
Session 38036
Tuesday, June 9th, 9:00 AM – 10:30 AM

Maximizing the Business Value of Credit & Collections

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**We are
“Preaching to the Choir”**



Our Value as Credit & Collections Professionals

Our role is largely misunderstood. The value we add to the businesses we support is significant. Leadership often does not fully appreciate what we do or the value we add to their businesses. This session is intended to help attendees more fully understand and maximize their significant value to businesses that they support.



Are you Valued in your Role?

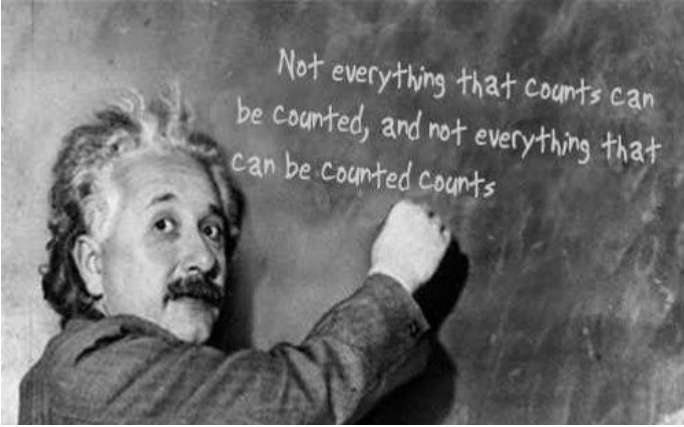


“I don’t get no Respect!”

Rodney Dangerfield



Why are Metrics so Important?



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

Pearson’s Law



How do we effectively measure our Value?

- Percent Past Due
- DSO – Best Possible DSO – Average Days Delinquent
- Working Capital Improvement
- Billing Efficiency
- Days Deductions Outstanding



Credit & Collections – The Dynamic Duo



<https://youtu.be/mnta3rU4zCA>

Effective Credit & Collections is the Dynamic Duo!!!

When effective Credit policies and procedures are implemented, and strong Collection Strategies are employed; Past Due declines, DSO improves and Working Capital increases.



What is a good AR Aging Percentage?

A good AR aging percentage is dependent on several factors, such as the industry, company size, and payment terms offered. However, a general benchmark for a healthy AR aging percentage is as follows:

- **Current (0-30 days past due): 60-70%**
- **1-30 Days Past Due: 20-25%**
- **31-60 Days Past Due: 5-10%**
- **61-90 Days Past Due: 2-3%**
- **91+ Days Past Due: 1% or less**

www.chaserhq.com/blog/accounts-receivable-aging-report



Why is DSO an important metric?

“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

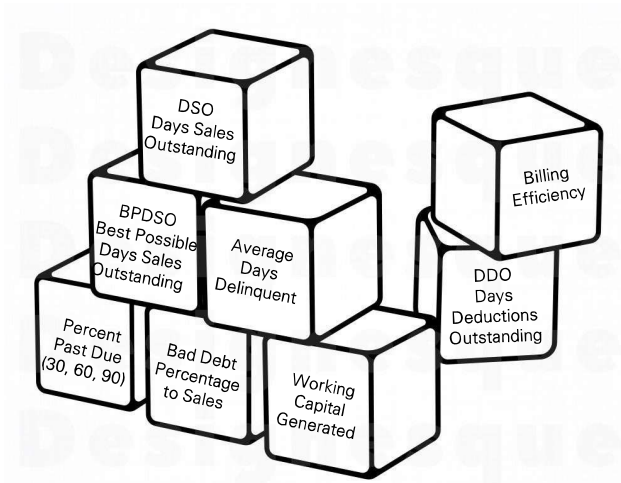


Days Sales Outstanding Perfectly Imperfect

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



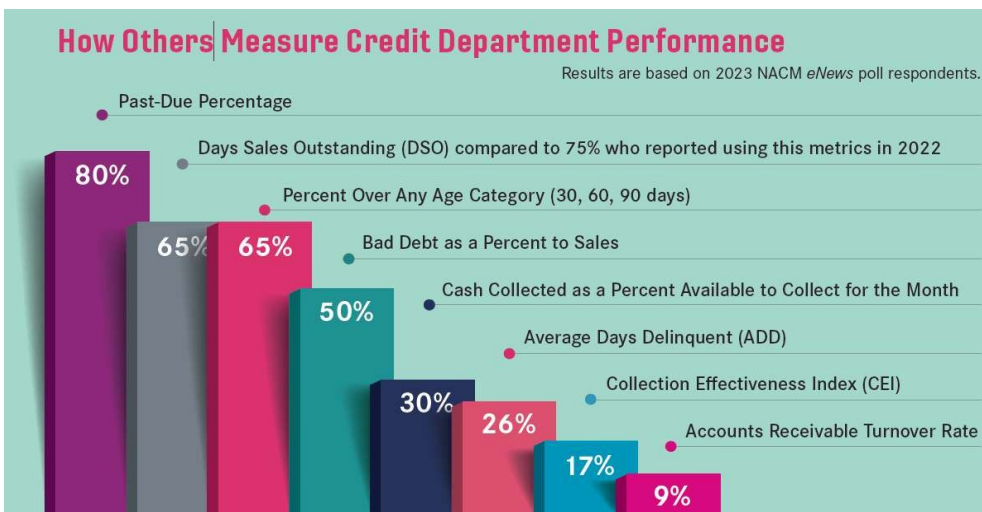
How can we add more value?



What Metrics do you use as Building Blocks to better measure your overall AR performance?



How is AR Performance Measured?



Working Capital – Cash is King



Do we really understand the value of what we do?



Billing Efficiency



“Without continual growth and progress, such words as improvement, achievement, and success have no meaning.”

Benjamin Franklin

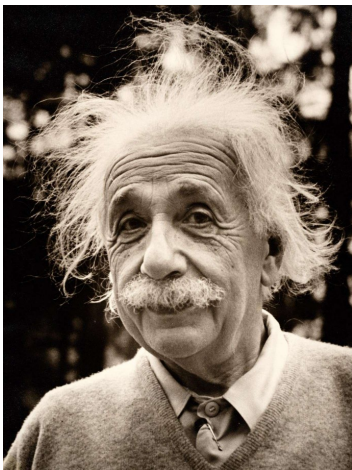


Key A/R Metrics Driving Results

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: $(\text{Receivables} / \text{Total Credit Sales}) \times \text{Number of Days} = \text{DSO}$
3. **Best Possible DSO (BPDSO)** – Measures the best possible DSO if all customers paid on time.
Calculation: $(\text{Current Receivables} / \text{Total Credit Sales}) \times \text{Number of Days} = \text{BPDSO}$
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: $(\text{ADD Improvement over time} \times \text{Average Daily Revenue}) = \text{Working Capital Generated}$
6. **Billing Efficiency/Average Days to Bill** – Measures how quickly product shipments or services are billed.
Calculation: $(\text{Invoice Date} - \text{Shipment or Service Date}) \text{ Averaged by transactions in the period}$
7. **Days Deductions Outstanding (DDO)** – Measures the average time it takes to resolve deductions.
Calculation: $(\text{Total Open Deductions} / \text{Average Daily Deductions Received}) \times \text{Number of Days} = \text{DDO}$



Keep it Simple



“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



The Art of Credit & Collections

**“Study the science of art.
Study the art of science.
Develop your senses-
especially learn how to see.
Realize that everything
connects to everything else.”**

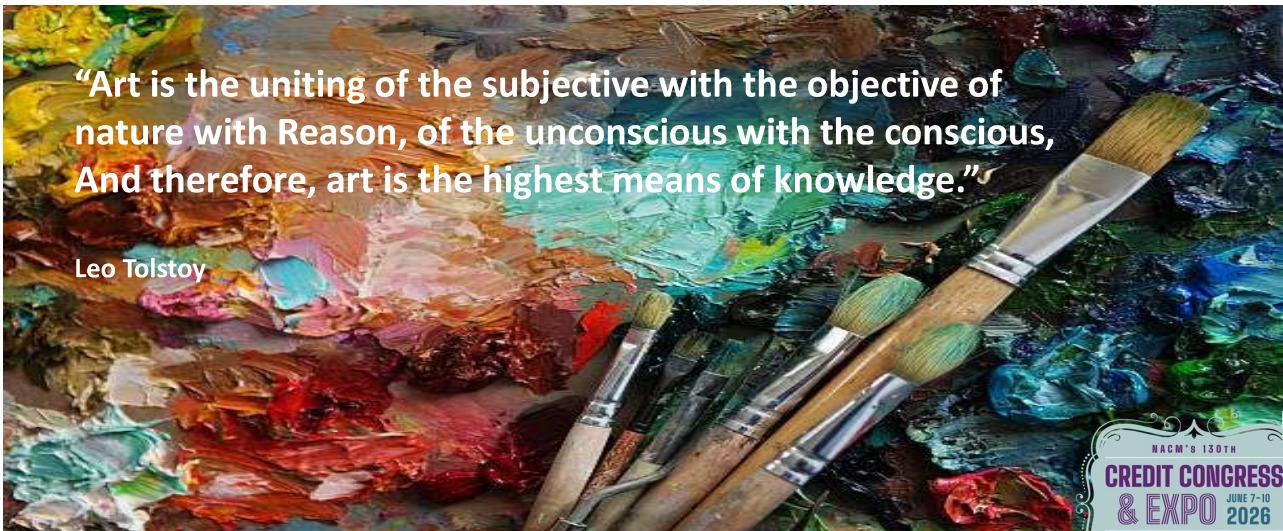
Leonardo da Vinci



The Art of Credit & Collections

**“Art is the uniting of the subjective with the objective of
nature with Reason, of the unconscious with the conscious,
And therefore, art is the highest means of knowledge.”**

Leo Tolstoy



Navigating Treacherous Waters



“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



What challenges do you face?



"I'll get you, my pretty, and your little dog, too!"

The Wicked Witch of the West



Takeaways



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



You are Superheroes!!!



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