3 ways to improve DSO with the order-to-cash process

CFOs refer to cash as the “oxygen” of their business. While they use a variety of strategies to improve cash flow including Financing Relationships, Procurement Policies, Accounts Payable (AP) Processes, Accounts Receivable (AR) Processes and Cost Reduction Programs, it is becoming increasingly apparent that automating and accelerating order-to-cash can have significant impact on DSO. Even a reduction of one day DSO can mean hundreds of thousands of dollars in annual savings.

The Billtrust Data Team looked at our very own payments data in search of a trend to see how fast our customers made their online payments using our automated platform. What we found was that the average DSO from our B2B customers was just 25 days, versus the industry average of 40-50 days (FOOTNOTE: This figure also includes paper checks).

The team also found variations in DSO between payments made through ACH and credit cards. Summarized below are key elements within an automated order-to-cash solution that contribute to improved DSO: Flexible Service Suite, Dynamic Invoice Matching and Buyer Adoption.

The role of DSO

Due to the high importance of cash in running a business, it is in a company’s best interest to collect outstanding receivables as quickly as possible. By quickly turning sales into cash, a company has the chance to put the cash to use again — ideally, to reinvest and make more sales.

Days sales outstanding ratio (also called average collection period or days sales in receivables) is used to measure the average number of days a business takes to collect its trade receivables after they have been created. It is an activity ratio and gives information about the efficiency of sales collection activities.

1. Flexible service suite

Not that long ago the invoicing process was straight-forward. Buyers of goods and services received invoices through the mail and sent back a payment by check. That simplicity is gone. The situation today is more complex. It is necessary for a business to tailor its invoice delivery, payment receipt and cash application to meet the requirements of its customers.

When it comes to something as simple as delivering invoices, today's buyers have different expectations. Some prefer to receive invoices through the mail, others like email. Some want to go online and yet others want invoices sent into their own AP Systems portal. For many sellers, not meeting these expectations can impact DSO and the satisfaction of their customers. Often, for sellers to meet these expectations they have to cobble together disparate processes that require ongoing IT support and time-consuming manual labor.

Flexibility is also important when it comes to receiving payments. Today's buyers make payments through a multitude of different channels including check, online portals, ACH, credit cards, P-Cards and wire. As is the case with invoice delivery, businesses that do not have the flexibility to support the receipt of payments from different methods risk negative impact to their DSO and unhappy customers.

Buyers also expect that no matter how they pay, the payment is applied accurately and on-time. There is nothing more frustrating to a buyer than spending time with one of their suppliers trying to sort through confusion over a payment or receiving a collection call relating to a payment they already made.

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The more automation can accommodate flexibility to meet a range of buyer requirements for how they receive invoices and make payments, the less room there is for delays and errors.

2. Dynamic invoice matching

Once payment is received, the funds have to be accurately applied (posted to a system of record) for a company to realize payments as revenue, completing the final leg in the payment journey. Delays in this process can put DSO at risk.

Cash application is challenging because buyers pay in a variety of different ways. Whether they pay by check to a lockbox, directly to headquarters or at a remote location, the data on the checks has to be captured which often involves manual keying. Even when buyers submit electronic payments, they frequently come decoupled from the remittance advice making matching a challenging resource-intensive task.

Exception handling poses yet another challenge. As much as a business strives for 100 percent match rates, the reality is this: exceptions will occur. Handling exceptions takes time and resources and is a big cause of increasing DSO.

Automating this process from end-to-end cuts costs and can shave days off DSO. By using cash application technology, sellers can automatically extract transactional data from any source and intelligently match to open receivables which can dramatically improve hit rates whether payments are coming by check or electronically. And having a user-friendly tool to efficiently work through the inevitable exceptions can get payments posted quicker without dependence on a large staff and manual processing.

3. Buyer Adoption

There are many studies that document the impact electronic invoicing and payments have on DSO. Most show a range of DSO improvement from a three-day reduction to 10 days.

Given the well-documented struggles of the USPS in terms of maintaining delivery times, it is more important than ever for businesses to put a program in place to drive buyer adoption of electronic invoicing and payment channels to mitigate the impact the postal system can have on DSO. And buyers that adopt electronic channels enjoy a greater level of efficiency in how they interact with sellers.

Achieving high levels of buyer adoption requires a continuous effort focused on applying best practices. B2B companies that have embraced best practice programs have achieved electronic delivery levels over 90 percent and electronic payment adoption of 50 percent. Best practices span areas including communication, training, promotions and tracking.

Conclusion

Automating and accelerating order-to-cash can impact DSO. When evaluating solutions, ensure that they will be flexible enough to accommodate your range of buyer requirements for receiving invoices and making payments, that they address the critical last step of the process with intelligent cash application and that they have a program in place to drive electronic adoption. With these three key capabilities, sellers will be on the path to achieving a perfect balance between buyer satisfaction and reduced DSO.

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