



Session 37037
Tuesday, May 20th, 9:00 AM – 10:30 AM

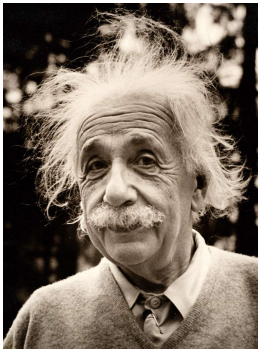
DSO: Friend or Foe?

Scott Chase, CCE, CICP
Global Director of Credit, Gibson, Inc.

Scott Michelsen, CCE, ICCE
Director of Credit & Collections, Pave America

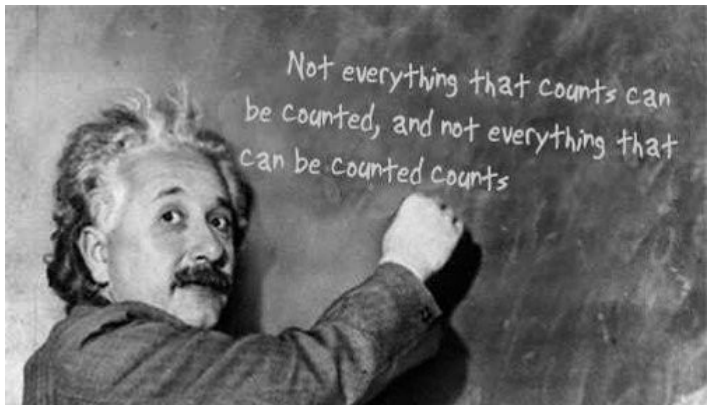


DSO – Friend or Foe?





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



ONE SIZE DOES NOT FIT ALL



- Credit and Collection Team Dynamics
- Credit Terms effect on Collection Strategies
- Large Corporation – Payment Policies
- Selling Receivables – Factoring
- Relaxed Credit Policy – Sales Focused
- Seasonal Sales
- Global Macroeconomic Issues



Is DSO a fair metric in gauging AR performance?



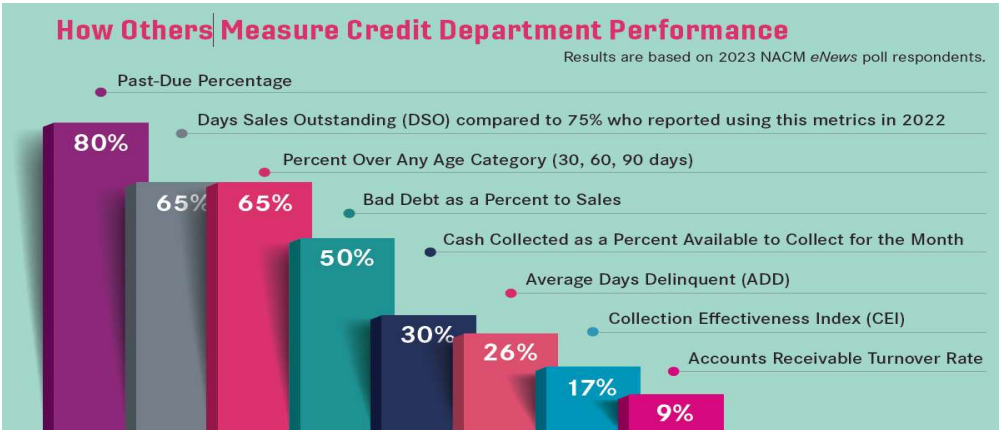
Days Sales Outstanding Perfectly Imperfect



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

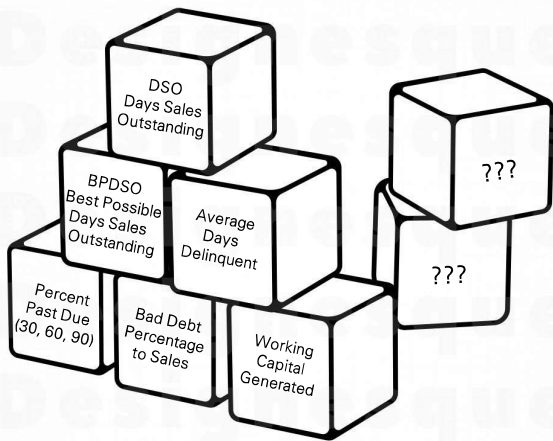


How is AR Performance Measured? How do you measure AR Performance?





How can we improve our DSO knowing that it is an important management metric ?

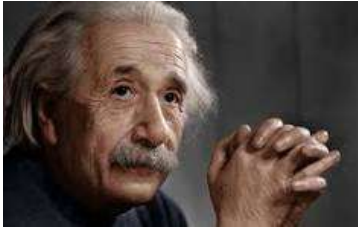


What other metrics do you use as building blocks to better understand the DSO Metric?



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: $(\text{ADD Improvement over time} \times \text{Average Daily Revenue}) = \text{Working Capital Generated}$



According to Albert Einstein:

"The true sign of intelligence is not knowledge, but imagination."

"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..."

"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."



The Serenity Prayer

"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



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?



Should DSO Metrics Even Matter?

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

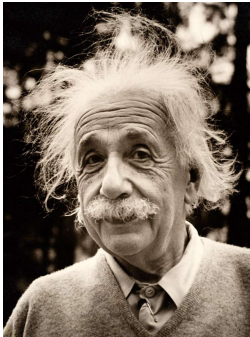
Proper use of the DSO metrics can be a powerful tool to demonstrate our value to the companies we work for.

Each day improvement in ADD is worth approximately day of revenue in Working Capital dollars. By improving ADD by 5 days over time, we have generated approximately 5 days worth of tangible Working Capital for the business.



DSO, Friend or Foe?

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



Takeaways



What did you learn today that will be of value to you in your current role?



DSO: Friend or Foe?

Scott Chase, CCE, CICP
Global Director of Credit, Gibson, Inc.
scott.chase@gibson.com

Scott Michelsen, CCE, ICCE
Director of Credit & Collections, Pave America
smichelsen@paveamerica.com