Reducing DSO Without Growing Headcount

CreditPoint
SOFTWARE®

A Strategy for Improving DSO and Collections Department Productivity

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Executive Summary

Situation: Increasing Collections Department Headcount Is Now an Outdated and Costly Strategy

Within the large-business community, employees have traditionally been viewed as a strategic advantage, especially within a revenue-generating department such as collections. But in today's competitive economic environment, as the cost of maintaining large employee staffs has grown, many enterprises are looking for new ways to lower operating costs, especially personnel-related costs.

As a result, collections departments are facing a serious dilemma: either shave headcount and risk increasing DSO as the result of a smaller, overworked staff or spend more money on technology and let softwares assume a greater amount of the collections workload.

Problem: Enterprises Need Greater Visibility to Improve Productivity and Lower DSO

Improving DSO can play a significant role in enterprise profitability, as reducing average DSO by just one day can increase collections by as much as tens of thousands or millions of dollars per year.

A shortcoming of the traditional manpower-based collections department is its failure to provide financial executives and departmental managers with adequate visibility into the collections function for any specific employee or for the department as a whole. Without the ability to closely analyze such things as collector activities, open accounts receivable, trends or capital forecasting, financial executives are unable to make the necessary changes that decrease DSO, resulting in a poorer financial performance.

Solution: A Transparent Workflow-Centered Solution That Empowers Greater Productivity

Today, businesses need a new, more effective model for the collections department that is less dependent on growing headcount and manpower and is more focused on finding new ways to foster more efficient workflows and boost employee productivity.

Such a system should provide financial executives and departmental managers with greater transparency into the collections function. This includes simple access to view multiple

employee collections strategies and make departmental recommendations accordingly, streamlining operational efficiencies and improving productivity while lowering departmental operating costs.

Result: Deferred Headcount, Reduced DSO, Happier Customers and a Better Bottom Line

CreditPoint's Collections and Dispute Management solution, provides collections departments with the power and flexibility of a fully integrated collections system. Each employee has the ability to manage all the necessary collections functions, including call prioritization, reminder notices, and established follow-up activities.

Furthermore, financial executives and collections department managers have access to a more efficient workflow that can improve the enterprise collections function, shorten DSO, turn accounts receivable faster and thereby improve the bottom line. These strategies also allow the organization to defer headcount increases yet continue to drive productivity.

A Critical Challenge for Todays Enterprise: Growing Capabilities Without Growing Headcount

Enterprises view their employees as strategic investments. Once they have invested time, training, support and hands-on experience, that employee provides a strategic business advantage. This is especially true within a revenue-generating department such as collections. The standard mode of thinking was to grow the number of employees in the collections area in order to reap greater levels of productivity. The idea was that the more people, the faster the accounts receivable turns, the quicker the organization could reduce DSO and ultimately generate better cash flow for the enterprise.

Improving DSO can play a significant role in achieving greater profitability. In 2006, Terry Callahan, then president of Credit Research Foundation (CRF) a nonprofit group of 4,000 credit managers from U.S.-based companies, ranging from Fortune 100 corporations to businesses with annual revenues of $250 million or more, explained that according to his estimates, there is a lost opportunity cost of $10,000 per day for each day that average DSO increases. This amounted to $3.65 million per year for the average CRF member company.[1]

1 Source: CFO.com, "Days of Delinquency," March 13, 2006.

In today's highly competitive economy, many enterprises are looking for new ways to lower operating costs. Because maintaining a large workforce has historically been one of the highest costs for any company, trimming staff is often one of a company's first cost-cutting measures. As a result, enterprise collection departments are facing a serious dilemma: either shave headcount and risk increasing DSO as the result of a smaller, overworked staff, or have automation assume a greater share of the collections workload, which may decrease cost but may also increase collections-related problems and risk.

In terms of information automation, ERP systems have traditionally been at the heart of the financial workflow process within large businesses. Unfortunately, when it comes to managing the collections function, even the best ERP vendors do a mediocre job of managing the collections workload. Some of the largest ERP vendors depend on third parties to incorporate the collections function into their systems, while other ERP vendors offer their own homegrown applications with limited capabilities that do not support all the functions needed to manage collections in today's highly complex business credit environment.

Many organizations have opted to manage the collections function in a more convoluted fashion, moving customer information from ERP applications to spreadsheets.

Given these limitations, many organizations have opted to manage the collections function in a more convoluted fashion, moving customer information from ERP applications to desktop spreadsheets. While this approach may address short-term needs, it opens up greater opportunities for human error and increases the time required to resolve billing problems. This diminishes customer service and decreases the opportunity for future business opportunities.

What enterprises need is a collections department solution that allows them to maintain their current headcount and gain greater productivity levels from each employee, without dramatically increasing overall operating costs. Such a solution should also provide a detailed and measurable road map for reducing DSO, which allows financial executives to clearly demonstrate a return on investment and improve bottom-line profitability.

The goal of this white paper is to educate corporate collections managers and decision makers about a workflow solution that empowers collections departments to gain greater levels of productivity and efficiency using their existing headcount, thereby improving their bottom line.

Understanding the Challenges with Traditional Manpower-Based Collections Operations

Enterprises that have historically applied the traditional manpower-based growth strategy for their collections department face five distinct business challenges that can have significant bottom-line repercussions for the entire organization. These include the following:

Challenge #1: Longer DSO and Diminished Cash Flow

When open AR information is managed without automation and workflow technology, financial information becomes more dated, often adding an additional week or two to the aging process. As a result, cash flow is inhibited, lengthening DSO that can potentially represent millions of dollars, which has a significant impact on cash flow and the bottom line.

Challenge #2: Slow and/or Absent Dispute Resolution

With a potential base of hundreds or thousands of customers in any large accounts receivable system, mistakes as the result of miscommunications or simple human error will eventually take place. When such errors occur, it is imperative that there is a formal dispute process in place to resolve them. Without such practices, collection-related disputes take longer to resolve, extending the time to issue any required credits as well as the time to receive the outstanding funds.

Challenge #3: The Absence of Employee/Departmental Visibility

An additional shortcoming of the traditional manpower-based collections department is the poor visibility into the collections function for any individual employee or the department as a whole. Without the ability for financial executives and departmental managers to closely analyze tasks such as collector activities, open accounts receivable, DSO trends or capital forecasting, financial executives are unable to make the necessary changes that will dramatically reduce operating costs and better prepare the enterprise to weather sluggish economic periods.

Challenge #4: The Widespread Use of Desktop Applications

The widespread use of desktop applications, especially spreadsheets, means that collections information is constantly shifting back and forth between the ERP system and individual employee workstations. When collections information becomes more decentralized and financial executives lose control over the management of that information, adding unnecessary time and cost as collections-related information passes from one employee to another. As a result, it's nearly impossible for management to know who owns the most recent version of collections information for any single customer account at any particular point in time.

> **When collections information becomes more decentralized, financial managers lose control, adding unnecessary time and cost as a greater number of people have access to that information.**

Challenge #5: Effect on Customer Service and Future Business Relationships

The lack of greater introspection into the collection system, coupled with decentralized information and the lack of a formal dispute resolution process, creates the perception that an enterprise organization is out of touch, resulting in customers questioning the significance of their business with the enterprise. As a result, the lack of effective collection tools, processes and systems has a direct impact on customer service and the potential for future sales with those customers.

To overcome these challenges, businesses need a new and more effective enterprise collections model that is less dependent on growing headcount and manpower and is instead focused on utilizing superior information tools to improve the collections function, lower costs and foster more efficient workflows.

Such a solution is available from CreditPoint Software.

The CreditPoint Advantage for Improved Enterprise Collections Management

When one takes a closer look at the enterprise collections function, it becomes apparent that each organization has its own unique method of prioritizing and escalating collections and dispute management issues.

CreditPoint Software takes this central premise into account. The configurable software allows each organization to address its unique collections processes and management needs.

A New Approach to Collections and Dispute Management

CreditPoint's Collections and Dispute Management solution provides enterprise collections departments with the power and flexibility of a fully integrated system. Using a customizable dashboard, each employee has the ability to manage all the necessary collections-related functions, including call prioritization, reminder notices and established follow-up activities.

All information in the dashboard is segregated and displayed in a variety of panels, which are matched to each employee's specific daily workflow. Collectors can review a specific account, place a call and log the resulting promise or dispute. The system captures all the critical data, while giving collectors unique collection strategies to address the subtle nuances associated with each individual customer account.

CreditPoint's Collections and Dispute Management solution provides enterprise collections departments with the power and flexibility of a fully integrated system.

CreditPoint's Collections and Dispute Management solution also provides financial executives with complete access to a wide variety of performance metrics. Executive reports can be configured for performance review, cash forecasting and portfolio analysis. Reports can also be refined down to a granular level, giving management a highly detailed analysis of the entire portfolio, an individual customer account or a group of accounts.

The key features of CreditPoint's Collections and Dispute Management solution includes:

Automated Workflow — Generate custom call scripts that collections personnel can access to log their collections-related activities. Collections managers can also make daily to-do list assignments and track their individual progress against those assignments, as well as integrate any related information with sales and customer service departments to improve operations.

Detailed Business Intelligence Reports —Configure detailed reports as a means of driving better financial performance. Reports include a drill-down capability, allowing AR information to be reviewed from the macro to the micro level, improving overall collections management and policy-related decision making.

Highly Configurable and Flexible Look and Feel — Dashboards can be configured to support a particular collector's workflow, thereby maximizing employee time and productivity.

Greater Management Transparency —View multiple employee collections strategies and make departmental recommendations accordingly, streamlining operational efficiencies, improving productivity and lowering departmental operating costs.

Dispute Resolution Functions — The software includes formal processes that facilitate AR disputes or the "promise to pay" for late customers, shortening the time necessary to complete these transactions, which lowers DSO.

Mass Correspondence and Proof of Delivery —Save time by automating department correspondence (email, fax, letter) and integrating information with national carriers such as UPS, FedEx, and USPS.

With CreditPoint's Collections and Dispute Management software, enterprise collections can reduce DSO and bad debt, increase capital flow and improve customer service and satisfaction without the cost of growing departmental headcount.

Concluding Summary

The traditional practice of applying manpower and headcount as a way to improve enterprise operations must change. Such practices no longer work at a time when enterprises are squeezing every dollar out of their existing resources to lower overall operating expenditures.

The key to success is not to reduce headcount, but to do more with existing personnel and to use automation tools that make every collections department employee as productive as possible.

CreditPoint's Collections and Dispute Management solution provides enterprise collections departments with a robust set of information-rich tools that boost workflow productivity, provide faster problem resolution, lower DSO and increase worker transparency, thereby improving bottom-line performance.

There are three bottom-line business advantages that enterprises gain with the implementation of CreditPoint's Collections and Dispute Management:

Greater Productivity — Collectors gain a rich set of tools that boost productivity, enabling financial executives to accommodate greater workloads without applying the traditional approach of adding headcount to accomplish the same task.

Improved Visibility and Transparency — Financial managers can create detailed reports on employee productivity levels, spot departmental trends and make better collections policy decisions based on access to real-time data.

Enhanced Cash Flow — Reduce overall DSO, turn accounts receivable faster, lower operating costs and thereby dramatically improve the bottom line.

For more information about how CreditPoint Software solutions can provide your enterprise with better credit and collection policies and strategies, please visit the website at www.creditpointsoftware.com or call 866.481.4435.

About CreditPoint Software

CreditPoint empowers businesses to be more efficient and eliminate customer portfolio management challenges. The company's SaaS product suite offers complete credit and collections functionality including bureau integration, rule-based workflows, dispute and customer portals, ratings & financial data, and business intelligence. From small and medium-sized companies, all the way up to Fortune 500, CreditPoint serves a myriad of business types and sizes.