

5 AR KPIs You Should Track & Share Within Your Organization

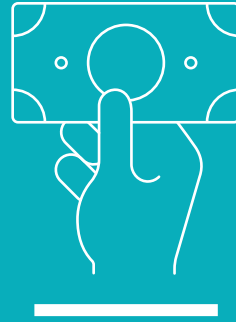
Featuring Mike Nortman of Esker



Meet Today's Speaker



Mike Nortman
Invoice-to-Cash
Business Development Manager
Esker



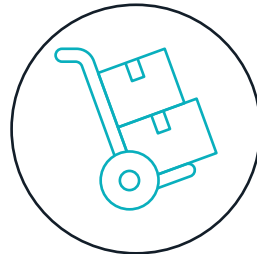
The Importance of Tracking Your AR Processes

Concerns over cash flow

The cost of capital:



The purchase of raw materials and goods



Manufacturing and distribution



Sales and marketing



Salaries and benefits

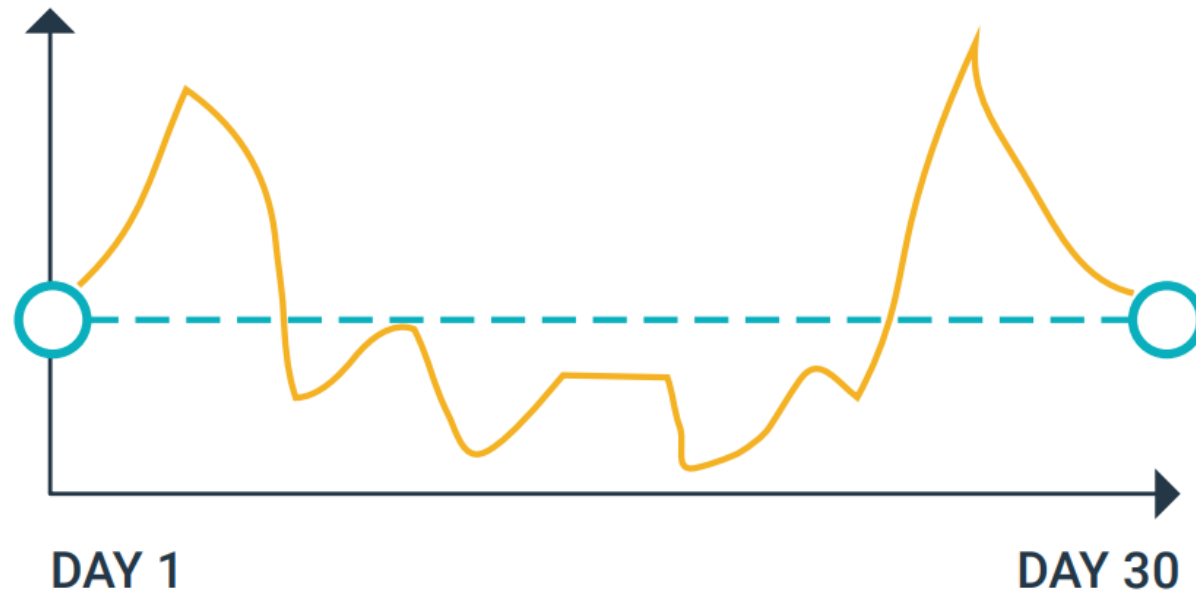


General administration



Investments in the business

Challenges in cashflow & liquidity



DSO:

Consistent. Only measured at start and end of month.



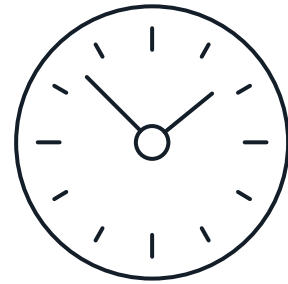
Liquidity:

Fluctuates due to many factors throughout the month.



Comparative global analyses show that, on average, **43% of invoices are paid late**, and nearly 7% of invoice balances are written off completely. This means that only 50% of invoices are paid on time and in full.

Source: Atradius. US: DSO worries prompt strategic credit management, July 6, 2022.



Firms that rely on manual AR processes vs. automation take 67% more time to follow up on overdue payments.

Source: PYMNTS. B2B Payments Innovation Readiness Playbook, December 2020.

Introduction

For most credit managers and accounts receivable (AR) leaders, monitoring AR performance is an important part of the job. That's why getting instant access to relevant Key Performance Indicators (KPIs) is such a valuable tool. But among all the figures and data, which are the most relevant for you to track and share within your organization? And why does sharing matter?



Sharing certain KPIs matters because expanding the cash culture throughout the organization is a major part of an AR leader's job. Furthermore, AR performance should be everyone's concern so it's a good way to keep people involved and mindful about one of the company's biggest assets.

This document highlights five KPIs that provide the most accurate insight into your global AR performance and that can — and should — be shared internally.



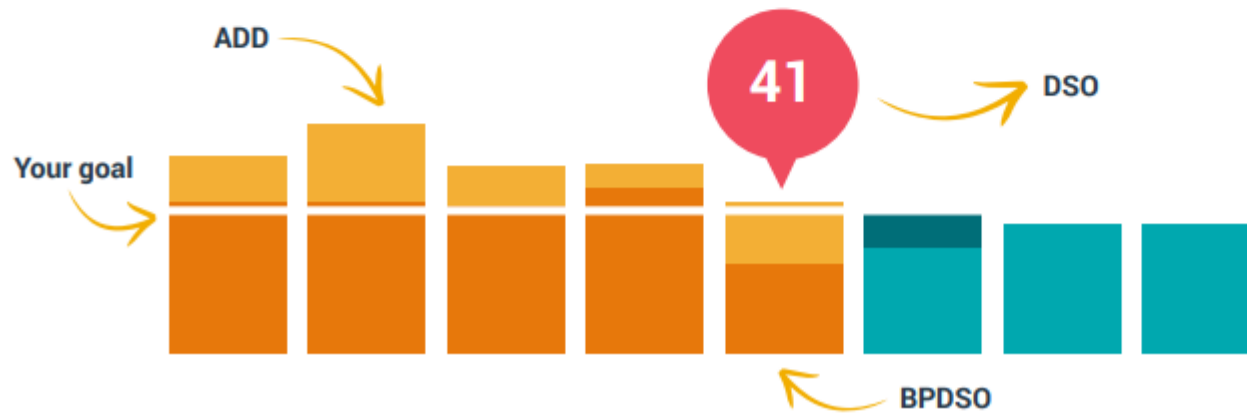
5 Top AR KPIs to Track

01 DSO (and beyond)

Let's start with the most famous metric: Days Sales Outstanding (DSO). It remains one of the most commonly used KPIs for insight into performance by providing the average number of days it takes to turn receivables into cash.

However, to remain relevant, DSO should always be analyzed:

- Costs associated with routing
- Copying and follow-up
- Staff salaries
- Managerial overhead
- IT support



Who to share it with?

The c-suite, the Sales team, Customer Service Reps (CSRs), legal, subs – basically all people involved in the order-to-cash (O2C) cycle and that may have impact on DSO at some point.

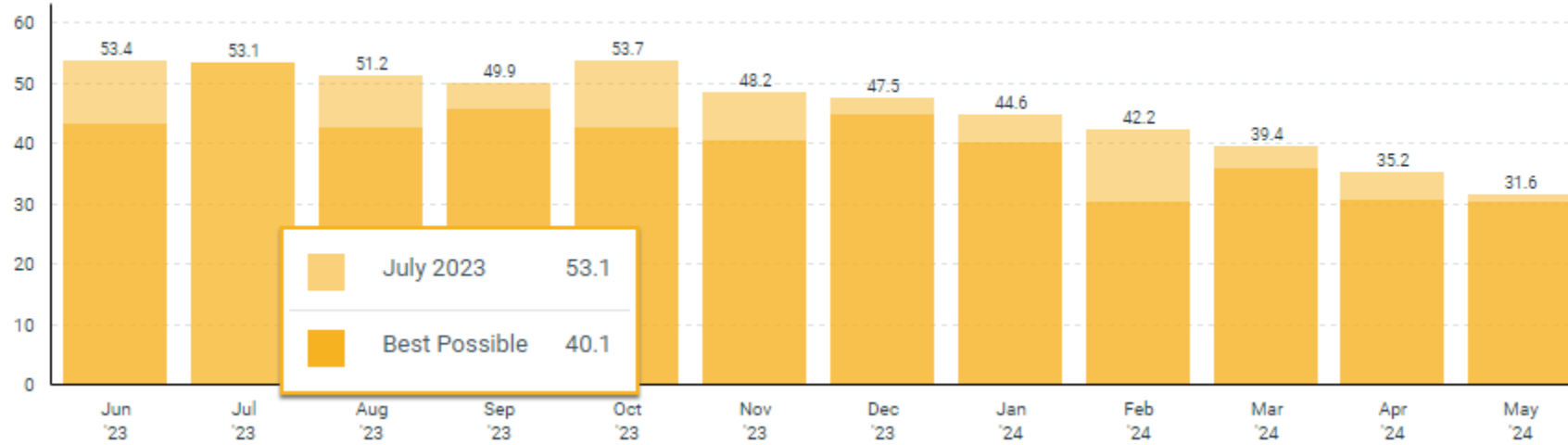


Why?

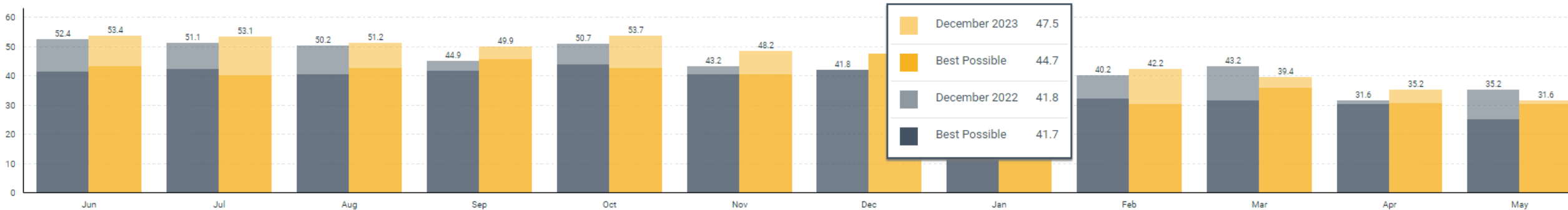
To give visibility on average payment terms and their evolution over time. Increasing payment terms can be an indicator of customer issues, increased risk of insolvency, lack of performance in the collection process, extended credit terms or more. In other words, you definitely don't want to neglect it.

Types of DSO reports

Days Sales Outstanding (DSO) ⚙️



Days Sales Outstanding (DSO) ⚙️



02 CEI

Collections Effectiveness Index (CEI) is a way to measure pure collections performance. It's a ratio between the amount of cash **collected** during a given period compared to what was **available for collection** within the same period. The closer to 100% the better your collections performance!

Do you know how to calculate CEI? If not, here's how:

$$\text{CEI} = \frac{\text{Beginning receivables} + \text{Monthly credit sales} - \text{Ending total receivables}}{\text{Beginning receivables} + \text{Monthly credit sales} - \text{Ending current receivables (not overdue)}} \times 100$$



Who to share it with?

The entire AR team (from collections to control).



Why?

To show your team how they perform, keep them involved and congratulate them each time they reach a big step! CEI is important to share with other stakeholders as well because it focuses on the effectiveness of collections efforts over time. A declining CEI is a warning of potentially serious cash problems that organizations should keep a close eye on.



03 Credits & disputes

A significant number of credits and/or disputes may not only impact your DSO, but also your customer relationships and can be a sign of deeper failures within the organization (billing errors, deductions, disputes, etc.).

Disputed invoices also have a negative impact on cash tied out that may never be recovered. In addition, it may negatively impact your organization's reputation or hide failing internal processes or issues that need to be addressed.

That's why keeping an eye on both ratios of credits/invoices and disputes/invoices is so essential.



Who to share it with?

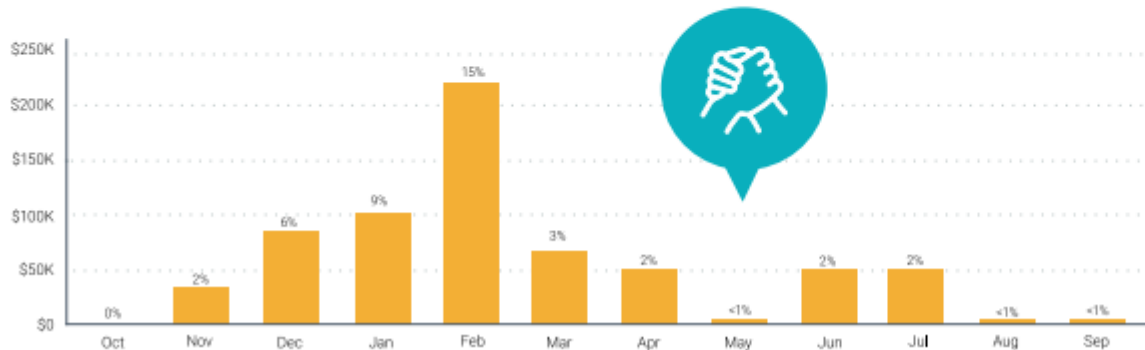
C-suite, Sales team and any other team according to results (CSRs, admin, production, logistics, etc.).



Why?

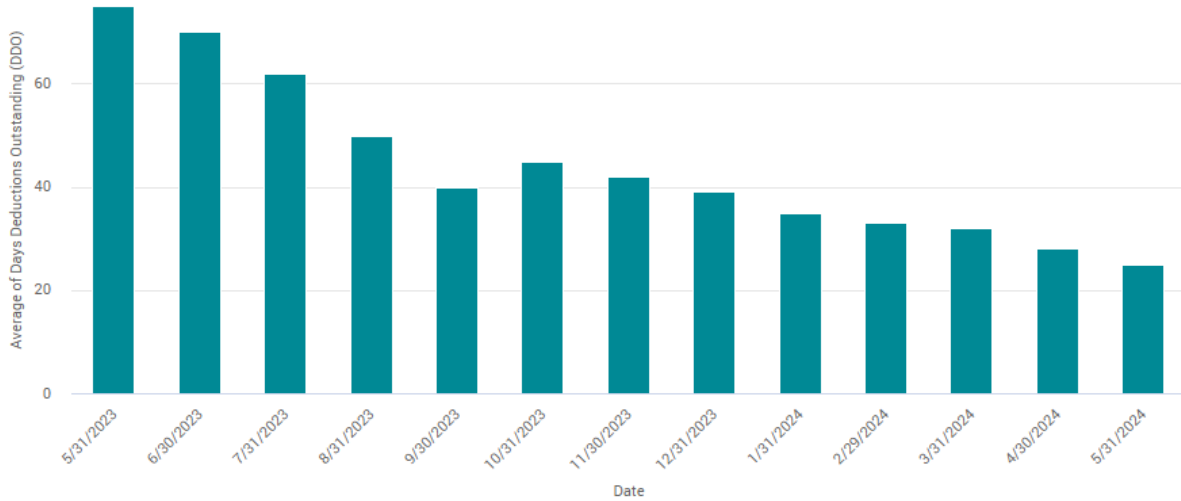
To provide insight on credit and dispute levels on the AR outstanding and alert O2C cycle stakeholders if needed.

Total Disputed at Month End ⚙️

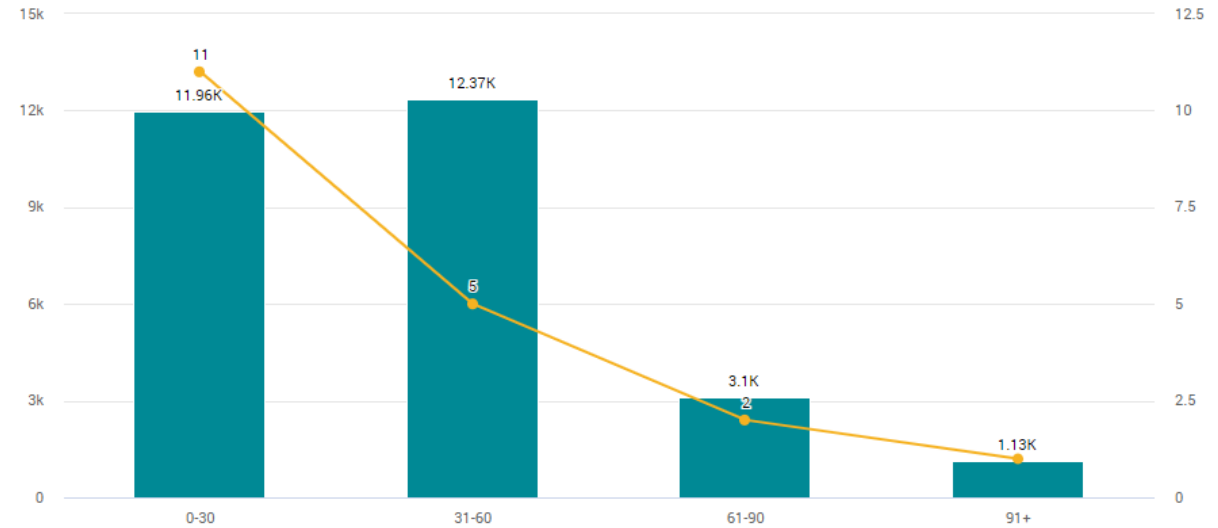


Types of claims reports

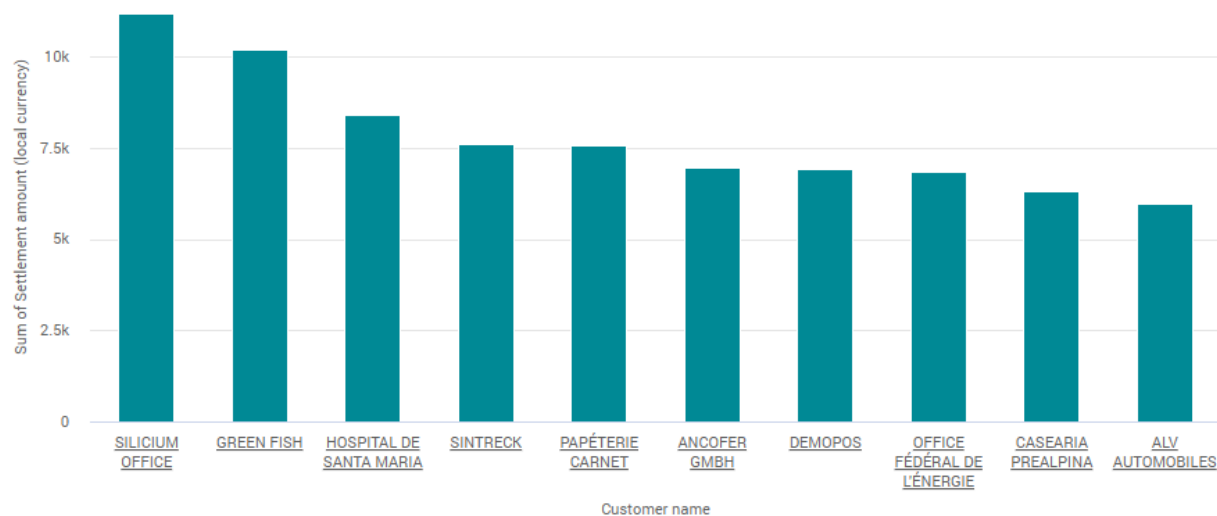
Days Deductions Outstanding (DDO)



Claim aging



Claim amount by customer



04 Root-case analysis

Getting figures is not enough. If you really want to know why you're getting paid late, you need to know what's wrong and where the issue lies – get to the root cause!

For example: Why, despite great collection efforts, do your customers keep paying late? Do they receive invoices on time? Are all their billing requirements fulfilled? You can't change what you can't measure, so you need to dive deeper into reasons why your cash is being delayed and adjust accordingly.



Who to share it with?

C-suite and any team that may be impacted (Sales admin, Sales team, quality, logistics, etc.).



Why?

To provide insight on credit and dispute levels on the AR outstanding and alert O2C cycle stakeholders if needed.

Root Cause Analysis: Reasons for Lateness

100% Reasons for Lateness Root Causes Recorded

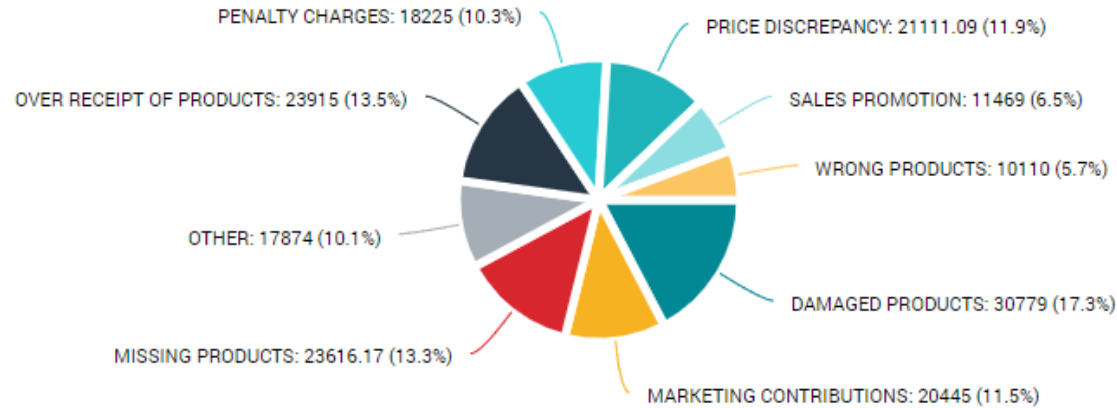
05/01/2018 - 05/15/2018

	% of Invoices	# of Invoices
Cannot get ahold of the customer	33.1%	43
Customer did not receive invoice	52.3%	68
Customer dispute	7.7%	10
Customer doesn't have the money	1.5%	2
Customer has unanswered questions	0.8%	1
Missing or invalid PO number	4.6%	6
Total		130
No Root Cause Entered		0

<input type="checkbox"/>	Invoice Date	Pay Date	Invoice #	Customer	Customer ID	Amount	Stage	Vendor	PDF
<input type="checkbox"/>	Dec 11 2017	Jan 10 2018	1240526	Gears by Gary, Inc.	15071	\$312.00	Open	Amazing Widgets	View
<input type="checkbox"/>	Dec 06 2017	Jan 05 2018	2816797	Coffee Delivered	52720	€194.00	Open	Amazing Widgets	View
<input type="checkbox"/>	Dec 14 2017	Jan 13 2018	1274023	Stuffed Toys, Inc.	53325	€867.00	Open	Amazing Widgets	View
<input type="checkbox"/>	Dec 04 2017	Jan 03 2018	8086413	Email-to-Bulk, Inc.	77447	€771.00	Open	Amazing Widgets	View

Types of root cause reports

Claim amount by claim type



Root Cause Analysis: Reasons for Lateness

Filter

76.5%

Reasons for Lateness Root Causes Recorded

Filtered by: Date Range (Year to Date)

01/01/2024 - 06/17/2024

	% of Invoices	# of Invoices	Total Amount
Cannot get ahold of the customer	22.6%	<u>14</u>	204,606.00 USD
Customer did not receive invoice	14.5%	<u>9</u>	135,956.83 USD
Customer dispute	16.1%	<u>10</u>	125,983.57 USD
Customer doesn't have the money	16.1%	<u>10</u>	137,163.39 USD
Customer has unanswered questions	16.1%	<u>10</u>	141,682.24 USD
Missing or invalid PO number	14.5%	<u>9</u>	123,693.49 USD
Total		<u>62</u>	869,085.53 USD

05 Collections forecast

Estimating the amount of cash you can expect to receive within the next couple of days/weeks/months can be very helpful – not only for you to adjust your collection efforts according to your organization’s potential needs for cash, but to provide controllers and treasurers with accurate data for their cash forecast.



Who to share it with?

CFO, controller, treasurer and the AR team.



Why?

It provides Finance folks with valuable visibility into the cash to be received within the next couple of days/weeks/months so they can adjust their forecast accordingly and optimize cashflow. It can also be a good way of challenging your team with goals to achieve by the end of the month.



Conclusion

Monitoring AR performance by analyzing KPIs is crucial to every business. And sharing these key metrics is just as important to receive the help and level of involvement needed to improve global AR performance.



Cash is king and it is your responsibility to align all parties involved in order to optimize speed, efficiency and effectiveness of AR processes.

The best indicators of process effectiveness and efficiency include those that are based on your organization's needs. Esker provides dashboards, built-in KPIs and customizable reporting capabilities to help you get the visibility you need to control (and share!) your AR performance as you wish.

An end-to-end solution suite to optimize the I2C process and reduce DSO



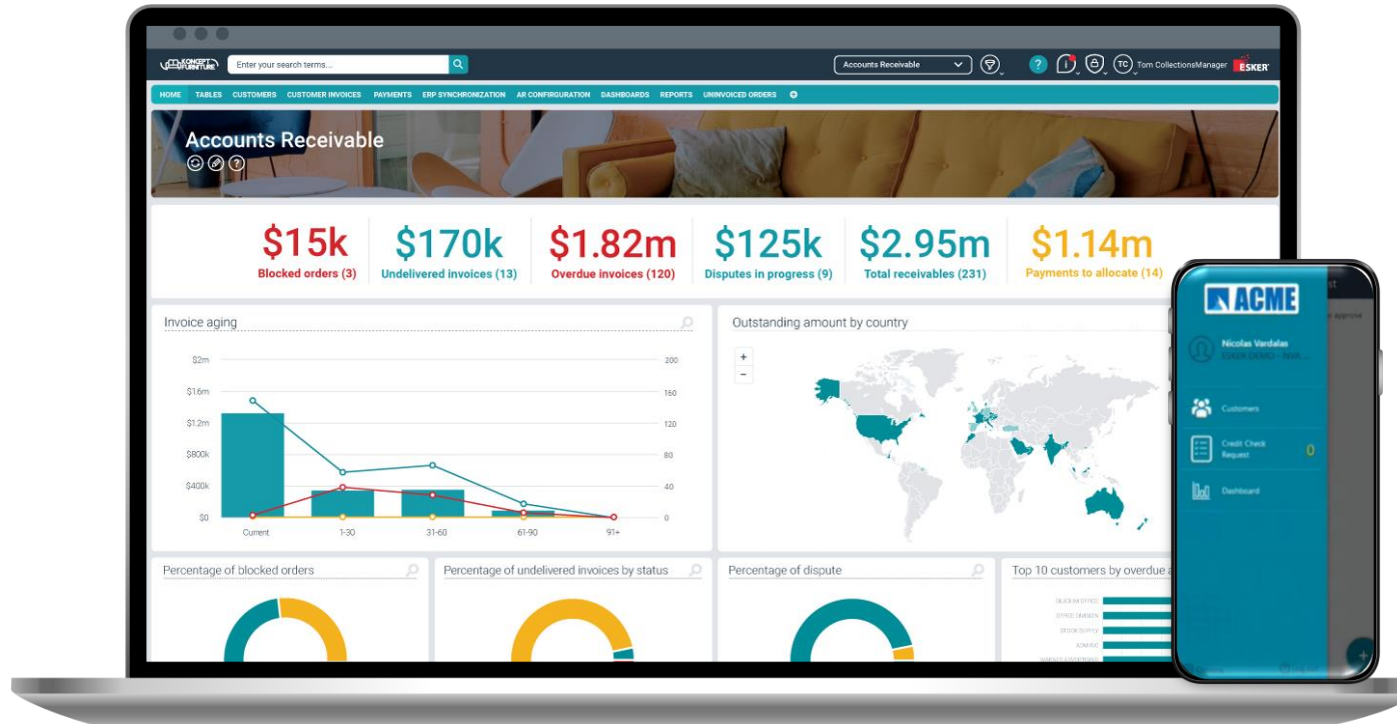
Secure customers onboarding and keep credit risk under control with **Esker Credit management**.



Deliver timely invoices aligned with customer preferences & legalities with **Esker Invoice delivery**.



Facilitate customer payments by offering a wide range of self-service online with **Esker Pay**



Allocate cash faster and more accurately with **Esker Cash Application**.

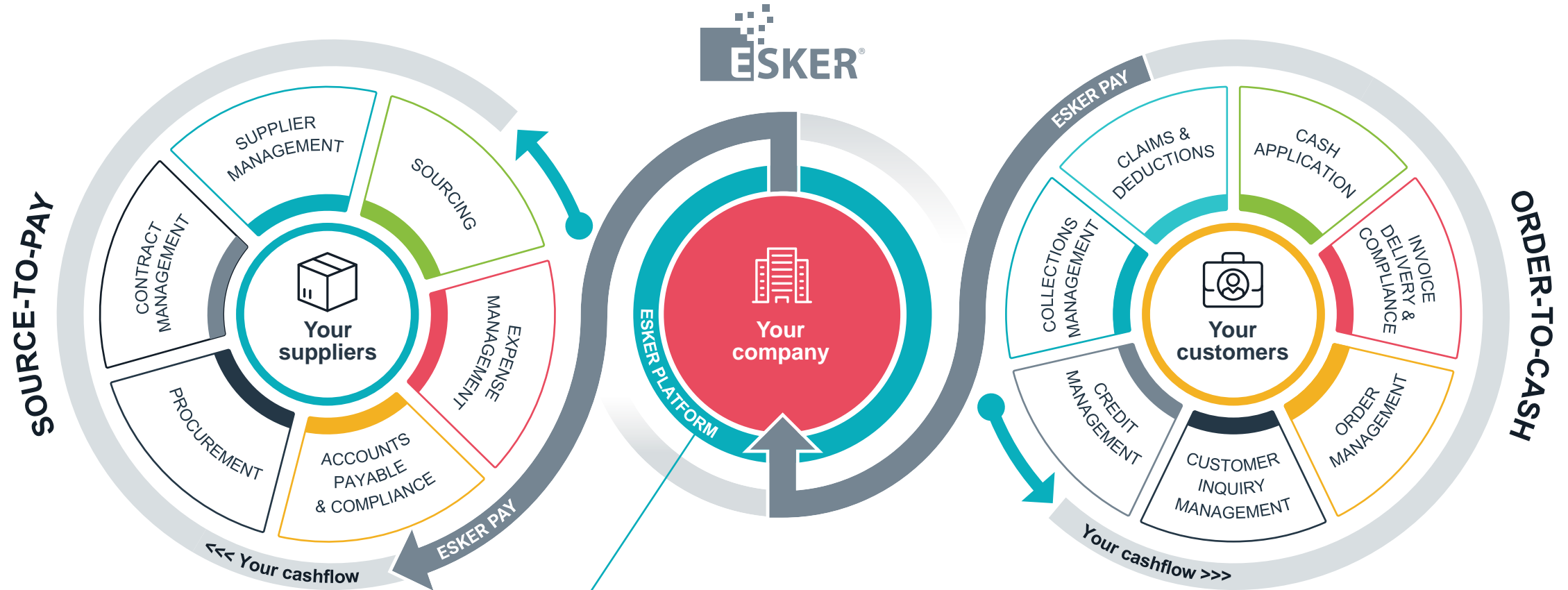


Resolve customers' deductions faster and preserve margins with **Esker Claims and Deductions**.



Optimize collections activity and reduce DSO with **Esker Collections Management**.

One Platform. Any Process.



ESKER PLATFORM SERVICES

 <p>360° STRATEGY & ANALYTICS Supplier & Customer Management</p>	 <p>SYNERGY Artificial Intelligence AI Engine</p>	 <p>CONNECTIVITY SUITE ERP Integrations</p>	 <p>Security</p>
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Thank you

for your attention

FOR MORE INFORMATION, CONTACT US AT:

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