



ZARA CONSULTING1

THE STRATEGIES TO REDUCE DSO AND INCREASE CASH FLOW

WHAT EXACTLY DOES DSO MEAN?

- **Days Sales Outstanding** - commonly referred to as **DSO** - is the financial indicator that **shows the number of days spent on average by a company to collect the credit after a sale** or, in other words, the payment of an invoice.
- The goal of all companies and organizations is, clearly, **to have the lowest possible DSO** and to quickly recover the payment of credits (AR).
- A high DSO indicates that **the company in question will take longer to collect payments**, with consequent cash flow problems due to the length of time between the sale and the payment received.

HOW IS THE DSO CALCULATED?

The formula for calculate the DSO is:

$$\text{DSO} = (\text{AR credits} / \text{turnover}) * \text{reference days in that period}$$

For example, if the net credit sales (sales that are not paid immediately) amount to € 950,000 and your AR balance is € 125,000 for a year, you will need on average **48 days** to collect all the credits from your customers. If your payment terms are 30 days, it means that the time has come to speed up the collections.

$$\text{DSO} = (125,000 \text{ €} / 950,000 \text{ €}) \times 365 \text{ days} = 48$$

WHAT IMPACT CAN A HIGH DSO CAUSE?

- A high DSO has a huge impact on cash flow and revenue and can hamper your company's growth investments. Reducing the DSO, even slightly, can greatly improve a company's financial status.
- There are different strategies to reduce DSO and improve an organization's cash flow. Let's see some of them:
- Make it easier for the customer to do business with you
Offering multiple payment methods
 - such as credit cards and automatic payments or the online option to allow customers to view invoices and orders - allows more flexibility for the customer and increases cash flow for you.

CREDIT RECOVERY

➤ Can you simplify your client's payment methods?

➤ **Stricter credit approval:**

Are you making credit assessments for all new customers? Are your credit terms appropriate and followed by your sales department? Do you have a procedure in place to regularly update credit information?

➤ **Billing:**

Are your invoices accurate and are they sent on time? Are the payment terms and expiry dates clearly written on the invoices or on any other communication sent to the customer? Do you have email addresses dedicated to payments and check the addresses before sending? Do you provide incentives for upfront payments? Do you send payment reminders automatically?

➤ **Credit management strategy;**

Can you constantly follow customer disputes and unpaid debts? Are you monitoring performance against goals? Do you regularly review old reports? Can you access reports on open practices? Can you understand why customers pay late (for example, due to discrepancies in invoices, product problems, etc.)?

PAYMENT INCENTIVES

- Are you offering discounts?
- Do you offer incentives to customers to receive faster payments?
For example, you can offer a discount for payments within a week or ten days when the payment terms are at 30.
- This **discount can be easily offset by speeding up your cash flow**, saving on interest and getting better discounts from creditors.

CLEANING" OF THE CUSTOMER LIST

Nobody wants to leave a customer, but do you know how many customers are constantly inconsistent, do not reply or delay paying bills, despite being offered good services?

Has your company considered moving away bad customers from your business plan?

DSO increases are often driven by a few large customers.

Did your debt collection staff work closely with these clients to analyze the issues?

IF YOU DO NOT KNOW HOW TO ASK FOR THIS
PRESENTATION, CONTACT ZARA CONSULTING 1

DSO is the metric most used by debt recovery professionals to analyze the success of their efforts. The faster you recover, the better the cash flow situation ... and even a small improvement in the DSO can make the difference!



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For this advice, please contact zaraconsulting1@gmail.com without obligation