Ebook

5 AR KPIs You Should Track & Share Within Your Organisation

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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 organisation? And why does sharing matter?

Sharing certain KPIs matters because expanding the cash culture throughout the organisation 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.

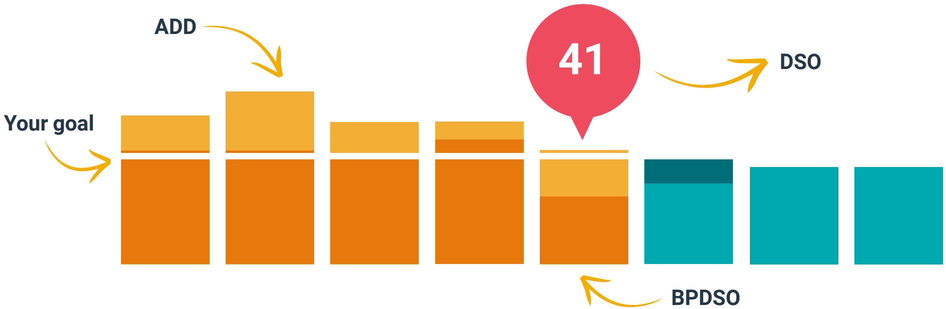
This document highlights five KPIs that provide the most accurate insight into your global AR performance and that can — and should — be shared internally.

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 analysed:

- 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.

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:

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

Who to share it with?

The entire AR team (from collections to control).

Why?

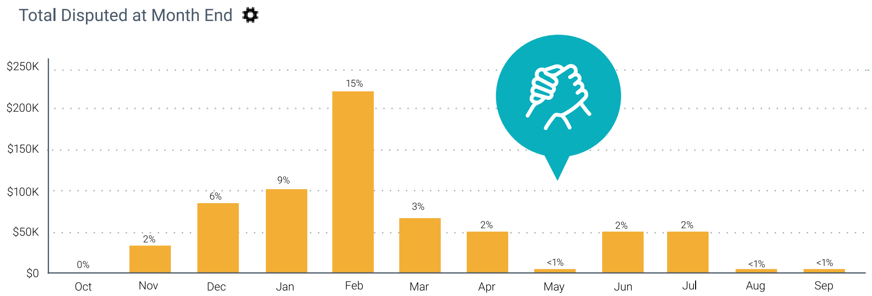
To show your team how they perform, keep them involved and congratulate them each time they reach a big step! CEI is important to share with other stakeholders as well because it focuses on the effectiveness of collections efforts over time. A declining CEI is a warning of potentially serious cash problems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

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 organisation (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 organisation'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.

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 Filter

100% Reasons for Lateness Root Causes Recorded

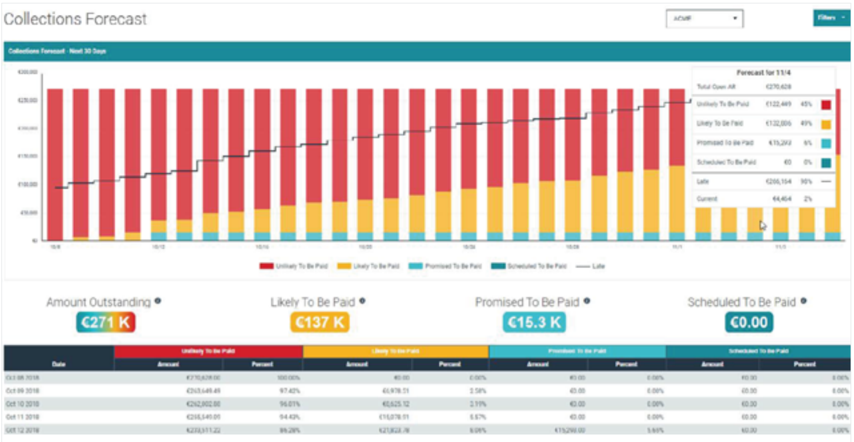
05/01/2018 - 05/15/2018

	% 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

Invoice Date	Pay Date	Invoice #	Customer	Customer ID	Amount	Stage	Vendor	PDF
Dec 11 2017	Jan 10 2018	1240526	Gears by Gary, Inc.	15071	$312.00	Open	Amazing Widgets	View
Dec 06 2017	Jan 05 2018	3816787	Coffee Delivered	52730	€194.00	Open	Amazing Widgets	View
Dec 14 2017	Jan 13 2018	1276023	Stuffed Toys, Inc.	53325	€867.00	Open	Amazing Widgets	View
Dec 04 2017	Jan 03 2018	8086413	Email-n-Bulk, Inc.	77447	€771.00	Open	Amazing Widgets	View

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 organisation'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 optimise 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 analysing 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 optimise speed, efficiency and effectiveness of AR processes.

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

Hi, we're Esker

Founded in 1985, Esker is a global cloud platform built to unlock strategic value for Finance, Procurement and Customer Service leaders and strengthen collaboration between companies by automating source-to-pay (S2P) and order-to-cash (O2C) processes.

39

years of experience with 20+ years focused on cloud solutions

1,000+

employees serving 850k+ users & 1,700+ customers worldwide

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global locations with headquarters in Lyon, France, & Madison, WI

€178.6

million in revenue in 2023, with 90+% of sales via SaaS activities

Business success is best when shared

At Esker, we believe the only way to create real, meaningful change is through positive-sum growth. This means achieving business success that doesn't come at the expense of any individual, department or company — everyone wins! That's why our AI-driven technology is designed to empower every stakeholder while promoting long-term value creation.

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