

Days Sales Outstanding Reduced From 38 to 31 Days, Realizing Nearly

An SBTI White Paper

Industry Department:

Sales

Process:

Receiving Department, Customer Payment Process

Objectives:

- In order to reduce delinquent dollars in the customer payment process, we needed to reduce Days Sales Outstanding (DSO) from:
 - USA:
 - 34 days to 30 days
 - Entitlement of 25 days
 - Export:
 - 37 days to 33 days
 - Entitlement of 28 days

Timeline:

- The charter of this project was written on July 13 and completed on December 12 of the same year.

Key Tools Used:

- Black Belt tools that SBTI teaches were used/.
- These included the use of:
 - Process Mapping
 - Cause and Effects matrix
 - Multi-Vari Analysis
 - Failure Modes Effects Analysis and Process FMEA
 - Capability study

Deliverables:

- A new process was to be determined, and personnel trained in it.
- All Business Managers were briefed and trained on the payment processes and performance of their specific customers

Metrics or Results:

- Approximate savings of \$7,000,000 were realized.
- The number of days sales outstanding were reduced by approximately a week (38 to 31 days for domestic sales).
- Acceptable variation on these values was cut from 21 to 7 days for domestic sales.

Lessons learned:

- Control new and smaller accounts from the beginning.
- For problematic customers, investigate financial penalties for chronic delinquency.
- Look for efficiencies (electronic, etc.) and cost savings that can be leveraged into new terms negotiations.

