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The Accounts Receivable Performance Toolkit

A guide for determining which KPIs to track to accelerate AR performance

When it comes to improving your accounts receivable (AR) performance, you can't fix what you can't measure.

That's why it's important for AR teams to actively track a clear set of key performance indicators (KPIs)—which can include a mix of quantitative and qualitative data. Giving your team easy access to these insights allows them—and the business—to operate with more agility.

A data-minded AR team is better equipped to answer key questions, such as:
- Is your team working as optimally as possible?
- Should you grow your AR team (or reorganize to better align with priorities)?
- Is it time to introduce automation into your invoice-to-cash processes?

But first, you must know what to measure and why you're doing it. After all, data is only as good as the story you tell around it.

This toolkit includes the following:

1. **An executive insight**—A perspective on the power of reporting in accounts receivable from Versapay's CFO, Ward Schultz

2. **A case study**—An exploration of how The Research and Productivity Council (RPC) reduced their outstanding receivables by 70% and discovered a major source of lost revenue thanks to timely reporting

3. **Tips and best practices**—Unique insights from Versapay's customers on ways to optimize AR performance

4. **A KPI cheat sheet**—The top 11 KPIs for measuring AR performance, always at your fingertips

Executive insight

Q&A with Ward Schultz, Chief Financial Officer at Versapay

There's obviously value in tracking your AR performance, especially against established KPIs like DSO, AR Turnover Ratio, and Collection Effectiveness Index. With so many at your disposal, how can you determine the most important KPIs to track?

Ward: Before you go deep on establishing which KPIs to track, you must be confident they make sense for how you do business.

For example, while some businesses will be more focused on their receivables over 90 days old, others will look at any amount over terms. Some businesses might track their percentage of receivables per aging bucket, while others might focus their attention on the biggest amounts outstanding, based on available resources.

Ultimately, improved collection of receivables directly impacts the amount of capital available to the business. The faster your receivables turnover, the less working capital is required by the business, so it's imperative to get this right.

What trade secrets do you have for improving AR performance?

Ward: I believe one of the most powerful ways to improve your overall AR performance is somewhat simple in theory but can be difficult in practice.

It's this: train your customers at the beginning of the relationship and maintain regular

contact throughout. A customer will string out a receivable if they can—and who can blame them? When you make communication simple with Collaborative AR Automation, the customer is far more likely to prioritize paying their invoices on time because you make it easy for them to do so.

Customer experience (CX) is rapidly becoming a top priority for CFOs. Unfortunately, AR's influence on CX isn't always well-tracked. What else is commonly missed by standard AR KPIs?

Ward: While KPIs help you understand what's knowable—that is, your own data—there are some things that your data can't capture directly.

Take your customer's financial health, for example. There's no direct way to know that, but when a customer is struggling financially it has a direct impact on your ability to collect from them. Some KPIs that help you get closer to identifying customers in poor financial health include flagging customers with extremely outstanding credit or recurring collections issues. Of course, they can tell you directly in correspondence, too. If you pay close attention and have a system for raising these issues early, you can keep track of customer financial health and intervene to bring them back up to good standing.

Ward Schultz
Chief Financial Officer, Versapay

Turning the tide: How RPC tightened up their collections processes and reduced outstanding receivables by 70%

The problem

When Tammy Craft joined the Research and Productivity Council (RPC) as their Credit and Collections Management Specialist, she immediately dove into the company's data. Their payment acceptance processes had significant limitations and Tammy was intent on quantifying the exact impact they were having on bottom line metrics (like Days Sales Outstanding and Expected Cash Collections).

RPC's overdue receivables were at a crisis point because of an inability to securely capture payments from any channel beyond credit card (over-the-phone) or check. These inefficient methods were all that was used to collect customer payments, and RPC had no way to encourage customers to pay online using their preferred payment methods.

Processing these payments manually was time-consuming, not secure, and provided a subpar customer payment experience.

+30

the average days it took RPC's clients to pay
(this wouldn't necessarily strike other companies as high, but because RPC requires up-front payment for most projects, this would mean delaying when laboratory work can start)

$800,000

the total dollar amount of RPC's receivables over 90 days past-due

2

the hours the team spent manually processing payments daily

The solution

So, Tammy went to work addressing the company's significant backlog of past-due invoices and was able to reduce those worrisome figures. Having already calculated RPC's current status and a benchmark for success, Tammy set to strategically transforming their collections processes and AR workflows.

They started using Versapay's click-to-pay invoicing solution to process and automate payments right within their Microsoft Dynamics enterprise resource planning (ERP) system.

Within five months, Tammy and the team were relieved of the time-consuming payment acceptance practices that contributed to their cash flow challenges. The results speak for themselves.

Tammy's big saves led to her winning Collector of the Year in Versapay's inaugural AR All-Star Awards.

How KPIs were critical to averting a DSO crisis:

A deep understanding of the accounts receivable KPIs that assess true performance allowed Tammy to confidently home in on the root issues responsible for RPC's sluggish collections processes. Had she not confronted the data and laid bare the flaws in RPC's accounts receivable operations, they might never have achieved such massive efficiency gains.

[Read the entire success story](#) to learn more about how RPC reduced their overdue accounts and strengthened their cash flow.
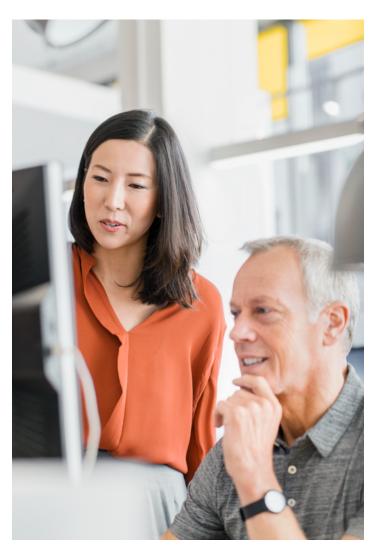
70%
the reduction in the number of accounts with receivables over 90 days past-due

$200,000
the new total dollar amount of receivables over 90 days past-due
(down 75% from their all-time high of $800,000)

Tips and best practices for improving collections

You can improve your accounts receivable department's performance of each industry-standard KPI (check out our handy cheat sheet!) by enhancing internal processes. Here are some of the best places to start, along with unique insights from Versapay's customers:

1. Ditch print invoicing

Arguably the greatest time and cost savings for your AR team comes from transitioning from print to electronic invoicing. This will see you eliminate the cost of postage and labor required to print and mail thousands of invoices every month and speed up payment times.

Electronically delivering invoices to your customers as soon as you create them—which you can do with an AR automation solution that integrates directly with the system you use to generate invoices—starts your customers' credit terms right away. Not days or weeks later when they receive your invoice in the mail.

> "More and more, customers are choosing to receive invoices by email because they are working from home. Today we are digitizing close to 95% of invoices. Our goal is to turn off print services in the next 12 months and go completely paperless,"

Rashid Maqsood, **VP of Treasury**, Rexel North America

2. Write your preferred method of payment into new contracts

Electronic payments—like ACH and credit card—can be processed faster than checks.

Consider this: the average delivery time for commercial mail through the US postal service was between four to five days in 2021. On top of this, your AR team must still physically deposit the check into the bank, extending payment times even further. In contrast, it takes an average of one to three business days for an ACH payment to be settled, according to the National Automated Clearing House Association (NACHA).

Accepting electronic payments also opens the door for greater automation opportunities, as those payments can be scheduled. Consider making electronic payments your default method of payment acceptance by writing this into your contracts with new customers.

> "We've made Versapay the easiest method for our tenants to pay by omitting other methods from our standard leases. As we bring on new buildings and tenants, we don't put our lockbox information in the welcome packets anymore and instead refer tenants directly to Versapay. We've had success with this and had people pay before their leases are even set up in the system,"

Julie Schwierling, **VP of Treasury Services**, Phillips Edison & Company

PUR-LOGIC SOLUTIONS

3. Let customers self-serve when making payments and accessing invoices

Disputes and invoice questions prevent customers from paying promptly. Sifting through these inquiries—and having to track multiple conversations in email—is time-consuming, and it delays payment even further.

Enabling customers to answer their questions on their own will help you avoid potential payment delays and save your team hours handling billing and payment questions. Online customer portals also help AR teams by letting customers view invoices and supporting documents whenever they need and make payments at their convenience.

> "[With Versapay] the tenants are able to see much more and help themselves quicker, so we're no longer getting all of their questions— they're resolving queries on their own,"
>
> Beth Albury, **Accounts Receivable Manager**, Regency Centers
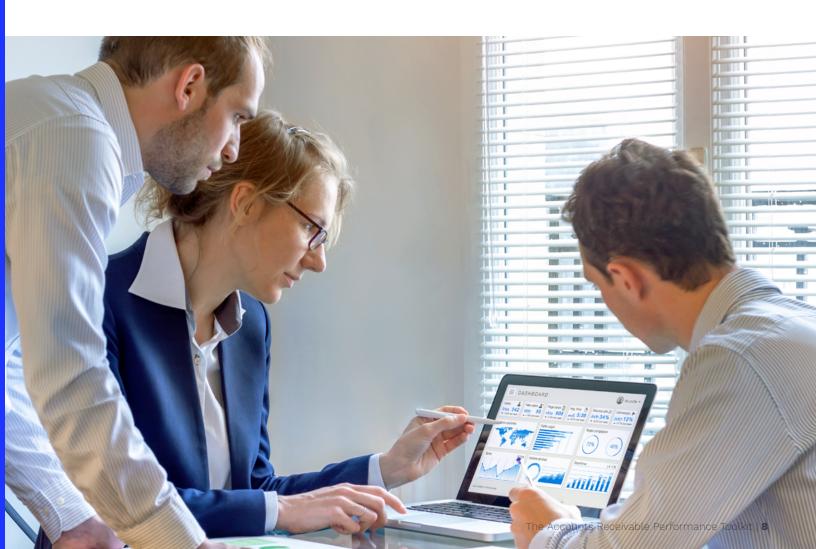
4. Automate the reconciliation process

Manual cash application is one of the most time-consuming processes you'll encounter as an accounts receivable professional, with AR teams often dedicating one or more full-time staff members to the activity alone. Even with an abundance of resources, AR teams can still encounter delays applying payments to their respective invoices.

These delays can prevent you from earning incremental business, especially if your company enforces credit limits. By automating the cash application process, you can close receivables faster, free up employees to focus on higher value work, and avoid disrupting customers' ability to purchase from you.

"The payment being made online and immediately applied to the open order has real, positive downstream implications on our business. We won't release an order if the account is on hold. If there's a delay in us applying payment, that can impact our operations and ultimately the customer's ability to serve their own customers.

The speed with which we're now able to get the payment applied to the open invoice allows our business to charge faster,"

Matt Marin, **Senior Manager of Financial Processes and Data Management**, TireHub

Well-equipped for boosting AR performance

It's not unusual for companies to lose sight of certain metrics that may make their performance look lackluster. But, consistently measuring your performance against the right accounts receivable KPIs can lead to impressive improvements in your financial position.

The highest-performing AR professionals and teams are the ones that can take raw data, interpret it, and effectively communicate what it means for the business.

Fundamentally, if you want to understand how well you're doing—better yet, understand where you can improve—you must make sense of your performance using industry-standard AR KPIs. You must recognize how they reflect the operations within your own business and how they can be interpreted and relayed for rapid, iterative decision-making to take place. These KPIs can help you

make sense of what's happening with your revenue and can assist in identifying areas of opportunity where efficiencies can be added, and improvements made.

And the less work you must do manually, the better you'll be able to deliver on this goal.

Versapay combines powerful accounts receivable automation with a cloud-based collaborative network, allowing sellers and buyers to collaborate easily on any issue that might hold up payment. Interactive dashboards make it easy to view critical AR performance metrics at a glance, right when you log into the platform.

The result? Increased efficiency and accelerated cash flow—with more satisfied customers to boot.

Learn more at **versapay.com**.

Cheat sheet: 11 KPIs for measuring AR performance

1 AR turnover ratio

What it is

- The number of times during a given period the company collected the average value of its receivables.

How you calculate it

- Accounts Receivable Turnover Ratio = Net Credit Sales ÷ Average Accounts Receivable

Why you use it

- AR turnover ratio gives you a quick insight into whether you're extending credit to the right people, and whether your collections team is doing a good job at pursuing overdue receivables.

2 Expected cash collections

What it is

- The amount of cash a company can reasonably expect to have at a given time. Two revenue sources feed into this: your cash sales and your collections on accounts receivable.

How you calculate it

- Expected Cash Collections = Cash Sales* + Projected Collections from Accounts Receivable

You can base your estimated cash sales on trends from previous years. For expected cash collections from AR, you can estimate the percentage of receivables you anticipate you'll collect based on historical probability of default.

Why you use it

- Calculating your expected cash collections can help you better understand your current cash position and take necessary action early if you expect to be short on cash.

"Tracking established metrics such as DSO, AR turnover ratio, and average collection period provides insights into the overall health of cash flow, what works, and what may need improvements. Identifying patterns early and adjusting accordingly can have a substantial impact on the effectiveness of one's collection efforts,"

David Feng, **Staff Accountant**, Versapay

3 Average collection period

What it is
- The number of days it takes your business on average to get paid after making a sale or delivering a service. You may also know this metric as days sales outstanding (DSO).

How you calculate it
- Average Collection Period = 365 Days ÷ Accounts Receivable Turnover Ratio, OR
- Average Collection Period = (Average Accounts Receivable ÷ Total Net Credit Sales) × 365 Days

Why you use it
- Your average collection period can help you understand the current state of your cash flow. If your average collection period is higher than you would like, this may signal challenges in unlocking working capital.

4 Days sales outstanding (DSO)

What it is
- The average number of days it takes for a company to get paid after making a sale on credit (also known as average collection period or days receivables).

How you calculate it
- Days Sales Outstanding = (Accounts Receivable ÷ Total Net Credit Sales) × Number of Days in Period

Why you use it
- Knowing how long it takes your company on average to receive payment will help you get a grasp of the status of your cash flow, customers' credit worthiness, and general customer satisfaction.

We asked Versapay's accounting team what their favorite accounts receivable KPI to track is and why. Here's what they had to say:

"DSO—It tells me how fast receivables are turning into cash,"

Lucia Lee, **Vice President**, Accounting, Versapay

"DSO—It's a quick and easy metric to use when assessing accounts receivable health,"

Elena Ma, **Controller**, Revenue Accounting, Versapay

"DSO—It's my favorite metric to track due to its sheer effectiveness and flexibility in monitoring cash flow, either at an individual or company level,"

David Feng, **Staff Accountant**, Versapay

5 Collection effectiveness index (CEI)

What it is
- The percentage of its receivables a company has collected during a given period.

How you calculate it
- Collection Effectiveness Index = [(Beginning AR Balance + Credit Sales During Period) – Ending Total AR Balance] ÷ [(Beginning AR Balance + Credit Sales During Period) – Ending Current AR Balance] x 100

Why you use it
- CEI offers a different perspective for gauging the success of your collections efforts than DSO or average collection period. DSO is a measurement of time (how fast you collect receivables) while CEI is a measurement of quality (what proportion of your receivables are collectible).

6 Average days delinquent (ADD)

What it is
- The average number of days your invoices are delinquent or past-due (sometimes referenced as delinquent days sales outstanding).

How you calculate it
- Average Days Delinquent = DSO – BPDSO*

BPDSO refers to "best possible days sales outstanding" ([Current Accounts Receivable ÷ Annual Credit Sales] x 365 days).

Why you use it
- Tracking average days delinquent can provide additional insight that DSO alone won't give. Credit and collections teams often evaluate DSO, BPDSO, and ADD simultaneously to better understand how fast they're able to convert invoices into cash.

"The most pertinent key performance indicators to track are ones whose data are easy to acquire, and are easy to understand,"

Elena Ma, **Controller**, Revenue Accounting, Versapay

7 Number of revised invoices

What it is

- The total number of invoices your AR team has had to revise over a particular period, along with the associated impact on your team.

How you calculate it

- The sheer number of invoices your AR team has corrected during a particular period, plus:
  - Average time spent resolving disputes
  - Average time spent revising invoices
  - Average time for delivery of revised invoices (especially relevant if you're still sending invoices via mail)

Why you use it

- Revising just one invoice can take substantial effort because your AR team must spend time investigating the cause of the dispute and evaluate whether you'll provide a price reduction. If your number of revised invoices is high, it could point to broader invoicing problems—like frequent errors from manual data entry.

8 Bad debt

What it is

- An amount that a business will write off as uncollectible. It's categorized as an expense on a company's balance sheet.

How you calculate it

- Under the direct write-off method, a bad debt is marked as an expense as soon as it appears that the amount will be uncollectible. Under the allowance method, you'll set aside a bad debt reserve and have a few options for how you'll calculate this:
  - Percentage of Sales (to determine what will be added to the ADA balance) = Percentage of Sales Estimated Uncollectible* × Actual Credit Sales
  - Percentage of Receivables (to determine the ending ADA balance) = Percentage of Outstanding Receivables Estimated Uncollectible* × Receivables Balance
  - Aging Schedule = Percentage of Outstanding Receivables Estimated Uncollectible* × Receivables Balance (for each AR aging bucket, then added all together)

Based on data from previous years

Why you use it

- Forecasting how much bad debt you can expect to have helps you plan accordingly and better manage your cash flow.

"It's important to select KPIs that are relevant and that can be reliably measured. I also recommend considering the cost-benefit (how easy it is to obtain the KPI) and the KPI's comparability and understandability. This will allow us to better benchmark our AR performance in the industry,"

Lucia Lee, **Vice President**, Accounting, Versapay

9   Percentage of high-risk accounts

What it is

- The proportion of a business' customers that might eventually contribute to bad debt.

How you calculate it

- There is no standardized method of calculating your percentage of high-risk accounts, as it'll depend on what high-risk means to your business. But, you can use the following criteria to create a risk profile for all your customers:

    - How the customer's typical payment times compare to your business'—and your industry's—average collection period

    - The customer's performance based on regular credit assessments

    - The overall cost associated with the customer (includes onboarding, training, and any legal fees)

    - Then, calculate the following to find what percentage of your customer base is "high-risk": (Number of High-Risk Customers ÷ Total Number of Customers) × 100

Why you use it

- Knowing what proportion of your overall customer-base is at-risk can give insight into whether there are systemic issues in your credit and collections practices.

10   Staff productivity

What it is

- The units of output you get (invoices sent, payments collected, payments applied to their respective invoices) respective to your units of input (labor, capital, and materials).

How you calculate it

- Productivity = Units of Output ÷ Units of Input

Because your AR team's tasks likely involve a high degree of manual work, to be able to pinpoint where inefficiencies lie, we recommend also calculating how much of your AR staff's day is spent doing manual tasks:

- Percentage of Tasks Performed Manually = (Number of Tasks Performed Manually ÷ Total Number of Tasks) x 100, OR

- Percentage of Time Spent Manually Performing AR tasks = (Time Spent Manually Performing Tasks ÷ Hours in a Workday) x 100

Why you use it

- Higher staff productivity (that is, an efficient ratio between input and output) equates to lower DSO, fewer billing and invoicing errors, more time to allocate to more strategic work, and lower employee turnover rates.

11 Customer experience

What it is

- A measure of how happy your customers are with your products, services and capabilities. In AR, customer satisfaction is a measure of how streamlined and convenient your customers' billing and payment experience is.

How you calculate it

- Whereas there are established metrics for measuring the effectiveness of a company's entire customer experience, there is no standardized measurement that isolates the billing and payment experience. But, you can create an aggregate score (how many points out of 10 would you give yourself for each) based on the following criteria:

  - Are customers able to self-service (to make payments and access important information and documents)

  - How effective is your AR team's communication with customers (especially in the context of dispute resolution)

- What level of transparency do customers get into the status of their accounts

- How much flexibility do you offer in terms of invoice delivery and payment methods

Why you use it

- Happy customers will continue to buy from you and unhappy customers will take their business elsewhere. By determining how satisfied your customers are with their billing and payment experience, you can see if there are areas where you need to make improvements.

"Customer satisfaction is something that's often not tracked when discussing AR performance. It's important we monitor our impact on CX, and do so based on our ability to meet our customers' requests as they pertain to invoicing,"

David Feng, **Staff Accountant**, Versapay