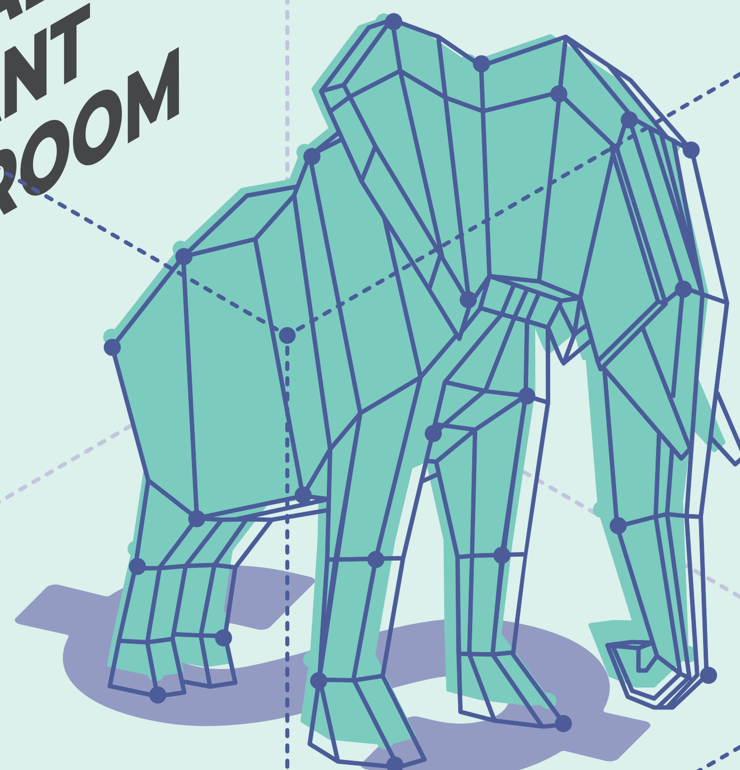
THE ACCOUNTS RECEIVABLE ELEPHANT IN THE ROOM



Winning the War Against Late Payments in Accounting Firms

QuickFee.

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INTRODUCTION

Naming and Taming the A/R Elephant

Every firm needs to keep Accounts Receivable (A/R) under control to maintain positive working capital. After all, A/R is just cash that your firm has already earned. Without an A/R reduction strategy, that cash remains stuck in your clients' bank accounts instead of going to your firm's critical assets and investments.

Unfortunately for the accounting profession, aging A/R is often like the proverbial elephant in the room. Due to longstanding practices regarding invoicing, it may seem impossible to get your cash moving any faster. Many under-resourced firms also can't slow down and say: "We've got an elephant standing in the way of our growth here!"

As the accounting profession grapples with large-scale issues like artificial intelligence and government tax preparation programs, it's even easier to forget about your firm's very own A/R elephant. But when working capital becomes tight and competition increases, it's a good idea to look at A/R first for quick solutions.

Bottom line? Without an A/R strategy in place, your receivables may continue to weigh your business down and stunt future growth.

What You'll Get from This Whitepaper

QuickFee sent a survey[1] to over 2,000 professional services contacts in June 2023. The responses yielded interesting insights into how top firms are managing A/R and invoice processes.

In this whitepaper, you will get a summary and analysis of those insights, along with recent research from some of the most respected sources on A/R and DSO. You'll get tips to help plan a more effective A/R strategy now and win the war against late payments in the long term.

Most importantly: You'll learn how to (finally) get paid in 30 days or less, using time-tested strategies for A/R reduction.

THE PROBLEM OF HIGH DSO IN PROFESSIONAL SERVICES

TIP:

Make sure to calculate your clients' DSO on a regular basis (monthly or quarterly), so you can avoid putting out fires in the future.

HERE'S THE FORMULA TO CALCULATE YOUR DSO:

DSO = (Accounts Receivables ÷ Net Credit Sales) × Number of Days

For example: if your A/R was at $100,000 and you had $75,000 in credit sales over a month, your DSO would be 40 days. This means it took an average of 40 days for clients to pay their invoices.

How Do You Measure Success in A/R?

A/R management starts with regularly tracking days sales outstanding (DSO.) DSO measures how many days it takes for your firm to collect outstanding payments, or accounts receivable. Tracking this metric over time helps to set benchmarks and makes it clear when your business has gaps in the collections process.

In general, 30 days or under is viewed as a "good" DSO for B2B companies[2], whereas low performers can expect DSOs of 45 days or more. However, this varies by industry. While the average DSO for all industries has remained stable since the 2020 pandemic, it's as high as ever for professional services firms, where the work-to-cash cycle is longer, and the invoices tend to be larger.

Other Key Metrics for A/R

AVERAGE DAYS DELINQUENT

This metric allows you to identify when delinquency and late payments are the primary culprits in your high DSO. Average days delinquent can be found by calculating how many total days (on average) all client payments are considered "overdue" to your business.

TURNOVER RATIO

A/R turnover is expressed as a ratio that demonstrates how well your firm is extending credit and collecting on client debt. This metric can be used as a general "health check" for your A/R process, and when combined with DSO, will give you a more robust picture of the situation.

TIP:

TO CALCULATE YOUR A/R TURNOVER RATIO:

$$\left[\text{Net Annual Credit Sales} \div (\text{Beginning A/R} + \text{Final A/R})\right] \div 2$$

CASH CONVERSION CYCLE (CCC)

CCC measures how efficiently cash is converted across your entire business. It can be calculated by adding DSO to days inventory outstanding and then subtracting the days payable outstanding. A short CCC is an indicator that your A/R and AP processes are effectively working in tandem to create healthy cash flow.

Professionals Just Take Longer to Get Paid

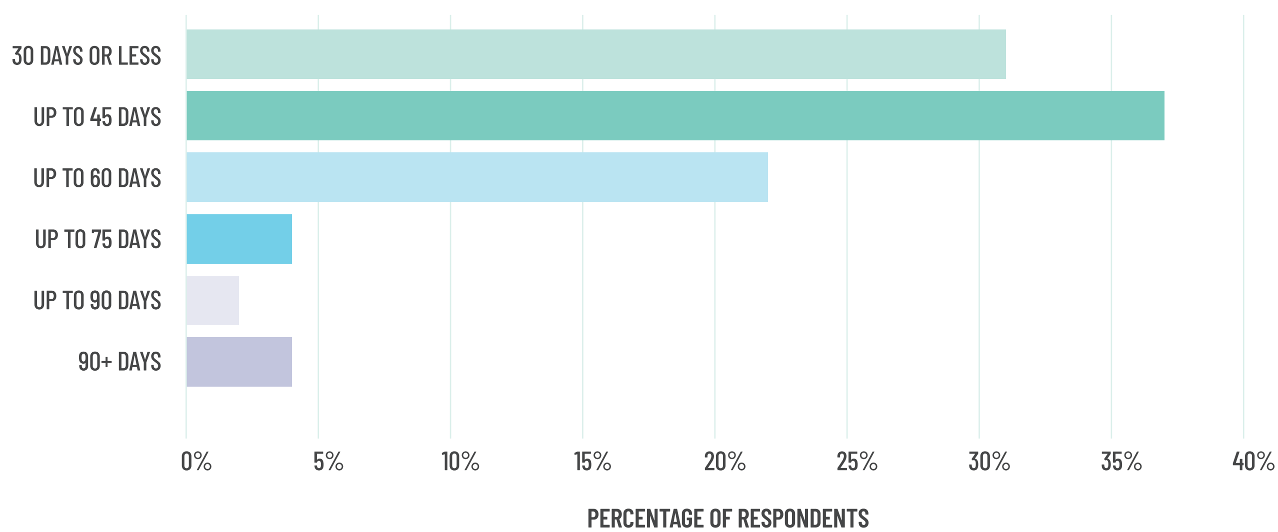
Eight years ago, SageWorks[3] found that for professional services – specifically financial services, business management, consulting, and accounting – it took 125.07 Accounts Receivable days before the firm saw payment. That means clients took four months to pay after an engagement or a full month beyond when most invoices would become delinquent.

In a more recent 2023 report[4], Dun & Bradstreet expanded on the latest average DSO numbers collected by the National Summary of Domestic Trade Receivables. They found that the average DSO for all business services was closer to 47.85 days, with about 73.6% of these firms' clients staying current on their payments.

Crucially, Dun & Bradstreet also found almost **a third or more of A/R dollars are still paid "severely delinquent," or 91 days past the due date.**

ESTIMATED DSO FOR PROFESSIONAL SERVICE FIRMS

This was consistent with the QuickFee A/R and Invoicing Report[1], which found that the average estimated DSO for professional services was 47.6 days and that 32% of firms reported an average of 60 days or more to receive payment.



Calculating the Impact of Aging A/R

It is impossible to estimate the universal cost of aging A/R since it is unique to every business – and not all industries are equally affected by late payers. For example, you will rarely find anyone carefully measuring DSO or the costs of A/R in the transactional world of online retail.

Yet research shows time and again that a shorter cash conversion cycle is strongly linked with positive cash flow and in turn contributes to a higher valuation of the firm. As one study[5] on international cash flow patterns found: "All things being constant, the shorter the operating cash

KEY STATISTICS FROM THE QUICKBOOKS REPORT:

89%
Respondents who said late payments played a direct role in preventing their growth.

$300,000
The average amount owed in late payments

65%
Businesses that estimated spending 14 hours a week on administrative tasks related to collecting payments.

cycle the faster the company can reassign its cash and [see] growth from its internal resources."

Does that mean businesses with a longer cash cycle will not see growth as quickly? According to a survey of 2,000 mid-sized businesses by QuickBooks[6], the answer is a definitive "yes."

CARRYING COSTS OVER TIME

There have also been attempts to model how A/R costs compound over time. One of the most often cited is a 2009 modeling exercise originally published by the Harvard Business Review[7], which showed that every additional 30 days sales outstanding compounds the percentage owed.

According to this data, receivables that are 60 days outstanding add 9-10% to every dollar owed, with that percentage doubling for every 30 days outstanding added. That means a $7,500 invoice that is 60 days past due could result in a $750 carrying cost for your firm.

ADMINISTRATIVE COSTS

Problems also arise with both productivity and employee retention when your team must spend excessive amounts of time following up with late clients. When invoices are not paid on time, those hours can add up quickly. In the QuickFee survey[1], 71% of respondents shared that they are spending at least 1-3 hours per week just on follow-up, with 14% reporting 5 to 10 hours or more each week.

OPPORTUNITY COSTS

Finally, some A/R costs only appear farther down the line, when your firm looks back on missed opportunities or rising competitive threats. Poor management of A/R can cause your firm to miss critical investments in tech development and infrastructure right when you need it, due to a lack of working capital (and tightening of the purse strings.)

WHY IS SO MUCH CASH HIDING IN PLAIN SIGHT?

General Causes of High DSO and A/R

Of course, tracking metrics like DSO is just one part of the A/R story. It's important to understand why payment delays happen in the first place, as well as why they remain so persistent across accounting and professional services. This is the only way to fix the problem.

In 2021, the Celonis State of Business Execution Benchmark Report8 surveyed 2,000 business leaders on A/R performance. This report found significant execution gaps between the average and "best-in-class" company performance in A/R – suggesting a strong correlation between the top performers and the ability to effectively manage their payment cycle.

For most companies, DSO presented as 30+ days delinquency on average. But the best companies were able to reduce DSO to just 8 days. They reaped the benefits too: The Celonis study found that for a $5 billion revenue company, the business could see as much as a $567 million injection in working capital, or nearly 10% of the firm's annual revenue!

What's more, the root causes for A/R problems were consistent across the board. It came down to three factors: overly rigid systems, a fragmented data landscape, and broken or inefficient processes.

Specific Causes for Accounting and Professional Services

In QuickFee's A/R and Invoicing Report[1], approximately 60% of the respondents shared that they send 3 or more invoices per client annually. Accounting is a relationship-driven profession. This is reflected in both the frequency and scope of work performed by a CPA firm for its clients.

Because accountants are given so much implicit trust by clients, they often want to extend financial flexibility and preserve the client relationship even when payments start to arrive late. Yet this positive impulse also directly creates more work for the firm, leading to a vicious cycle of late payments.

In the QuickFee survey, all respondents reporting 5 or more hours of weekly collections work also had a very long average time for payments (60 days or more) and a high percentage of clients paying with paper checks (50% or more).

Additionally, **100% of respondents are still accepting paper checks regularly from some clients,** and over half are taking checks as a primary payment method.

FYI:

TOP 3 CAUSES OF HIGH A/R:

1. Rigid systems and technologies (42%)
2. Fragmented data landscape (40%)
3. Broken or inefficient processes (40%)

TOP 4 REASONS FOR HIGH A/R:

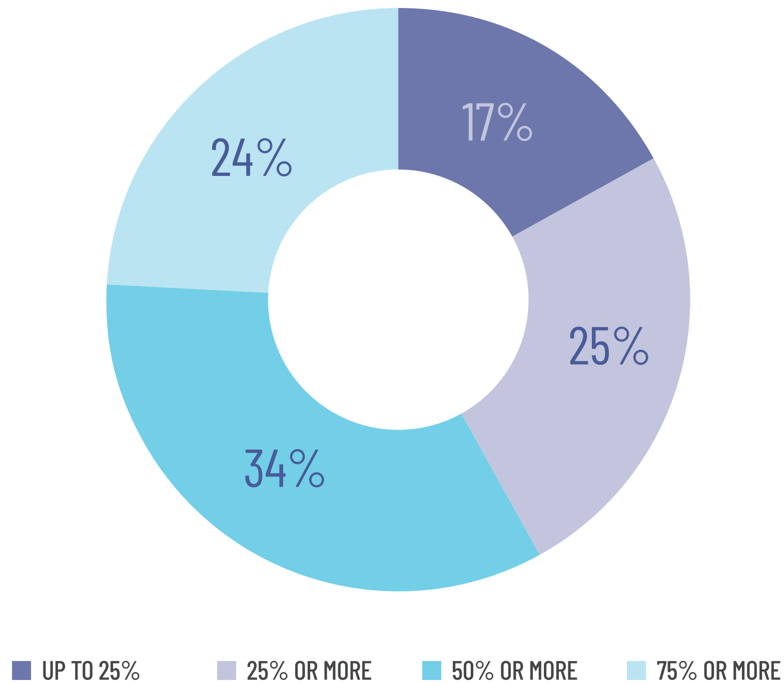
1. Customers who are experiencing financial difficulties
2. Customer dissatisfaction
3. Too lenient payment terms, such as long repayment windows
4. Inefficient collections processes

WHY ACCOUNTING FIRMS SEE UNIQUELY HIGH DSO AND PAST-DUE A/R:

FYI:

1. Longer work-to-cash cycle
2. Slow or non-existent processes for collections
3. Continued use of traditional invoicing and collection methods (paper checks, physical mailings, etc.)
4. No centralized system for A/R, payments, and reconciliation
5. Slower payment processing times
6. No tools to automate e-invoicing or follow up with clients

PERCENTAGE OF CLIENTS USING CHECKS:



THE SEARCH CONTINUES FOR WORKING CAPITAL

The 2020 pandemic profoundly altered the American economy. Among recession fears and rising inflation rates in the years following, most CFOs today are still anxious to find and free up working capital for their businesses – wherever it might be found.

As a result, many businesses have intentionally slowed down outbound payments to suppliers, as the Hackett Group found in the 2021 Working Capital Survey[9]. The 1000 largest US companies took this exact approach and strategically paid their smaller suppliers late to preserve cash flow. Most companies took 2 or more months to pay up on their vendor bills and wanted to stretch payment schedules as far as possible.

In the follow-up 2022 survey[10], the Hackett Group found again that most CFOs are looking to their A/R, AP, and inventories to find this magical working capital. Over the coming years, these companies are likely going to “tighten up” their working capital and put even more energy into collecting on overdue accounts. DPO has also not stayed under 40 days consistently since 2014-2016 – suggesting that the post-pandemic trend of paying vendors late has turned into a bad habit.

Given these insights, it’s fair to say accounting firms will not see consistent on-time payments from business clients any time soon. Not without focusing on A/R more intentionally.

IV.

TRIED-AND-TESTED METHODS FOR A/R REDUCTION

A/R reduction is as much an art as a science. After all, accounting firms are dealing with a highly human problem: Getting people to send payments quickly when the services are prolonged and intangible (and may feel less "urgent" to them.)

This gets even more complicated when your business clients also struggle to meet the demands of a changing market and do not always have positive cash flow.

A lasting A/R reduction strategy, then, combines the "soft skills" needed for tactful client follow-up with the "hard skills" and technology to keep your team working efficiently. You need to have both in your toolkit if you want to usher your A/R elephant toward the exit.

1. AUTOMATED INVOICING AND PAYMENT REMINDERS

At most CPA firms, three tasks tend to be the biggest "time sinks" for traditional invoicing:

1. Sending out payment reminders
2. Following up on overdue payments
3. Physically printing and mailing invoices

To eliminate these three time sinks and accelerate your A/R in one swoop, you will need an effective **automated invoicing system**. This should integrate directly with your practice management system and allow you to schedule reminder emails at regular intervals for as long as an invoice is unpaid.

In the QuickFee report[1], just 4% of firms reported that they only use "snail mail" to send invoices now. Most respondents (74%) agreed that they use a combination of email and traditional mail. But while a combination may seem like you're getting the best of both worlds, you could also be losing critical time if your e-invoicing platform is inefficient (or if the work is always doubled.)

If you do still decide to offer traditional paper invoicing, you should consider asking clients if they'd like to go "paperless" during your initial intake. Even if only 50% accept and switch to email invoicing alone, you will be significantly cutting down on the delays and overhead costs that come with traditional invoicing methods.

2. MULTIPLE ONLINE PAYMENT OPTIONS

Accepting online payment is the fastest way to accelerate A/R and save on the lofty administrative and carrying costs of checks. This is because online payments are a) more convenient for the client, and b) much faster to authenticate and move into your firm's bank account.

For some firms, simply reducing the total number of checks with an easy online **ACH/eCheck option** is enough to start bringing a sky-high DSO back down to Earth. But there are other options you may want to consider offering, as most clients today prefer having multiple ways to pay.

A few of the most common options for CPA firms:

+ ACH/eCheck transfers
+ Credit card payments
+ Debit card payments
+ Structured payment plans or
+ Bill pay through the client's bank account

3. PROFESSIONAL FEE FUNDING OR PAYMENT PLANS

Many CPA firms are reluctant to offer in-house financing options due to credit risks. Instead, most firms will just extend credit by offering a grace period for late payers who are otherwise in good standing. This only adds to the problem when you have a high DSO and slow cash flow, though.

Some firms also have negative experiences with practices like "fee factoring," where a third party purchases any bad debt upfront. Fee factoring can irrevocably damage the trust between you and your client because it outsources the sensitive task of collecting payments to others.

However, more and more payment service providers are starting to offer **professional fee funding as a service** – allowing clients to take out payment plans with minimal risk to the firm. The right fee funding solution acts as a lifeline for late payers while ensuring you get paid upfront.

4. WRITTEN ESCALATION PLANS FOR LATE PAYMENTS

When was the last time you checked your escalation plan for late payers? If you're like most other professionals, the answer is probably "I don't think we ever created one in the first place."

Luckily, it only takes one short session to formalize your A/R escalation plan and any next steps. Sit down with your team and review what has worked best and how often you would like to set payment reminders.

5. PHONE SCRIPTS FOR FOLLOW-UP

Calling about past-due payments is rarely comfortable. But it gets easier when your team has a reliable phone script.

Below is an example template of a phone script to help you get started, taken from a top firm that offers online payment and financing options with QuickFee. It is also designed to follow a written email reminder.

TIP:

HERE'S A SAMPLE TEMPLATE, ASSUMING THE ACCOUNT MOVES TO COLLECTIONS IN 45 DAYS:

1. Send a friendly email reminder – 7 days from invoice date
   a. First phone call – 2 days after step 1
2. Send a more direct email reminder – 14 days out from invoice date
   a. Second phone call – 2 days after step 2
3. Final phone call attempt – 28 days from invoice date
4. Final email notice – 30 days from invoice date
5. Dunning letter/collection notice – 45 days from invoice date

Phone Call Reminder Script:

+ My name is [name] calling from the accounts division of [name of your firm], how are you today?
+ Do you recall the work we did for you recently?
+ I'm calling because your account with us is beyond our credit terms of [X] days. I'd like to help you and walk you through our payment options. Do you have a copy of the email reminder we sent you recently?
+ How would you like to pay: by direct debit, credit card, or check?
  - *If the client selects direct debit:* OK, that's fine, let me give you details of our account – but we'll need to get payment made today.
  - *If the client selects credit card or check:* OK, that's fine, let me get your details now.
  - *If the client says they can't pay today:* I completely understand. Just so you know, we have arranged a fee funding plan option with QuickFee that will allow you to pay us back over 3 to 12 months. I can send you a copy of the extended terms once we figure out what would work best for you. Does that sound like something you might be interested in?
    > *If the client agrees to a payment plan option:* Great, let's talk through the details of your payment plan!
+ Thank you for helping us settle the invoice. Can I help you with anything else today?
+ Thanks, goodbye!

6. SETTING A/R GOALS FIRM-WIDE

59% of respondents to the QuickFee survey reported that they do have firm-wide goals around invoice realization, lowering DSO, and reducing Accounts Receivable. Of those firms, almost 70% reported spending less than 3 hours a week on payments and collections issues.

Of course, goal setting by itself will not be enough to solve serious A/R problems. But by regularly measuring the four key metrics outlined in section 2 of this whitepaper, you'll be better able to get your firm aligned on the problem and (hopefully) act on the reduction goals.

7. DEDICATED A/R OR COLLECTIONS SPECIALISTS

There's currently an accounting shortage, which may make it difficult to source new talent in any area of your firm. Still, if the previous six tips do not work, it may be worth the effort to invest in a dedicated A/R or collections specialist.

Assigning even one person to the task of following up on payments (and executing your escalation plan from step 4) can alleviate the burden on other team members. This will also give them a chance to focus on the mission-critical advisory and consulting work that will define CPA firms of the future.

FYI:

THE TOP 4 METRICS FOR MEASURING A/R

1. Days Sales Outstanding
2. Average Days Delinquent
3. Accounts Receivable Turnover Ratio
4. Cash Conversion Cycle

V.

AN A/R SUCCESS STORY: FRAZIER & DEETER

"Most of our clients have taken a 3 or 6-month option at nominal interest. QuickFee's really been helpful with us to embrace [the] pain point of collection issues."

— Shawn Fowler, CFO

CHALLENGE

Frazier & Deeter is a global CPA and advisory firm headquartered in Paradise, Nevada. In past years, chasing clients for payment weighed down this firm's busy staff, chipping away at valuable time and contributing to a higher days sales outstanding (DSO).

Adding to that, most administrators had to collect payment by phone once COVID-19 halted in-person interaction. And during the firm's busiest season, many clients struggled to pay their invoices in full.

SOLUTION

Frazier & Deeter now offers QuickFee Finance and Pay in Full to meet the need for flexibility while continuing to get paid on time.

Using these payment solutions, staff can send email and physical invoices with an easy link to their QuickFee portal, where the client can choose from an ACH/eCheck transfer, credit card payment, or payment plan over 3, 6, or 12 months. These options also prioritize financial privacy – so client information is always secure.

RESULTS

Previously, it could take the firm up to 60 days to see full payment on invoices. Frazier & Deeter reduced this time to 17 days by offering multiple online payment options at various points throughout the client relationship.

Best of all – while clients get to make stress-free payments over time, QuickFee always pays the firm the full amount within three business days.

VI.
CONCLUSION

Contrary to long-held beliefs about the accounting profession, Accounts Receivable doesn't have to weigh down your firm's working capital (or turn every accountant into a payment collector.)

Paper-based invoicing and payment processes may still be going strong, but there are also signs of change in this area. In 2022, PYMNTS found that most CFOs are already undertaking digitization of their AP and A/R systems.[11]

As covered throughout this whitepaper, it is not only possible to identify the A/R problem lurking in the background at your firm. **It's possible to solve it sooner than you may realize.** Even if inflation rates continue to rise through 2024 and beyond, those who make A/R a priority today will discover more access to working capital – and get more chances to shape the future of accounting.

Whether that means exploring artificial intelligence or just finding more opportunities to offer CAS to your clients, your firm's options are limitless when your A/R is finally under control.

VII.

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