International Telecommunication Union

ITU-T

TELECOMMUNICATION
STANDARDIZATION SECTOR
OF ITU

D.195
Supplement 2
(05/2013)

SERIES D: GENERAL TARIFF PRINCIPLES

General tariff principles – Service and privilege telecommunications

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Time-scale for settlement of accounts for international telecommunication services

Guidelines for day sales outstanding (DSO) management

Recommendation ITU-T D.195 – Supplement 2

ITU-T D-SERIES RECOMMENDATIONS

GENERAL TARIFF PRINCIPLES

For further details, please refer to the list of ITU-T Recommendations.

Supplement 2 to Recommendation ITU-T D.195

Time-scale for settlement of accounts for international telecommunication services

Guidelines for day sales outstanding (DSO) management

Summary

Supplement 2 to Recommendation ITU-T D.195 is intended to assist telecommunication operators interested in developing guidelines for day sales outstanding (DSO) management. Since an operator's decision to establish prepayment mechanisms is an internal commercial matter (with terms negotiated between operators), the guidelines in the present supplement are voluntary and meant to be illustrative in nature. Their objective is to help operators formulate new (or update existing) DSO guidelines according to their own needs, business strategy and headcount pressures.

History

Edition	Recommendation	Approval	Study Group
1.0	ITU-T D.195	2003-11-21	3
2.0	ITU-T D.195	2006-06-27	3
3.0	ITU-T D.195	2008-04-04	3
4.0	ITU-T D.195	2011-04-01	3
5.0	ITU-T D.195	2012-11-20	3
5.1	ITU-T D.195 Suppl. 1	2013-05-31	3
5.2	ITU-T D.195 Suppl. 2	2013-05-31	3
5.3	ITU-T D.195 Suppl. 3	2013-05-31	3

FOREWORD

The International Telecommunication Union (ITU) is the United Nations specialized agency in the field of telecommunications, information and communication technologies (ICTs). The ITU Telecommunication Standardization Sector (ITU-T) is a permanent organ of ITU. ITU-T is responsible for studying technical, operating and tariff questions and issuing Recommendations on them with a view to standardizing telecommunications on a worldwide basis.

The World Telecommunication Standardization Assembly (WTSA), which meets every four years, establishes the topics for study by the ITU-T study groups which, in turn, produce Recommendations on these topics.

The approval of ITU-T Recommendations is covered by the procedure laid down in WTSA Resolution 1.

In some areas of information technology which fall within ITU-T's purview, the necessary standards are prepared on a collaborative basis with ISO and IEC.

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1 Introduction

1.1 Objective and scope

The objective of this supplement is to assist telecommunication operators that are interested in the development of guidelines for the management of day sales outstanding (DSO). These guidelines are illustrative and voluntary as the development of DSO processes is an internal corporate matter and the terms between operators are commercially agreed.

1.2 Benefits of benchmarking DSO management guidelines

It is intended that these guidelines will bring the following benefits to telecommunication operators:

- Professionalism and proficiency: Create a benchmark of a traditional collection of key performance indicators (KPIs).
- Organizational status: Take a snapshot of payment terms driven by history, legacy and diverse global ways of working.
- Alignment: Assist telecommunication operators in formulating a set of guidelines and industry best practices according to their own needs, strategies and headcount pressures.
- Operational quality:
  – Encourage a review of existing ways of working and enhance carrier processes according information exchange between carriers;
  – Ensure efficiency in reducing accounts receivable;
  – Ensure efficiency in managing accounts payables;
  – Pre-empt impact of diversification of telecoms product;
  – Pre-empt impact of changing industry: fraud, prepayment and payment terms.
- Knowledge sharing: Share best practices on optimizing processes, resources, systems, off-the-shelf and in-house.
- Guidelines driven by the telecommunication operators financial community itself, so that best practices are real versus conceptual.

1.3 What is DSO?

DSO measures the time it takes for a company to collect accounts receivable (AR) from credit sales. It provides an average effectiveness of AR collection policies and the resource in charge of implementing and managing the contract payment terms.

The formula to calculate DSO is:

$$DSO = (Receivables/Sales) \times Days\ in\ Period$$

For example:

Total receivables = \$ 5,000,000.00

Total credit sales = \$ 10,000,000.00

Number of days in period = 90

(5,000,000.00/10,000,000.00) × 90 = 45 days (DSO)

1.4 Key factors surrounding DSO and DSO indicators

AR balances are among the largest and most liquid holdings. A well-managed DSO helps optimize cash flow, supports corporate cash requirements and boosts working capital. DSO management plays a vital role in the overall health of a company:

- DSO is considered an important tool in measuring liquidity
- DSO tends to increase as a company becomes less risk averse
- Team efficiencies and performance issues: Increasing DSO can also be an indication of poor follow up on delinquencies OR of bad billing function
- High risk defaulters: Increasing DSO might be the result of inadequate credit risk analysis
- Increasing DSO can result in cash flow problems, and may compel companies to increase the creditor company's bad debt reserve
- Billed revenue movement: Highlight changes in selling or trading activity
- Seasonal business cycle: Pre-empt cash gaps and foreign exchange impacts
- Organization unaligned: Contract terms within commercial teams and finance management.

1.5 Key objectives of DSO management

The key objectives of DSO management are, but not limited to, the following:

- Cash in: Improve cash inflow in a timely manner. Reduce DSO, maintain days payable outstanding (DPO) and reduce aged debt percentage.
- Business development: Enable sales and profits; enable business for the company if it takes the "build your business with you" approach.
- Enforce contractual terms: Monitor, protect and manage the company's AR. Execute netting and statement proposal process.
- Provisions: Reduce financial exposure and minimize bad debt losses. Reduce net credit exposure (credit risk).
- Training: Build and develop collection resources, use the right skill set, highlight gaps in knowledge.
- Automation: Can we collect faster if we automate a part of the chain?
- Organizational coordination:
  - Commercial and trading to ensure correct contractual and pricing input
  - Correct reference data in the system interfaces
  - Billing to send correct invoices in order to produce a collectable bill or validate an incoming invoice.
- Information gathering and networking with partners in order to assess the upcoming impact of any funnel activity on DSO vs. revenues.

1.6 Collection department goals

- Meet customer's needs

- Meet management expectations
- Bridge the gap on sales needs
- Satisfy audit and accounting requirements
- Achieve operational requirements.

1.7 DSO management strategies

- Operational evaluation:
  - Cash flow management (actual cash in/out)
  - Clear escalation policy
  - Top escalation efficiencies
  - Monthly credit management review on insured and uninsured
  - Quarterly credit limit review management.
- Financial forums: Alignment of activities across financial teams and carrier community:
  - Greater emphasis on sharing collection KPIs
  - DSO shaped by regional nuances
  - Use the industry knowledge at hand versus static credit rating information
  - Forum for improvements, ideas and general trouble shooting of the daily operation.
- A segmentation approach to portfolio management:
  - enables focus on key operator relationships in line with the commercial organization
  - allows the regional collector through to the management to follow a clear policy agreed throughout the financial and commercial environment
  - allows a high level of prioritization and "alert" system across departments.
- Automation:
  - Internal labour intensive tasks to be automated to free up time to ensure better quality
  - Actual collection task can be automated
  - Transfer to prepayment.

1.8 Core activities and key responsibilities to reduce DSO and DSO management

- Collection managers and collection resource: Cash collection is the point at which all activity with the customer must be concluded promptly until the following cycle:
  - Accuracy
  - Proactivity
  - Transparency
  - Negotiation of shorter billing cycle
  - Prepayment system
  - Participation with commercials in customer meetings or conferences
  - Customer visit when collection (or dispute) is at stake.
- Commercial teams:
  - High-level business case in line with credit risk approval process
  - Prior approval of appropriate members of the finance team on financial clauses of contracts
  - Regular cooperation with sales is necessary to succeed

  - Rules and commitments on collection between sales and finance to be respected
  - Provide regional financials.
- Billing:
  - Invoice on time
  - Validate on time
  - Resolve dispute promptly and in harmony with collections
  - Send disputes on time.
- Credit risk management: Risk-aware top-down:
  - Clear credit policy: Follow the processes and procedures encompassing all credit functions and activities adopted by the business. Conduct a credit check and evaluation of existing and new customers regularly
    - Company history (legal, corporate and capital structure, balance sheet) and background of principal/owners/officers)
    - Financial condition and operating results (financial statement and ratio analysis)
  - Establish credit lines, terms or limits with internal information and rating agencies
  - Gather credit information (internal and external sources)
  - Networking
  - Define target, owner and action for making a credit decision and recommendation (escalation and hierarchy)
  - Decision and recommendation to management:
    - Revenue the business is estimated to generate or the overall margin that the service contributes to the bottom line vs. risk
    - Alignment with the collection process
    - Strength or weakness of the product or service that is being sold
    - Degree of competition or opportunities in the marketplace; the changing nature of the industry
    - Regional implications of risk or future business.
- Reporting:
  - Credit file archive maintenance
  - Reporting to upper management (status alerts and monitoring reports)
  - Sharing of credit information with other business units within the company while ensuring compliance with national legislation and agreements
  - Disputes archive
  - Contracts database
- Escalation hierarchy:
  - Work in agreement with customer – Commercial and operational collection level:
    - Payment plans
    - Prepayment planning
    - Third-party agreement
    - Virtual securities
  - Work to the debtor-driven timeline – Commercial and financial management level:
    - Limit exposure from the customer

    - ○ Virtual securities
    - ○ Review netting position across products and across operating companies
  - – Work to enforce the contract (e.g., Chief Executive, Chief Financial Officer and Legal Council Level):
    - ○ Suspension
    - ○ Embassy-level action
    - ○ Legal action.

1.9 Measurable goals

- DSO
- Percentage of aged debt
- Bad debts: Zero tolerance
- Automation of reminders: measurable return.

2 Best practices in DSO management

- Follow your credit policy
- Segmentation
- Regular tracking, reporting and performance managing
- Effective reporting vs. reams of reports for nothing
- Improve both debt collection and dispute resolution by optimizing resource allocation
- Discourage payment defaults by charging late payment penalties that comply with applicable laws
- Establish collection KPIs in line with other business units
- Establish payment plans with the T.O.A.D (Target, Owner, Action and Delivery)
- If a long drawn out payment plan is accepted, the following should be ensured:
  - – that financial statements are received
  - – that the payment plan is documented in written agreements signed by both parties
- Shorten or eliminate grace periods
- Enforce payments of undisputed amounts
- Educate the collector to research regional issues
- Ensure close collaboration with internal tax department
- Be proactive: do not procrastinate on the small issues
- Shorten the open account terms and reduce the credit limit assigned
- Ask the customer to confirm his payment commitment in writing; this is an effective collection tool
- Be polite and respectful but firm
- Flag accounts volatility to management
- "Mean what you say, and say what you mean".

3 A summary DSO management checklist

- Get on the phone: Cultivate professionalism in debt-collection resources
- Measure performance: Encourage top performance and coach weaker performers

- Put pressure on cash: link to performance reviews
- Encourage collectors to alert and not hide collection problems
- Encourage to be part of the solution and not part of the problem
- Segmentation
- Clear credit management policy with e2e business buy-in
- Work with commercial teams
- Talk to each other. Do not communicate only by e-mails.

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Printed in Switzerland
Geneva, 2013