

# THE PROBLEM OF BAD DSO LEVELS

European DSO levels ♦  
Feature ♦  
Vikas Kapoor, CEO, iQor ♦  
Briefing ♦  
Column ♦

Credit management is taking on a far more proactive role in companies across Europe, as studies continue to reveal the impact of poor collections on the bottom line

By Adele Muzik and Freddie Dawkins

**C**redit management falls under 'accounts receivable' as a department in many companies.

It usually deals with the credit vetting of customers, the resolution of any invoice queries, allocations of payments, internal fund movements, reconciliations and also maintains relationships with customers.

However, the role and responsibilities of this function are evolving into a much more pivotal and strategic role within organisations as customers become more demanding. Ultimately, although there is an age-old feud between sales and customer service and the finance functions within organisations, credit management is the glue that binds them together. We can generate as much revenue as we want but if we do not find ways to collect it we have no sustainability for future business.

So the role of credit manager has evolved into being more proactive, more customer-oriented and less number-oriented, more extroverted and a lot more dynamic and responsive to the changes within the organisation.

## More dynamic credit risk

In the last edition of *CCR World* ("Value of bad debt reserve figures queried", p7, July 2007) Derry Guerin, senior manager for credit and collections at Google in Dublin, commented that "sometimes credit professionals needed to take an educated chance on new customers".

This demonstrates a growing trend towards managing credit risk in a more dynamic way. The formal vetting options are no longer feasible in fast-moving industries and companies and can often mean you miss the boat with sales.

Newer buzzwords like 'dynamic credit limits' are surfacing, allowing companies to manage credit vetting in a more retrospective way, based on payment

performance rather than an upfront approach.

## Invoice queries

In the past, credit managers only really needed to deal with issues directly related to issues with invoices, but now good credit management requires a 360 degree view of a customer, where all the data is in one place so that in one screen you can see what your customers owe you, what the unapplied credits are, the history of conversations with that customer, outstanding disputes, queries, by when they will settle their debts and so on.

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It is actually unbelievable when you investigate it, how many Fortune 500 companies still have a situation where 'Bob in accounts' has to create manual spreadsheets each month to present this kind of information to the collections department. There are actually very few companies whose software systems give them this view of their customers

## Start to make improvements

Companies are ultimately responsible for training their customers to pay them on time and the buck stops there. So here is a credit control checklist, which can be implemented by any company, large or small:

- ♦ Stop relying on Bob in accounts to pull together your 360 degree view of a customer in his rickety spreadsheet. Purchase a simple, inexpensive software system (there are many) which can pull this updated, collaborated view for you.
- ♦ Stop managing collections with post-it notes and e-mails. Ensure that

you have a workflow system in place to manage collections activity in a collaborative way.

- ♦ Get on top of all the information in your company about where you are selling what and on what payment terms.
- ♦ If your company is focused on specific initiatives that come at a cost of selling into higher-risk markets then formally adjust the payment terms of those markets so your increase in DSO is measured more objectively.
- ♦ By all means, focus on resolving issues related to non-payment as quickly as possible, but ensure you have total visibility of all customer service issues

as well and the ability to escalate the fast resolution of issues you can see becoming disputes

- ♦ Have visibility on how many times customers call the company. There is a direct relationship between customer call-ins and poor payment performance.
- ♦ Befriend the customer service manager, this person is your ally in the company and visibility into his side of the organisation is critical.
- ♦ If you do not have a company credit policy, write one and ensure the customer service manager knows it as well as you do.
- ♦ Each customer is different and responds differently. Segment yours – even if its simply by size and risk – enabling you to communicate differently and appropriately with each of them to get the most out of them.
- ♦ If not doing so already, offer discount incentives for earlier payment.
- ♦ Constantly push for customers to set up direct debits.

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>> ♦ Have penalties in place for late payment so you train customers to pay you on time in the future.

### The impact of poor collections

The first part of this article ("Boost customers' value", pp35-36, July 2007) looked at the amounts owed to Europe's top public companies – and just how massive an impact poor collections procedures have on bottom lines.

Several startling facts emerged from the comparison, especially the fact that French companies appeared to have the worst collections records, followed closely by Germany and the UK.

We have now looked more closely at the initial results and posed the question, why? Could it be that French companies are so cash-rich, they do not need to worry too much about efficient collections? Are German shareholders quite happy to leave managements to run up large debt books?

It is possible that the actual figures are large because those countries in the top quartile of the poor collectors' league have lots of large companies. The study looked at the top 1,000 companies in Europe – certain countries have proportionally more of the 'top

companies' in their arsenal so you would find more of those companies in countries like France, Germany and the UK than you would in the smaller countries, so even if France or Germany's A/R versus wastage percentage is not as high as, say, Slovakia and Hungary, because they have a bigger proportion of sales and A/R, they will have a larger profit wastage.

If we look at the DSO figures across all the countries (see Table 1) there are some interesting observations.

Italy has a very large DSO because those companies are generally rather 'relaxed' with getting people to pay on time. But the UK, Germany and France are not doing well at all in terms of DSO and have deteriorated according to the latest figures.

The UK and Germany's average payment terms are around 30 days, so customers are paying companies in those countries on average 30-44 days late. The reasons for this could be related to economic climate or cultural attitudes, like in Italy, with average payment terms of around 60 days, where they are culturally more relaxed about collecting money.

Shareholders count on companies to

manage their A/R and overdues in a responsible fashion. To do so they need to measure themselves according to A/R and collections best practices by ensuring they:

- ♦ Have access to accurate customer account information.
- ♦ Have in place a workflow system to manage collections activity in a collaborative way.
- ♦ Resolve issues related to non payment as quickly as possible.
- ♦ Ensure customers experience efficient customer services.
- ♦ Offer possible rewards or discounts for earlier payment.
- ♦ Constantly push for them to set up direct debits if possible.
- ♦ Have penalties in place for late payment, so you train your customers to pay you on time in the future

DSO trends show that on the whole, across Europe, most companies are paying their customers later. What would be the reasons for that? We will explore that in the next issue. **CCRW**

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Table 1. European country DSO and number of companies in European top 1,000 analysis

Country	2005		2006		Change		
	Original DSO average/days	Adjusted DSO average/days*	Number in European top 1,000	DSO average/days	Number in European top 1,000	Number in European top 1,000	DSO average/days
Germany	74	72	154	87	128	-26	14
Denmark	72	73	23	82	24	1	9
Greece	89	66	17	75	21	4	9
Portugal	93	82	13	89	13	0	7
Spain	107	105	45	110	46	1	5
Norway	70	74	21	79	23	2	5
UK	60	59	240	64	255	15	5
Switzerland	69	68	56	71	59	3	2
Finland	65	64	35	67	38	3	2
Poland	54	52	10	54	7	-3	2
Belgium	79	77	24	79	23	-1	1
Ireland	44	44	16	45	14	-2	1
Netherlands	66	67	59	68	56	-3	1
Austria	68	69	17	69	18	1	1
Slovakia	52	52	1	52	1	0	0
France	96	94	137	94	147	10	0
Sweden	69	71	52	69	50	-2	-2
Hungary	64	64	6	55	4	-2	-9
Italy	119	122	60	108	68	8	-14
Czech Republic	56	48	3	34	4	1	-14
Luxembourg	60	60	11	N/A	–	-11	–

\*The original 2005 figures have now been updated as a result of certain securitisations of debt which happened towards the end of that financial year as well as certain updates to the average country terms in that year.