

Reduce Late Payments Using Root Cause Analysis

Late payments can slow your company's cash flow. Rather than looking at late payments individually, it's better to look at your accounts receivable system.

Initiating a root cause analysis helps you reach the bottom of the issue quickly. This proactive approach to problem-solving allows you to take actionable steps toward straightening out your accounts receivable.

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The Issue of Late Payments in B2B

Managing your cash flow is one of the most important parts of running your organization. If you aren't getting paid on time, it can impact the way you do business. Late payments harm your cash flow, impacting every aspect of your company.

A single late payment likely won't interrupt your company's day-to-day operation. However, late payments can stack up and cause lasting problems as a group.

Late payments equate to lost revenue. Without adequate funds, you may not be able to bring on new clients; you may even have to turn down orders. If your customers aren't paying you, you may struggle to pay your vendors and suppliers and your payroll.

Repetitive issues may point to a larger accounts receivable issue. One of the best ways to counteract late payments is to figure out your numbers, starting with your DSO.



DSO, the Late Payments Metric

Understanding your [DSO](#) is the first step in resolving late payments.

DSO is the average amount of time it takes to receive payment. If you have a low DSO, that's good. It means customers make payments on time, which is what you're looking for. A high DSO means payments take longer to arrive. A high DSO could point toward issues that you need to address.

[The average DSO for companies around the world](#) is about 65 days. While other factors can be involved, the best practice is to compare your DSO with companies of a similar size in your industry.

What Is Root Cause Analysis?

Solving any problem in business goes beyond crunching numbers and relies on addressing the issue foundationally. To reduce late payments and lower your company's DSO, you have to pull the weed from the root.

This is where root cause analysis comes in. This method is a proactive approach to problem-solving and can reduce late payments by providing a sustainable solution.

A root cause analysis is especially relevant if your late payments result from a deeper accounts receivable problem. This internal issue can significantly impact your processes, so performing a root cause analysis is essential to get everything back on track.



The 5 steps of a root cause analysis

There are five steps to follow to initiate and conduct an effective root cause analysis.



1. Gather your evidence

A root cause analysis is always evidence-based and evidence-driven. As you begin, you'll want to compile and manage that evidence. There are a few areas where you should focus your efforts.

People

Ascertaining who is involved in your accounts receivable process and their roles will be crucial in moving forward. People are often the most important and the most elusive factor. Don't mistake skipping over the people integrated within the systems while you're analyzing the process. Having the right people involved in your investigation is like setting up your chessboard correctly—it's the foundation of a good strategy.

Procedures

Your company has many procedures, both formal and informal. What procedures surround your accounts receivable process? Which of them are formal? Which are informal? Find out whether people are following these procedures, and if they are, ask yourself what further measures could be put into place. Are the current procedures too complex? Too simple?

Systems

What tools do you rely on to request, collect, and process payments? Are they functioning properly? Are they automated or manual? Each step may utilize different applications and technologies, but all these systems need to communicate seamlessly. A hiccup in your systems can impact your cash flow.

Environment

This is a frequently overlooked element, but it can be an important factor. How does your work environment influence payment issues? Look into factors like scheduling, pressure regarding payments, and collaboration between you and the client. Assess the relationships and conditions to determine what kind of influence this element has on your late payments.



2. Write your statement

Using the evidence you gathered, you have the information you need to write a brief description of the issue. You should include what you found about your DSO, the information you gathered from your people and systems, and any additional evidence that leads to the complete story.

Try not to think about this as an individual issue anymore. That is to say, you aren't creating a statement for one client that falls behind on payments.

You're creating one for the issue of late payments as a whole.

That means the data you compile will be fairly extensive, depending on the size of your company. If you have a lot of clients, you're going to want to assess the health of their accounts and decide where the issue lies.

The biggest thing is to find out if the issue lies within your internal accounts receivable process. This would be ideal, as it would mean you know where to enact action to change the outcome for the better.

Write your statement once you have gathered all of the required information, and then you can move on to the next steps.



3. Identify cause and effect

Now we're getting into the results. With all of the information you've gathered, you can assess the cause and effect of your late payment issue. A root cause analysis aims to build a cause-and-effect model, which will tell you how the problem occurred and how to fix it.

To create your basic cause-and-effect model, ask yourself two questions.

1. What is the cause that triggered the effect?

2. Each time the cause occurs, will it always result in the effect?

You have to realize that there is usually more than one cause to a single effect, and our goal is to get to the root cause. Usually, this isn't enough to identify the root problem. Issues are more complex than that, and it's more likely that we have to dig deeper to get to the root.



4. Create solutions

Now we can start addressing the causes that you found. Every cause you found is a potential candidate for a solution, so don't overlook any of them. Think of it as a game—you get double the points if you can think of a way to address multiple causes with one solution. Individual solutions to individual issues work, too—at the end of the day, what's important is to address each cause you've uncovered. We can identify the whole problem and figure out how to solve it through this.

To be a good solution, it has to:

Be effective

Your solution has to target the issue and address the root cause. This is the way that you'll break the chain and create change.

Be implementable

If a solution isn't actionable, it can't aid in creating a solution. Make it digestible and break it down into actionable steps for the relevant people and systems involved.

Provide a positive return

Solving the issue requires time and resources, so the solution needs to provide a positive return. Find out if there is a current business case that could benefit from your process and observe the impact.

Not cause other problems

The last thing you want is for your solution to cause additional problems. This is why it's important to thoughtfully consider the effect of the solutions you're putting in place. How will they affect the people involved? The current procedures and systems? Take a holistic approach and proactively ensure that your solutions are solutions, not additional issues in disguise.

Ensure that every team member has clear action items as you implement these solutions. Plan them out in your project management software and assign due dates. Everyone needs to be on the same page and know precisely what steps they need to fix the issue.



5. Build reports

Now that you've initiated a root cause analysis and come closer to understanding your accounts receivable issues, you can begin reporting your findings. Reports are like a conclusion to your initial written statement. Include what occurred when you put the solutions into place and expand on their impact.

Throughout this report (and the ones you continue to make as you observe the issue), you'll begin to look through a much clearer lens. You'll spot areas where the solutions were not working and why, and if those can be repaired.

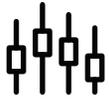
Continue to observe these solutions and processes over time to discover additional insights. Some solutions may fall apart, but others will take root and provide a path to straighten out your accounts receivable.



How can root cause analysis solve the issue of late payments?

While you could take the approach of solving payment issues case by case, that can become a major investment. Root cause analysis can be more effective, efficient, and sustainable in the long run because it views the issue holistically. Taking a more proactive approach to solving these payment problems isolates common factors so you can take steps to resolve them.

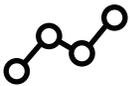
The main goal is to improve your accounts receivable issues, which cause a ripple effect throughout your company. Through this approach, you can significantly improve crucial areas of business.



1. Increase client satisfaction

Nearly everything in business comes back to building relationships. The relationship between your company and your clients is vital, and the payment process is an important part of that. Gaining the trust of your clients is an essential part of relationship building, and you can do that by developing reliable payment processes.

Building a relationship with your clients goes beyond good systems, though. People love to see businesses take their feedback into account and make real changes. Using the data from your evidence, you are in a position to take action toward that goal. By gathering feedback from your clients, you'll allow them to be heard and also learn more about your client base. With that, you'll discover more about what makes them happy overall and how to improve in other areas.



2. Generate growth

Any time you invest time and resources into your clients and their issues, you're generating growth in your business. While the immediate goal is to focus on your cash flow, the long-term goal is to create client loyalty. You're working toward that long-term goal when you take the smaller, actionable steps to address your core processes. Your payment systems are a large part of that. You build client loyalty when you demonstrate that you care and are actively investing in solving their problems. That loyalty translates directly to lasting and meaningful growth in your company.



3. Solve billing issues

While you can't control when a client has the means to pay your company, you can dive into your internal accounts receivable issues. These could include management-related problems, such as late bills, invoices that are difficult to read, or unclear terms. If left unaddressed, these issues can become driving factors of late payments from your clients.

If your internal process is not rock solid, it will leave your client feeling confused and overwhelmed. That will cause them to push the invoice to the bottom of their task list, which decreases your wallet share. The situation is made even worse if they're forced to contact your client service department. Instead, make it easy for your clients to know what they owe, when it's due, and how they can settle up. The clearer you are, the more likely they will pay on time.



4. Reduce costs

If your accounts receivable team is flooded by repetitive billing questions and is always tracking down payments, you have an opportunity to reduce operational costs. You can employ a sustainable and strategic plan that reduces the number of delinquencies. This will also reduce operational spending in a few business areas, lowering overall costs. You likely started researching late payment solutions to improve your cash flow, which gives you a chance to do so directly. The indirect ripple effect frees up cash in more than one area of the business, which is why this proactive approach is recommended.

Improve Your DSO and Offer a Streamlined Payment Experience

While most accounts receivable issues are likely to have multiple causes, moving to fully digital payments could streamline your billing process. [A fully digital payment system](#) could improve your DSO and provide a better overall experience for your clients.

Learn more about [how Paystand can help you improve your payment processes](#) and enhance your clients' experience.