



**Session 37037**  
**Tuesday, May 20<sup>th</sup>, 9:00 AM – 10:30 AM**

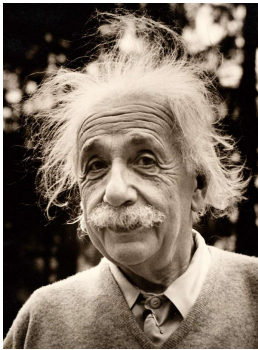
# DSO: Friend or Foe?

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## DSO – Friend or Foe?





## ONE SIZE DOES NOT FIT ALL



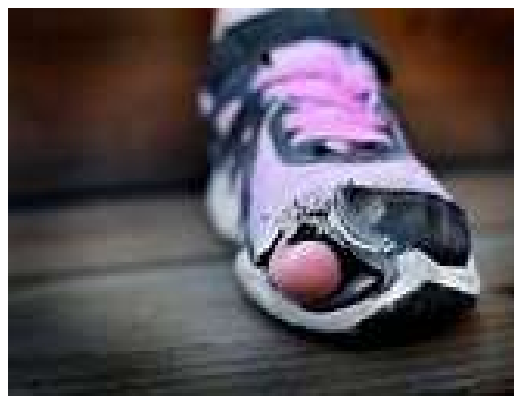
- Superior Credit and Collection Team
- Different credit terms creates different collection strategy
- Large Corporation – Payment Policies
- Selling Receivables and not reporting sold receivables – Factoring
- Relaxed Credit Policy – Increased Sales
- Seasonal Sales



## ONE SIZE DOES NOT FIT ALL

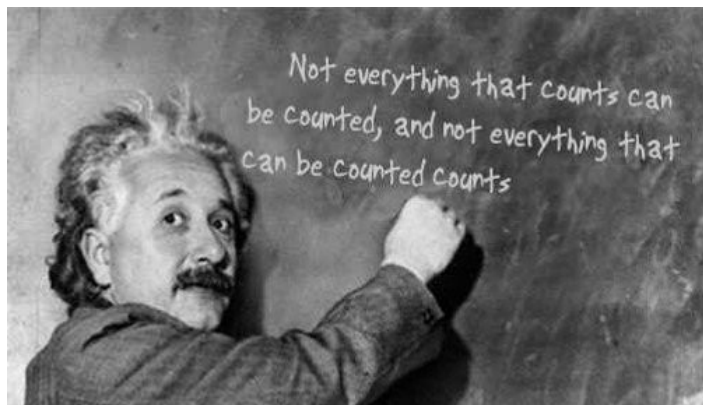
### RED FLAGS: What to look for?

- Channel Stuffing
- Bogus Financials
- Converting Accounts Receivable to Notes Receivable
- Changing the way sales or accounts receivables is calculated
- What else?





## Why are Metrics so Important?



“When performance is measured and reported the rate of improvement accelerates.”

— Pearson's Law



## Why is DSO an important metric in measuring AR performance?

**“The most common standard by which credit and A/R organizations are measured is Days Sales Outstanding. However, it is also the most misunderstood and misused metric in our field. Used with other performance metrics such as Best Possible DSO and Average Days Delinquent, the information becomes much more meaningful for the person evaluating the conditions of the accounts receivable.”**

**Terry Callahan, CCE  
President, Credit Research Foundation**



## Is DSO a fair metric in gauging AR performance?

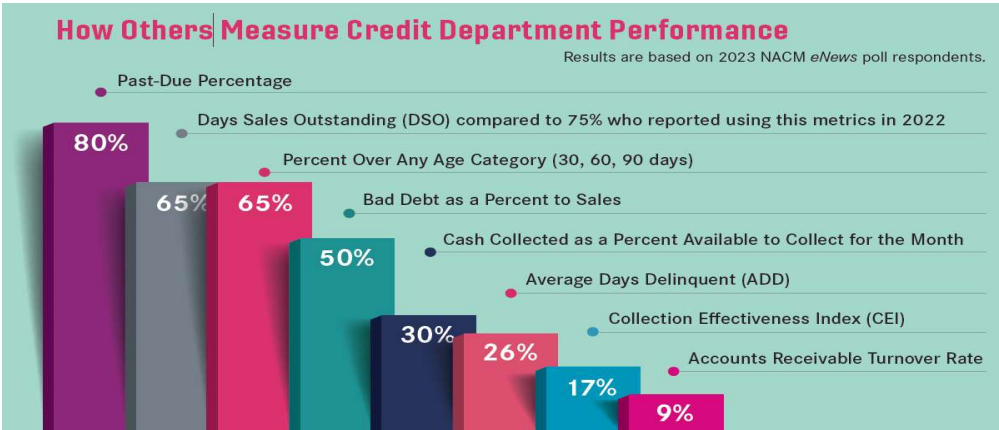
Many Credit Managers often bristle over the DSO metric, because Credit Sales is a key component of that calculation.

They feel that DSO is not a good metric in measuring AR performance, since they have little or no control over the fluctuations in Credit Sales. Rightfully they feel that significant swings in Credit Sales will unfairly skew their results, regardless of how hard their team has worked.

Many Accountants seem to love the DSO metric, while many Credit & Collection professionals loath it.

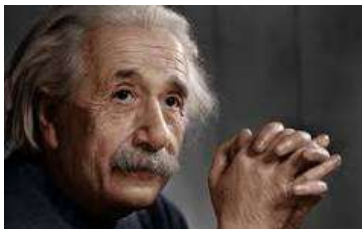


## How is AR Performance Measured?





## According to Albert Einstein:



**“The true sign of intelligence is not knowledge, but imagination.”**

**He believed that true intelligence requires imagination and creativity, to make things that are complex, simple.**

**“Creativity is ... Thinking outside the confines of the situation, being open to unexpected events or chances, allowing the subconscious mind to take over, leading to, and springing up with surprise solutions at unexpected times...”**



## Key A/R Metrics driving results

1. **Percentage Past Due** – Measures performance based on past due percentages.  
Calculation:  $(\text{Total Past Due} / \text{Total Receivables}) = \% \text{ Past Due}$
2. **Days Sales Outstanding (DSO)** – Measures the average aggregate time that receivables are open.  
Calculation:  $(\text{Receivables} / \text{Total Credit Sales}) \times \text{Number of Days} = \text{DSO}$   
or  
Calculation:  $(3 \text{ Months Average Receivables} / 3 \text{ Months Average Credit Sales}) \times 30 \text{ Days} = 90 \text{ Day Trailing DSO}$
3. **Best Possible DSO (BPDSO)** – Measures the best possible DSO if all customers paid on time.  
Calculation:  $(\text{Current Receivables} / \text{Total Credit Sales}) \times \text{Number of Days} = \text{BPDSO}$   
or  
Calculation:  $(3 \text{ Months Average Current Receivables} / 3 \text{ Months Average Credit Sales}) \times 30 \text{ Days} = 90 \text{ Day Trailing BPDSO}$
4. **Average Days Delinquent (ADD)** – Measures the effectiveness of your Collections efforts.  
Calculation:  $(\text{DSO} - \text{BPDSO}) = \text{ADD}$
5. **Working Capital Generated** – Quantifies the Working Capital value we have added to the company.  
Calculation:  $(\text{DSO Improvement over time} \times \text{Average Daily Revenue}) = \text{Working Capital Generated}$



## The Serenity Prayer & Einstein's Secret

**"God, grant me the serenity to accept the things I cannot change, the courage to change the things I can, and the wisdom to know the difference."**

Reinhold Niebuhr

**"Any intelligent fool can make things bigger and more complex... It takes a touch of genius – and a lot of courage to move in the opposite direction."**

Albert Einstein



## Should DSO Metrics Even Matter?

**With age, experience, and education, we have now come to appreciate the significance of the DSO Metric in highlighting to Senior Management, the value of my team's efforts in tangible working capital dollars.**

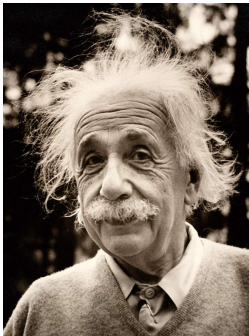
**Proper use of DSO metrics can be a powerful tool to demonstrate our value to the companies we work for.**

**Each day improvement in DSO is worth a day of revenue in Working Capital dollars. By improving DSO by 10 days over time, we have literally generated 10 days worth of tangible Working Capital dollars for the business.**



## DSO, Friend or Foe?

When partnered with BPDSO, ADD, and Working Capital Improvement, DSO should become our best friend.



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