF SUCCESSFUL COLLECTION DROPS BY NEARLY 30% WHEN AN INVOICE IS 90 DAYS PAST DUE. COLLECTIONS ACTION TAKEN BEFORE AN INVOICE REACHES 90 DAYS PAST DUE WILL IMPROVE YOUR BUSINESS' ABILITY TO IMPROVE CASH FLOW.*

Get ahead of major cash flow problems for your business by monitoring your DSO on a monthly and quarterly basis. As soon as DSO rises above the standard deviation, take action. Here's how to do that:

01 Accurately evaluate your customers for credit risk to reduce likelihood of late payment and increased DSO. Assess previous payment history and other indicators to predict risk.

02 Keep a sharp eye on your AR to ensure you take actions as soon as a payment is late to increase the likelihood of payment. Ideally, send proactive reminders a day or two before an invoice is due.

03 Allow for online payments to receive the owed funds sooner, reducing DSO. Ideally, connect the invoice reminder directly to online payment options.

04 Review your AR through aging buckets to group like-payment situations together. Different approaches will be required for 1-30 days late, 31-60 days late, and so on. Aging breakdowns should be drawn from a monthly trial balance.

05 Improve forecasts with more accurate cash flow predictions from your AR. Predictive technology and data trend analysis can greatly improve the accuracy of your predictions.

06 Process data and update your AR and overall fiscal books in real time to collect the most accurate days-to-pay/DSO data possible.

07 Use a single view of cash flow and AR across your global operations. Ensure all AR team members are working collaboratively and efficiently to collect and process payments.

08 Maintain records of previous client correspondence for reference and data collection. This ensures accurate communication tracking to readily report on who has been contacted and who must still be contacted.

09 Rely on cloud-based SaaS features to improve data sharing among team members, CRM software, and other accounting systems. Protect customer data with AICPA SOC 2 compliance, recommended by the Credit Risk Foundation.

10 Effective collections and AR management will involve emails and phone calls. A Survey of business owners found that the most important factors in selecting an AR management partner was reputation, cost, and the methods available for collection.

WITH YAYPAY, YOU CAN:

01

Increase your AR staff productivity without increasing headcount by leveraging our intelligent CRM, workflow, and automation

02

Increase speed of payment of collection by up to 34%

03

Better predict cash flow with total cash visibility and AR payment prediction

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