

PREDICTING DSO, PAYMENT PERFORMANCE & CASHFLOW PERFORMANCE OF CUSTOMERS

CASHFLOW IS STILL AT THE FOREFRONT OF THE CFO'S MIND. UNDERSTANDING AND PREDICTING THE PAYMENT BEHAVIOR OF CLIENTS IS THEREFORE KEY TO UNDERSTANDING THIS COMPLEX METRIC

The Customer Value Group therefore asks - If you really want to see what's coming, would you rely on art or science?

PITFALLS TO AVOID

The fact that companies need tools as well as processes to predict client cashflow is not in question. However, when it comes to deciding which tools and processes you use, you should make every effort to avoid the following common pitfalls:

- Not including customer segmentation resulting in all customers being treated the same way
- No visibility of customer service issues that might be the real reason for late payment
- Configuring suboptimal processes that continue to churn out the "wrong" activities for your collectors

If these pitfalls are not avoided, you could end up looking like the company in the case study. They used the "artistic" way path in guessing future client performance and defined their collections strategy accordingly.

Forecasting the old fashioned way



CASE STUDY

A major European Telecom had 245,000 business customers. Their collections software was configured to ensure that every customer was touched by the collections process once every two months. Larger clients were contacted by calls, statements, emails and letters while smaller ones only by email or letters.

This appeared to be a sensible strategy, until further probing uncovered the problem.

The customer service department was receiving 5,500 inbound calls a month from customers complaining about some aspect of their invoice or service. Additionally, another 1,500 per month were complaining they have already registered a service issue and had already said they wouldn't pay until it was resolved.

Meanwhile, the AR figures did the opposite of what was expected and grew steadily. Even though they were doing the things their software was telling them to do - reminding, calling, collecting - they were not doing the right things right.

SOLUTION

All this can be avoided by combining leading AR software with best practice consultancy. This can provide clients with modelling, forecasting and performance management functionality. Make sure you look out for the following software capabilities when you implement this process:

- Predicting your upcoming DSO from historical dashboards and reports
- Make full use of credit scores from suppliers such as D&B or Experian. Interface these to your system through a batch interface, or in real time using web services
- Integrate your client's credit score with payment performance to predict future payment performance
- Segment your customer base so that your customers are treated in the most effective way for their payment behaviours

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- Predict new customer behaviour based on their credit scores compared with the behaviour of similar sized customers in similar industries
- The customer can then be put into a segment with similar sized customers with similar credit risks

Leading software in the AR best practice space is now providing clients with modelling, forecasting and performance management functionality. This goes far beyond traditional credit and collections task management in that it helps companies identify, for their specific customer portfolios, what the precise combination of collections activities should be to optimise the AR position.

This is done by analysing the payment performance of every company in the portfolio and statistically determining what volume and type of collections activity led to - or did not lead to - payment. By looking at the success factors, the unsuccessful strategies are then self-corrected and adjusted to optimise the process.

Using the latest technology to see what's out there



By rolling up this analysis from the customer level to the customer segment level, companies are able to determine precisely which customers in which segments should be treated in which way if a specific overdue target is to be achieved. This includes a projection of how much inbound communication will be generated and therefore how many staff are required in collections.



Companies are starting to use statistics on historical AR collections practices to determine and accurately predict future financial performance through the analysis of which buttons to push with customers to achieve early payment.

In addition, in-depth analysis of outstanding disputes and their root causes helps support the eradication of process discrepancies upstream and helps to isolate functional responsibility for the late payment.

This takes the "wait and see if they'll pay" attitude and turns it on its head. Far-sighted companies are realising that they have all the tools at their disposal to determine the business outcomes of their decisions by making inbound cash payment patterns extremely predictable at every level.

CVG VALUE+

CVG Value+ is industry-leading Accounts Receivable and Dispute Resolution automation software. CVG Value+ users enjoy the way they can:

- Reduce their DSO through AR automation
- Improve customer service through dispute resolution automation
- Automatically process deductions
- Streamline and gain efficiency in AR and customer service