



Accounts Receivable Optimization

Unlocking Working Capital Through Process
Excellence, Analytics, and Automation

White Paper



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1. Introduction

In any Operating Cycle, the Accounts Receivable (AR) period, denoted by Days Sales Outstanding or DSO, is perhaps the most critical piece that CFOs pay attention to. However, not many unlock the value of AR and optimizing the AR cycle by combining process improvement measures, advanced analytics, and digitization.

In fact, quite often, DSOs have been seen to be much higher than it ought to be primarily due to a lack of understanding on how to look at AR in an end-to-end manner and remove bottlenecks that are preventing the organization from unlocking working capital which may otherwise be “stuck” somewhere due to inefficiencies in the AR

processes. It is estimated that amongst some of the top US companies, around 10% of their combined revenue remains untapped due to inefficiencies in their AR processes which translate to more than US\$1 Trillion of unused revenue, which can otherwise be used to further business objectives.

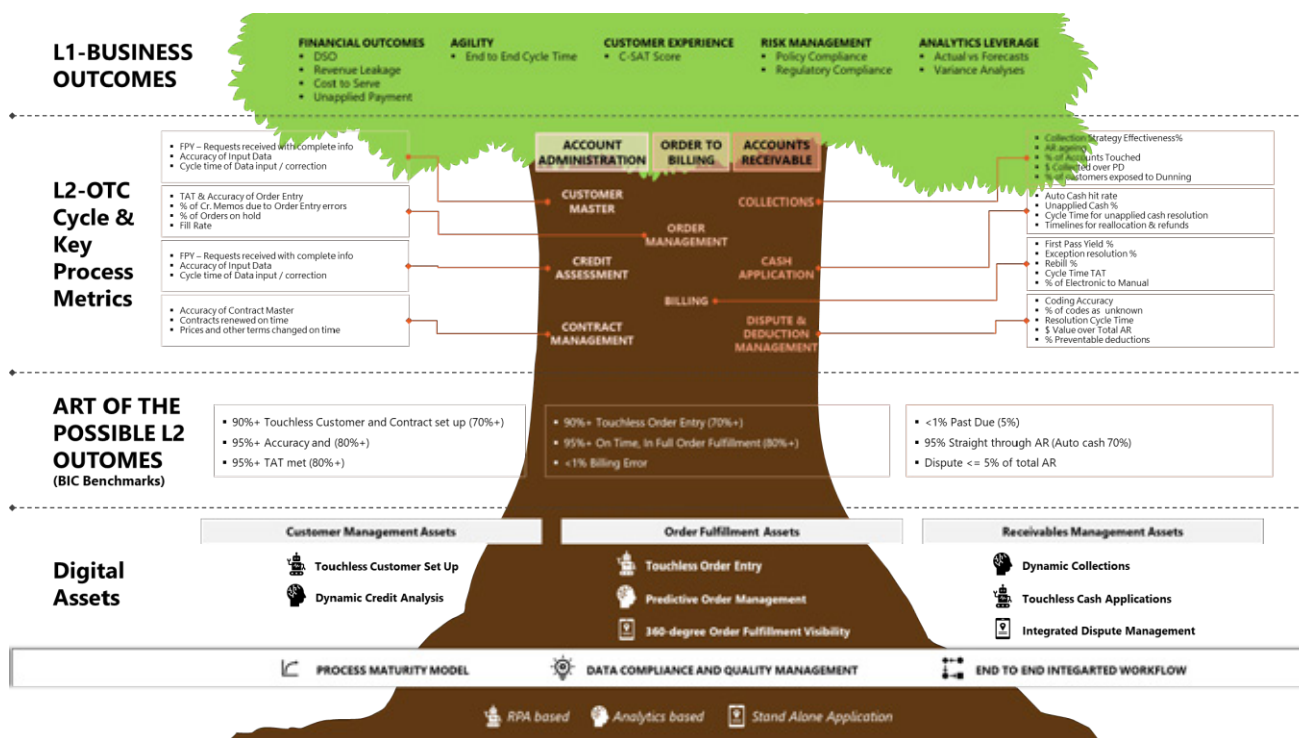
Datamatics Business Solutions Ltd.’s (DBACCOUNTING), DBAccounting – over the years, has attempted to unlock this value for its Finance & Accounting (F&A) clients through its proprietary Intelligent Process Management Framework (IPM Framework ©), which integrates Metrics, Best Practices, Business Analytics and Automation into one comprehensive solution suite.

The IPM Framework:

DBAccounting’s proprietary Intelligent Process Management Framework or IPM Framework is a combination of Processes, Metrics, Best Practices, Benchmarks, and Technology derived from its decades of F&A Services and Solutions to clients of different sizes across the globe. This Framework is simple and logically integrated so that when applied, CFOs can influence their OTC Business Outcomes – such as DSO, Cost to Serve, etc. with considerable confidence.



DBACCOUNTING's Order to Cash IPM Framework is as follows:



At the very top of the framework, we have the most common Business Outcomes (BO) that are generally looked at by any CFO while analyzing the organization's OTC cycle. And to influence these BOs, the O2C cycle is divided into three primary areas - Account Admin., Order to Bill, and Accounts Receivable. Each of these sections has its corresponding sub-processes, and each of the sub-processes has its set of key metrics.

When tracked and improved upon, these metrics would lead to an optimized O2C cycle, which in-turn would lead to optimized BOs. Hence the next question is what are the Benchmarks against

which these metrics should be assessed. The answer is in the next section, which lists the "Art of the Possible" and the Best-In-Class numbers gathered from our internal process metrics and various external sources.

Now, the final and most important question is – How does DBAccounting achieve at least the Best-In-Class numbers?

Over the years, DBAccounting has helped clients reach these Benchmarks, which subsequently improved the BO through Process Optimization methods using:



It is important to mention that all of DBAccounting's Process and Digital Solutions are designed bearing in mind the necessary compliance and risk management requirements such as Segregation of Duties, Approval protocols, Document storage rules, etc.

In a nutshell, DBAccounting's IPM Framework helps our clients' F&A processes reach their potential through an approach that is based on a combination of business KPIs, metrics, and a rigorous QMS along with state-of-the-art AI oriented standard and bespoke solutions which are designed for clients of all sizes and complexities.

Optimizing Accounts Receivable:

Once the above framework is adopted, one might assume it would become fairly simple to optimize AR. Improving the Metrics through a combination of Process Optimization methods and applying AI solutions such as RPA in Cash Apps, Predictive Analytics to forecast customer behavior, etc., should make it reasonably straight forward to accomplish the AR benchmarks.

However, it is not so simple. AR comes with its challenges and complexities, making it challenging to optimize the AR cycle. Let us look at some of those challenges and then how to overcome them and optimize the AR process.

Some typical challenges in an AR process:



Upstream Issues:

Often, it has been observed that upstream issues make Collections a very tedious process. Errors in capturing customer details, contract details and order details have often delayed payments



Billing Issues:

Lack of a robust Billing process that is integrated with the Order Management process often results in incorrect and/or delayed Billing which in turn has led to delay in payments



Lack of a robust yet flexible Collection Strategy:

A Collection Strategy with an eye on Customer behaviour and Ageing goes a long way in efficiently collecting from customers without majorly impacting C-Sat and driving up the Cost to Collect figures



Manual Cash Application:

A manual Cash Application process is not just inefficient but also prone to human errors. It leads to delay in applying cash (increasing the Unapplied %) and dissatisfaction amongst customers



Inefficient Dispute Management:

Inefficiencies around Dispute Management – such as lack of tracking complaints to their logical conclusions, learning from the disputes to fix the process, etc., often leads to bad debts, lengthy resolution cycles leading to a high aging of AR and not to mention, dissatisfied customers.

When analyzed, these challenges have been seen to have the following root causes:



Several systems which are not adequately integrated or compatible



Manual processes coupled with high volumes



Inadequate tracking of performance with the right metrics



Inaccuracies in Billing



Training issues amongst the AR resources

To overcome such challenges in a holistic and integrated manner, DBAccounting applies the following principles. It then carves out the best solution for its clients to take their AR to its most optimized position.

A) **Design a robust performance measurement system:**

The complexities of Accounts Receivable consisting of deductions, disputes, short-pays, broken promises, billings, payment applications, billable versus non-billable, and complex payment terms can make it challenging to determine the total amount of outstanding receivables. As shown in DBAccounting's IPM Framework, a metric-driven measurement system provides detailed insight into AR health and how much of AR is collectible across various aging

B) **Deploy an effective Collection Strategy:**

AR calculations need to be accurate for every region and business unit of the client and accessible in real-time by collection teams interacting with the end customer payables departments to make the collections effort more effective and improve first-call resolutions percentage. The system

needs to execute the collection strategy and guide collectors to initiate timely actions based on customer payment behaviors. Every missing piece of data reduces effectiveness in assigning tasks and tracking group and individual productivity, ultimately impeding the release of working capital in the AR process.

C) Design Robust IT Systems: Most AR issues arise because the systems deployed in SMBs do not support a highly robust AR workflow and are often manual or difficult to operate and even harder to adapt to changing business needs. A targeted system specifically designed to aggregate AR information across multiple data sources provides the AR team responsible for converting cash, resolving disputes, assigning and rating risk credit, and tasking daily activity to deliver improved working capital results.

D) Customer Payment Pattern Analysis: It is essential to track customer payment behavior, as it reflects risk levels and the ability to convert cash more effectively. Events such as broken promises and material deductions should generate electronic red flags and

trigger appropriate escalations and required signoffs. Set automated tracking to watch for delays of any kind and tag accounts whose patterns are deteriorating. Call these customers and initiate short to long-term partnering discussions about their status. Seek an equitable solution that meets everyone's needs and builds critical rapport with Payables departments.

E) Management of Billing Disputes: The AR team must closely watch the disputed count. They silently tend to rise and should be tracked in absolute terms and as a percentage of overall receivables. It's essential to understand the root causes driving deductions to prevent repetition, reduce customer support costs, and minimize revenue leakage. This further enables the measurement of dispute management cycles for every dispute type against each resolver, enabling process owners to drive better performance. Upstream corrective measures can then be taken to prevent such disputes.

F) Don't just focus on top customers: Typically, companies are constrained by resource availability and focus only on the 20–30% of their customers who generate 70–80% of their revenue. Technology that enables clients to cover 100% of their AR portfolio every 30 days provide huge advantages. AR-focused automation facilitates touching 100% of receivables-carrying customers every month while dynamically providing segmented account analyses, intellectual activity tasking, and scalable, replicable processes that significantly impact receivables than merely following the 80/20 rule.

G) Effective Communication: Proactive, pre due to date communication with customers, asking if the invoices have been received, if

they are clear, accurate, and consistent with contract terms, and reflect what the customers believe they should receive. Collectors should also inquire from the AP team if the three-way matching requirements have been met and if the invoice has been approved to pay and then collect a promise to pay date. If not, identify problems such as credit terms or discount entitlements preventing timely payments and record them for future reporting and root-cause analytics. Shorten DTP (Days to Pay) by confirming that credit terms, conditions, and timing are understood before the payment term is reached.

H) Incentivise the Collections Team: An effective Collections team is a critical asset, but few Collections teams are intelligently incentivized to improve AR metrics such as DSO, Ageing, etc. One should review historical trends to obtain a baseline for these metrics and then set up "SMART" goals and an attractive reward mechanism for collecting individuals, teams, and departments to unlock critical working capital trapped in the current OTC process. Creativity.



Given these principles, DBSL designs be-spoke solutions that are efficient, effective, scalable, digital, compliant with SOX and other similar regulations, and user-friendly to enable the client's AR resources and the end customers to use them with ease. Some of such bespoke Solutions DBSL proposes to clients are:

A) An Automated Portal Based Billing

Interface: An automated billing engine hosted on the web is a solution that aims to automate and streamline the billing presentation process through a self-service mode for customers, thereby shortening the time it takes to collect on receivables — thereby improving aging and reducing DSO. This has a direct and positive impact on working capital and reduces customer support volumes. This solution also improves customer satisfaction given the increased efficiency, broader and faster access to information, reduced time for both the end customer.

B) Automated Cash Application: One of DBAccounting's highly popular Solutions is the Automation of Cash Application. It entails first digitizing remittances irrespective of their type — be it emails, PDFs, JPEG, etc., using state-of-the-art ML algorithms and then using RPA to enter the details into the Client's ERP. Any exception gets captured separately for manual processing. This solution reduced manual effort by more than 70%. Still, it has also reduced unapplied cash — a critical AR metric — by more than 80% in some cases, depending on how standardized the remittances are.

C) Collection Analytics: DBAccounting's Collection Analytics Solution — based on predictive models taking several thousands of customer payment records, has always shown a very high degree of accuracy in predicting customer payments (in B2C environments) and forecasting quarterly working capital impact. This solution also helps in efficient Collection planning and reduces the cost of the collection by over 50%.

D) Dispute Management Solution:

DBAccounting's Dispute Management Solution — which keeps track of all Disputes raised through both emails and calls — ensures closure only through a proper hierarchical protocol for amounts beyond a certain threshold and accurately reports out TAT, Ageing, etc., right from an Analyst level up to an Account, Department and other groups which are designed as per client's businesses. It also triggers randomly generated surveys to gauge the performance of the Dispute Management team.

Over the last several years, [DBAccounting](#) has implemented these solutions across several clients, and some of the business impacts achieved were:



Improvement in working capital

~20 million USD for SMBs across the



DSO improvement

of 5-8 days



Billing cycle time reduced

by ~60%



Collection cycle time reduced

by ~30%



Ageing in 60+ days bucket improved

by ~40%



End customer C-Sat improved

by 25% points



Overall cost of operations reduced

by ~20%

The following two case studies will demonstrate further how DBAccounting helped its clients unlock the “hidden” value of their AR through its Domain Expertise, AI & Digital Solutions, and Process Improvement practices.





CASE STUDY 1:

Client: A family-owned Investment Management firm in the US interested in investing in small retail outlets, golf clubs, etc.

Business Need: Streamline their Billing process to ensure FTR Billing and reduce re-work.

DBACCOUNTING Solution (in brief):

DBAccounting studied the entire end-to-end OTC cycle of the client, from customer setup to collecting cash. Much of the client's data was captured in excel over the phone or by on-standardized email. DBAccounting did an RCA and realized that the lack of standardized data capture at the Customer Master level was a leading cause. This was further complicated by a lack of communication concerning any business terms between the client and its customers, mainly over the phone and emails.

DBAccounting standardized the entire customer onboarding process and the contractual change management process by introducing standard forms, approval protocols, timelines, etc. It then introduced an RPA-based data capturing mechanism for pro-forma invoicing, which went for two levels of validation – thereby inducing both efficiency and improved control. Once the second approval was taken, the

Pro-forma invoice was given a final touch and then emailed from a shared mailbox and not from personal mailboxes with a reference number for ease of tracking.

This solution improved the FTR from a mere 20% to 80%+ in 1 quarter and plugged revenue leakage by over 80%. It also brought up the customer satisfaction score by approximately 10% points (60% - 70%).



CASE STUDY 2:

Client: A manufacturer of the ready-to-wear medical device.

Business Need: Reduce the receipts cycle and improve DSO.

DBACCOUNTING Solution (in brief):

DBAccounting studied the entire OTC cycle, from policies to detailed standard operating procedures. The main reason that was delaying payment, as reflected in the high aging percentages, was that the Collection strategy, systems, etc., were not very streamlined and required process improvement and tactical automation.

DBAccounting did a complete RCA (Root Cause Analysis). After discussing with the major stakeholders, we proposed a simple yet effective collection strategy centered on customers who had the highest variance in payment behaviors instead of following the 80/20 rule. This was further complemented with training resources on “good” collection call/email techniques, and lastly, a cost-effective Tracking tool was also introduced to drive transparency in promises to pay.

Overall, this reduced the aging in the 60+ days bucket by ~40%, decreased bad debts by a similar %, improved working capital, and reduced cost of operation by around 8%.



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About DBAccounting:

DBAccounting by Datamatics Business Solutions is a bespoke Finance & Accounting (F&A) outsourcing services provider developed specifically for MSMEs. We have over four decades of experience solving complex F&A problems and a state-of-the-art technology ecosystem comprising AI- and ML-powered automation. DBAccounting enables global enterprises to optimize their financial operations, improve cash flow management, and enhance compliance with intelligent, tailored F&A services.

In over four decades of operation, we have successfully processed over 12 million invoices and handled over \$10 billion in payments for our global clients. DBAccounting is committed to delivering cost-effective, efficient, and scalable F&A solutions backed by a team of 1500+ skilled finance and accounting professionals across two global delivery centers. We provide seamless, high-quality financial management support that enables growing businesses to focus on strategic growth.