On any given day, U.S. companies may be owed more than $3 trillion in accounts receivable (A/R). Many of those companies are small businesses that haven’t yet built significant cash reserves.

Cash flow generated from receivables is critical to their survival. If A/R account delinquencies and late payments were to increase and reduce cash flow, those businesses would struggle to cover essential operations and basic business expenses.

Unfortunately, that scenario is increasingly likely as economies tighten.

With CFOs on high alert to protect revenue, the pressure on credit and A/R managers is building at a time when those managers may already be grappling with a lack of insight (due to legacy technologies and data gaps) and lack of oversight (resulting from hiring and staffing challenges).

Ready for some good news?

Despite the harsh business climate, there are effective best practices that credit and A/R teams can follow to help optimize accounts receivable and strengthen cash flow. Perhaps unsurprisingly, the first step is to focus on risk management.
Stay Focused on Credit Risk

Cash flow is the lifeblood of a business. A business’s cash flow statement typically includes three components:

- **CASH FROM OPERATING ACTIVITIES** such as accounts payable and accounts receivable
- **CASH FROM INVESTING ACTIVITIES** examples are sales of stocks or fixed assets
- **CASH FROM FINANCING ACTIVITIES** such as the sale of the company’s own stock and issuance of debt

Cash from operating activities tends to be the largest component, with accounts receivable usually generating the largest percentage within that component. In fact, accounts receivable can represent close to 9% of annual revenue for an average U.S. firm.

During any kind of economic cycle, understanding credit risk is imperative for credit managers. The health of accounts receivable depends on the credit team’s ability to fully assess creditworthiness of potential B2B customers for two important reasons.

First, more thorough and reliable reviews can help teams identify and onboard customers that are unlikely to be delinquent. But they also help credit managers set appropriate terms for credit offers, to help increase the likelihood that the right customers accept, meet their payment obligations, and help contribute to the company’s cash flow.

Current, comprehensive B2B data helps credit managers analyze risk and draw actionable conclusions — especially when an organization is large or complex — by using predictive analytics and information such as a company’s corporate ownership and payment history.

Leveraging trustworthy commercial data also can help ensure that credit risk assessments expose problematic business entities and ultimately can help protect a company’s receivables, financial performance, and even its reputation.
Understand the Impact of Interest-Rate Risk

As an economy slows, it can amplify or add to the problems that prevent B2B customers from meeting their debts and expenses.

B2B customers may pay invoices slowly, partially, or not at all as a means to help negotiate pricing discounts or different terms, or to draw attention to invoicing or fulfillment issues. Customers may also delay payments in order to boost their own working capital.

Because customer account delinquency can shrink cash flow, businesses may consider a bank loan to ensure they have enough money to cover their day-to-day needs. But a traditional commercial loan can expose them to one of the economy’s biggest concerns: interest-rate risk.

In a rising interest-rate environment, the high cost of borrowing means that loan fees and payments may actually accelerate a cash shortage. Keep in mind that interest-rate risk impacts alternative financing sources and options as well — credit cards, invoice factoring, invoice financing, Small Business Administration loans, etc.
What can be a more attractive option?  
Put even more focus on turning around uncollected debt.

Using data to prioritize collections based on risk levels helps credit, A/R, and collections teams recognize which accounts are the most or least likely to pay, so time and resources can be used effectively.

Credit and collections managers can start by combining trusted third-party commercial data with internal information for greater visibility into account history and behavior. Adding predictive risk scores and ratings can help them pinpoint and scope risks within delinquent accounts.

Using those insights, collectors can stop prioritizing customers based on highest or oldest outstanding balances and avoid chasing accounts that are likely to be write-offs. Instead, they can create more impactful strategies that align resources and activities with the customers that are more likely to repay what they owe. That helps lead to more successful collections outcomes and puts cash back into the business.

Now is also the time to take a hard look at receivables within the context of the company’s balance sheet. Credit and A/R managers can gain important insights to help them manage vulnerabilities and opportunities by asking key questions, such as:

- **When are key expenses coming due?**
- **What channels are at risk?**
- **What are the potential impacts on operating cash flow?**
- **Can cash flow be sustained, and for how long?**
- **Will the business be able to recapitalize, and how?**
Don’t Overlook Fraud and ESG Risks

Credit risk and interest-rate risk are important, but credit and A/R teams need to be aware of other key risks for their customer portfolio, especially risks related to fraud or environmental, social, and governance (ESG) factors.

Researchers and analysts have noted the tendency for fraud to escalate during periods of economic distress. Leveraging fraud risk analytics from a trusted data provider can help create the insights needed to help strengthen due diligence and portfolio management processes.

Powerful fraud model scores, reason codes, and fraud risk signals can help credit and A/R teams detect bad actors and potential malfeasance and other criminal activity early, so they can rapidly launch countermeasures and avoid costly disruptions.

Including ESG data, rankings, and analytics within risk assessments helps credit and A/R managers gain greater visibility into their customers’ structure, governance, and reputation. That data can help credit teams understand customers’ efforts to mitigate risk, diversify product lines, reduce costs, and attract top talent — key drivers of health and sustainability. It can also help companies satisfy reporting requirements of auditors, regulators, investors, and others.
Ongoing staffing “outages” — particularly in procurement, fulfillment, accounts payable, and cash application — may contribute to errors and issues that fuel B2B customer disputes and deductions.

Purpose-built credit and collections management platforms can help credit, A/R, and collections teams more effectively address disputes and reduce deductions. They can streamline workflows, automate time-consuming or manual tasks, and help reduce the potential for errors. Customer-facing payment portals can also simplify communication about disputes through self-serve tools and automated notifications, and help accelerate debt recovery with online payment functionality.

Tools and technology can be part of the solution. A review of internal policies regarding customer disputes can also go a long way in helping credit and collections teams to better manage them.

**AS PART OF THE REVIEW, TEAMS NEED TO ENSURE THEY UNDERSTAND:**

- How, and how quickly, customer disputes are investigated, and how they are determined to be valid or not
- What deductions the finance team is willing to absorb in order to preserve the relationship with the customer
- What role the company’s sales team will take in disputes, how and when they will interact with the customers, and what results they will be accountable for
- What resources (internal or third party) the business will engage to help pursue repayment, especially if there is a dispute backlog

Reduce Disputes and Deductions

While supply chains have been recovering from pandemic disruptions and delivery challenges seem to be decreasing, the Great Resignation and other labor trends have helped create lingering resource gaps for many companies. ⁴
Leverage Frequent Analysis and Reporting

Ongoing customer account analysis is crucial for credit, A/R, and collections teams. If and when changes occur in customer account behavior, they need to determine if the variation is limited to one relationship, or if it’s a pattern they can see in customers’ interactions with other suppliers and vendors.

Automated account review and monitoring tools are valuable for alerting managers to significant changes or actions. Whether those changes are slower payments, larger deductions, skipped invoices, unilateral changes to terms, etc., A/R managers and collectors need to determine the right account management or collections strategy for those “outlier” customer accounts.

Establishing a “watch list” can be an effective way for teams to share and maintain attention on those customer accounts before they become problematic.

Review Account Information Regularly and Rigorously

Monitoring total balance, total past due, risk ratings, and last payment date for accounts helps A/R managers anticipate issues and helps keep cash flow stable. Other valuable reports and scores to monitor include:

- A/R aging report
- Days Sales Outstanding (DSO) report
- Business failure scores
- Account delinquency scores
- Bad debt write-offs and reserves
Help Improve Business Stability and Resiliency

Even in a challenging economic environment, effective management of accounts receivable can still have positive impacts on cash flow, risk profile optimization, and bad debt avoidance.

The faster that credit and collections managers can help convert accounts receivable to cash, the sooner (and more easily) businesses can meet debt and expense obligations and cover unexpected needs or opportunities.

Comprehensive data and predictive analytics, purpose-built solutions, robust reporting, and performance metrics offer credit and collections teams greater visibility into risks within customer accounts and the customer portfolio. They also help teams detect changes that can signal the need for strategic engagement or actions via sales, collections, or other business resources.
For more information on how Dun & Bradstreet can assist credit, collections, and A/R teams with accounts receivable, risk management, and cash flow management, explore our resources at dnb.com/receivables.


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