

# CAN COLLABORATION HALT THE RISE IN DSO FIGURES?

What are the possible reasons for the widespread increase in DSO across Europe, and can companies benefit from a collaborative approach to customer services and collections?  
By Adele Muzik and Freddie Dawkins

Credit management has never been more important than in these months of 'Le Credit Crunch'. The export of bad US lending decisions to Europe has hit several banks and mortgage lenders, and the knock-on effect to Europe's businesses is having some effect.

Last issue ("The problem of bad DSO levels", p27-28, October 2007) we discovered that, on observing days sales outstanding (DSO) trends across Europe, most companies are being paid by their customers later.

Are the reasons predominantly attributed to internal issues or external factors beyond companies' control? We explore these issues further and offer suggestions for improvement within this article.

## Take control

If you feel that your company's DSO is at the mercy of external factors, you need more control, not less, within credit management.

We all can relate to scenarios within small towns where they revolve around one company, which provides employment, sponsors schools and gives contracts to all the suppliers around them. The town would literally collapse if this company withdrew. Examples may include companies like Daimler Chrysler or De Beers.

These companies can put the squeeze on all those suppliers in that town to be at the mercy of their payment terms or they would be out of business.

Small companies might rather have large DSOs and that key contract than be out of business. In this extreme example, the cost to the small suppliers of doing business in this small town includes the cost of capital of supplying their huge customer. This needs to be

included in the pricing calculation for the goods.

There is no point in waiting until the end of the long payment term to discover that the invoice was wrong or product was faulty. The credit departments of the small suppliers must ensure proactively that they are on top of every invoice and that every reason for potential late payment can be eradicated before the end of the payment term. This requires coordination, prioritisation, the right data and the right process.

As companies expand and grow and shift their market mix, keeping on top of which markets they are selling into and at what pace the market pays them is critical for credit control.

This can only be done with dynamic and sophisticated customer segmentation that monitors the customer size and payment performance to highlight increasingly risky or healthily evolving customers.

Take the example of a Netherlands-based company selling products in Italy for the first time. It needs to build the increased cost of capital due to the longer payment terms into their price. It needs to monitor whether the Italian customers are paying on time, and it needs to have processes in place to flag late payers and process any

disputes that might be identified leading to late payment.

If our Dutch example has suppliers associated with the Italian deals they are doing, it may also wish to adjust its payables terms to normal Italian terms to compensate further for the increased cost of capital.

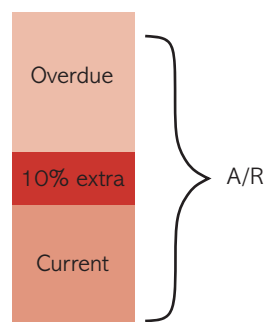
## Internal inefficiencies?

According to our recent survey of 230 credit managers across Europe, there was unanimous agreement that most companies are not on top of their A/R management, especially within the largest 1,000 companies in Europe.

The results of the survey said that the main reasons for increased DSO are:

- ◆ Lack of collaboration between the correct departments.
- ◆ Lack of consolidated reporting.
- ◆ Not knowing which factors drive slippage within credit control or cash management.
- ◆ Ineffective collections processes.
- ◆ Lack of information on customer disputes and customer service issues preventing payment.
- ◆ Lack of defined business process.
- ◆ ERP systems not providing sufficient functionality.
- ◆ A manual consolidation process each month to provide a 360 degree view of the customer.

Figure 1.



The opportunity is to reduce the incidence of overdue debt to 10% of total A/R. The reasons for overdue payment are half customer service and half collections related.

According to the survey, the largest contributing factor to large DSO was attributed to the lack of information on customer disputes or customer service issues preventing payment, closely followed by a lack of collaboration between the correct departments.

#### Lack of dispute information

An important part of the collections process is the ability of a collector to identify and categorise a customer service issue and dispute, so it would be quite natural to assume that visibility and collaboration of customer service and credit collections is critical within any organisation.

One of the core inefficiencies identified within collections is related to lack of management of all items which prevent or delay the collections process, basically encompassed by disputes and queries, and this is increasing year on year.

In 2005 lack of management of the increase in disputes and queries contributed to €286bn, and this increased by €31bn in 2006 to a total of €317bn. Each year this figure has been increasing by more than 12%, which indicates that it might be a blind spot in the management of credit across Europe.

Given that almost half (42%) of overdue debt is related to disputes and customer service issues, the opportunity being wasted each month can be managed more efficiently, see Figure 1.

#### A possible solution?

In analysis conducted over the last five years, it has been found that, on average, disputes – specific problems that will prevent payment of all or part of an invoice – represent 12.5% of A/R, 15% of DSO and 42% of overdues.

Queries – customer service issues which are the result of particularly poor service or treatment – represent about 10% of A/R. Nearly 40% of all customer issues and queries which were not resolved in 30 days, escalated to disputes leading to non payment.

The reason for the other 58% of overdues lies in Europe's biggest

queries that could affect the A/R position in the company – leading to major communications problems with customers who will not pay because of disputes.

Having a 360 degree view of your customers when they contact you will enhance their perception of your company.

With awareness and prioritisation of the importance of sound A/R management being an issue throughout organisations, one way to improve awareness is to have specialist IT systems managing A/R and customer service collaboratively.

## One of the core inefficiencies identified within collections is related to the lack of management of disputes and queries

companies' ability to coordinate and execute effective collections processes. So what is the problem?

Most companies in Europe have not organised their key departments and business functions collaboratively. The customer service teams capture these issues in their CRM systems and they generally disappear into a black hole, as the CRM function usually has very few linkages and collaboration with credit collections systems.

Therefore, the credit collections portion of the business has very limited, or almost no, visibility on disputes and

Unfortunately there are only an informed few who recognise how important it is to manage customer service and collections collaboratively and they will have access to the rewards associated with understanding this relationship.

The rest will contribute to the €66.4bn in profits lost in Europe in 2006 alone. **CCRW**

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