5 Ways Digital A/R Reduces DSO

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Cash flow is the lifeblood of every business. Without it, there's no working capital to fund short-term expenses and borrowing costs erode profit.

That is why, as a vendor, streamlining the invoice-to-cash process and reducing DSO is of paramount importance. Adopting a digital accounts receivable solution eliminates payment friction and makes it easier to manage DSO.

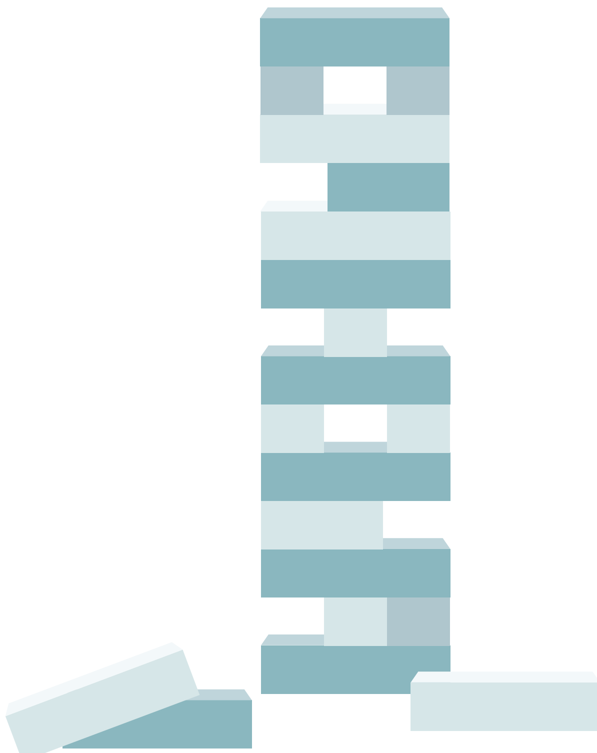
Vendors often think that if they sell goods and services with a reasonable profit margin, then working capital is a given. However, if goods and services are sold on credit, working capital sits idle until revenue is collected. This can be exacerbated by ineffective, manual accounts receivable (A/R) processes that cause cash to be trapped for longer periods than necessary.

A key metric used to determine A/R efficiency is DSO (Days Sales Outstanding). Keeping DSO as close to credit terms as possible provides increased working capital, and allows for businesses to better manage and forecast their cash flow. Also, reduced DSO helps businesses avoid cash shortfalls that can lead to increased capital costs and lower profit.

For many, the most difficult part of sales can be collecting revenue in a reasonable time. If the period between sale and collection is too long, there can be a ripple effect that negatively impacts the overall business. Indeed, according to the Institute of Finance and Management (IOFM), A/R inefficiencies rank at the top of challenges that businesses face today. This is supported by a survey conducted by the Association of Financial Professionals (AFP) that indicates 34% of CFOs consider increasing A/R efficiency among their top priorities.

Research from CEB TowerGroup additionally quantifies the need for digital invoice-to-cash processes. Their report indicates that, despite the average credit terms being 30 days, average DSO stands at 50 days. This figure is even worse for small or medium-sized businesses who experience an average of 70 or more days before being paid.

Why is DSO So High?



These surprising numbers are primarily a result of inefficiencies that arise with manual A/R processes. Even more surprising, a 2015 study conducted by IOFM revealed that 49% of businesses still rely on spreadsheets to track everything from customer information to payment due dates to cash reconciliation.

Manually working though tedious spreadsheets to invoice customers and apply payments takes a tremendous amount of time and increases the risk of human error. In turn, these errors result in further delays as work needs to be repeated until the cycle is complete. All the while, DSO continues to grow.

Moving to an electronic invoice-to-cash (ITC) process is a great way to reduce systemic inefficiencies and increase customer satisfaction.

In this paper, we'll take a look at how digital A/R solutions eliminate the largest inefficiencies and solve the problems inherent in a manual process:

High Exception Rates 1

High exception rates caused by errors committed during the fully manual invoice-to-cash process that increase DSO because they require human intervention to rectify.

In essence, errors cause the process to reset to zero, and vendors will need to perform the same tasks multiple times. A study performed by IOFM found that relying on paper-based receivables results in exception rates that range from 5% to 20%.

Solved with Digital

Exception rates can be drastically reduced through the use of an electronic invoicing and payment solution. The same IOFM study determined that companies that adopt digital invoice-to-cash solutions enjoy exception rates as low as 1% to 2%.

The presence of a centralized A/R database eliminates spreadsheets that need to be manually updated. Vendors leverage their ERP and accounting systems to provide the electronic solution with real-time receivables and payment information, freeing A/R teams to concentrate on high-value tasks and improved customer relations.

Digital A/R solutions help increase productivity for any accounts receivable or collections team. With ERP integration and automated invoice delivery, customers enjoy an expedited payment process that improves the overall buying experience.

Lost or Damaged Invoices 2

Lost or damaged paper documents keep customers from starting the invoice approval and payment process, thus adding days to DSO.

Fulfilling requests for invoice and statement copies is a daily distraction for accounts receivable teams across all industries. Even in the best-case scenario, where a new copy can be sent via email, it can take several minutes to fulfill the request. These minutes can become hours when many requests are made throughout days and weeks. Compounding the issue is the fact that the customer is still waiting to begin the payment process.

Solved with Digital

Digital accounts receivable solutions provide an invoice with every communication. The electronic invoice can't be lost or damaged and can be retrieved at any time from any location. Better yet, multiple accounts payable teammates can receive the invoice to expedite the approval and payment process.

Increased Labor Costs 3

Manual invoicing and payment processes can be 6x more expensive than comparative electronic solutions.

The additional costs derive from the time vendors spend following up on requests for documents and promises-to-pay, and correcting human errors. Moreover, the demand for customers' time to correct errors negatively impacts customer satisfaction as well as job satisfaction for A/R professionals trained to do more than resolve menial issues.

Solved with Digital

Electronic collections solutions enable automated and continuous screening for delinquent payments and send electronic reminders at preset intervals. The electronic reminders provide click-through processing, meaning they include copies of invoices and allow customers to make an electronic payment in the same interface. Such reminders can be fully customized without the need for vendors to keep checking in.

Inefficient Dispute and Short Pay Management 4

Mistakes happen, but they shouldn't be compounded by increasing work or taxing resources.

Manual solutions tend to foster a binary environment where the customer either pays the entire invoice or waits for disputes to be resolved before sending any amount of payment. This type of system leads to delayed payments and high DSO metrics.

Solved with Digital

Raising disputes and accepting short pays is fundamental to digital invoice-to-cash solutions. The point of digital A/R solutions is to equip vendors with tools that eliminate payment friction and accelerate cash flow. Whether it is an incorrect quantity delivered or products broken in transit, customers should have an ability to raise a dispute without making a phone call. Similarly, they should also be able to short pay for the portion of the invoice they agree with. Encouraging customers to short pay provides vendors with cash flow while a dispute is being resolved.

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Slow Cash Application

Manual processes require gathering remittance advice that can come in various paper and/or electronic forms to be matched to payments.

Reconciling issues such as incorrect or missing remittance, partial payments, or applying discounts only increases the time spent processing, leading to increased DSO.

Solved with Digital

Within an electronic invoicing and payment solution, cash application is automatically done. There is no need to search for remittance documents or evidence of payment. Payments made within the digital solution are automatically matched to the corresponding invoice and applied within the vendor's accounting system. The electronic process significantly reduces errors and labor costs.

Automation is a Competitive Advantage in Today's Market

Transitioning from a manual revenue collection process to a digital solution brings immeasurable benefits including reduced DSO and accelerated cash flow. Digital A/R also provides a competitive advantage through an improved customer experience.

Vendors should no longer rely on inefficient, manual, paper-based approaches that impede their A/R teams and cause payment friction. In fact, continuing with manual processes puts vendors at a disadvantage because exceptions and delays reduce working capital and negatively impact the overall buying experience.

Integrating to a fully electronic A/R solution eliminates payment friction and expands the accounts receivable team's bandwidth.

Further, considering the extraordinary return on investment driven by savings in both hard (paper, postage, etc.) and soft (labor, time) costs, digital A/R improves profitability.

Billfire™ VALET is the Ideal Accounts Receivable Automation Solution.
As the most intuitive invoice-to-cash solution, VALET eliminates all payment friction to deliver faster payments, increased efficiencies, and improved customer relationships. Accelerate your cash flow today with Billfire™ VALET.
Call us on 602-888-0853 or email betterday@billfire.com to learn how we Make it a Better Day with Billfire.