The CFO's Credit Compass

NAVIGATING DSO FOR SMARTER CASH FLOW

Business

TRADE SHIELD

MARTIN PETZER
CREDIT EXECUTIVE

With over four decades immersed in the world of credit risk analytics and financial strategy. Martins insights offer a practical and powerful lens through which CFOs can understand and manage DSO.

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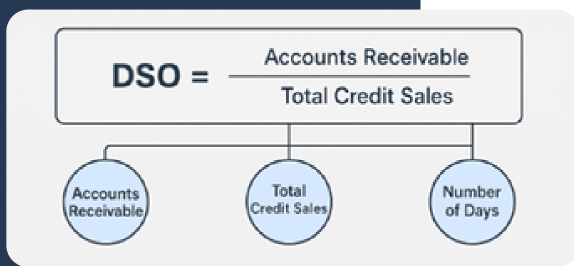
Days Sales Outstanding (DSO)

In today's unpredictable economic climate, the role of the Chief Financial Officer (CFO) has transformed.

No longer just the guardian of budgets and balance sheets, the modern CFO is a strategic navigator, steering the business through the complexities of credit, cash flow, and risk.

At the heart of this navigation lies a deceptively simple metric: Days Sales Outstanding (DSO).

"The words DSO mean how many days has this sale been outstanding."



What is DSO, Really?

Martin begins.

"The shorter those DSO days are, the closer you are to better cash flow management. So, if your terms are 30 days, of course, a brilliant DSO will be on 30 days, that means I collect my payments as per my stipulated terms."

Many South African companies, especially in B2B sectors, offer extended payment terms to remain competitive. However, this often leads to delayed payments and rising DSO, which increases the risk of bad debt and cash flow gaps.

According to industry reports, 70% of companies report DSO above 46 days, which can cause severe disruptions in liquidity.

DSO measures how long it takes for a company to collect payment after a sale. It's not just a number; it's a reflection of how efficiently cash flows back into the business.

For example, if a company's monthly sales are R5 million.

- One day of DSO equals roughly R166 000.

That means every day a payment is delayed, R166 000 remains uncollected.

Every day a payment is delayed, thousands of rands are still due, directly impacting liquidity and profitability. For CFOs, understanding the relationship between DSO and margin is not optional, it's essential.

Strategic credit management, supported by accurate data and disciplined processes, is the key to unlocking cash flow and safeguarding growth.

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The CFO's View - Cash Flow in Motion

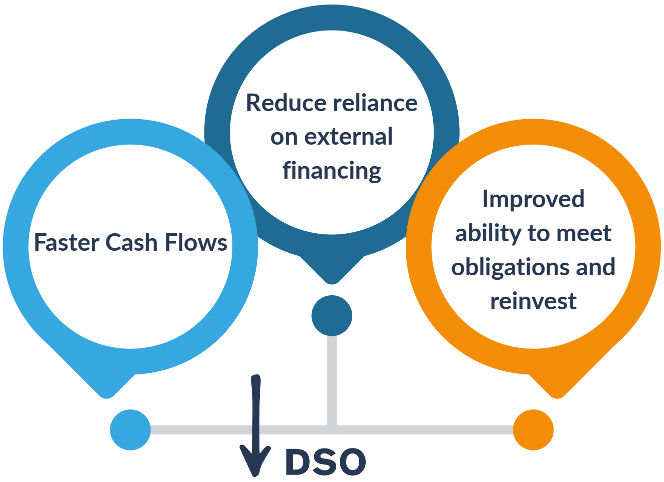
Martin explains the deeper implications:

"If you are a company that is financed by an overdraft facility, you will pay interest on your money because you used overdraft capital. Whereas, if you had the money, it would have gone into your account, and you could have earned interest on your capital."

South African businesses often operate in a climate of economic uncertainty, marked by fluctuating interest rates, currency instability, and inconsistent consumer demand. In such conditions, cash flow becomes a survival tool, not just a financial metric.

For CFOs, DSO is a pulse check on liquidity.

- A **high DSO** can choke cash flow, increase borrowing costs, and limit operational agility.
- A **low DSO** is reduced, for example one case where it dropped from 82 to 30 days the results are transformative. Cash flows in faster, obligations are met with ease, and the business becomes more resilient.



For South African CFOs, a low DSO isn't just a financial win, it's a strategic necessity.
In a market defined by economic uncertainty and tight margins, shortening DSO strengthens resilience, lowers borrowing costs, and gives CFOs the agility to respond to shifting conditions.

Simply put, the faster cash flows in, the stronger the business stands.

Trade Shield: The CFO's Tactical Ally

Trade Shield helps South African B2B companies manage and reduce DSO by transforming how they assess and act on credit risk.

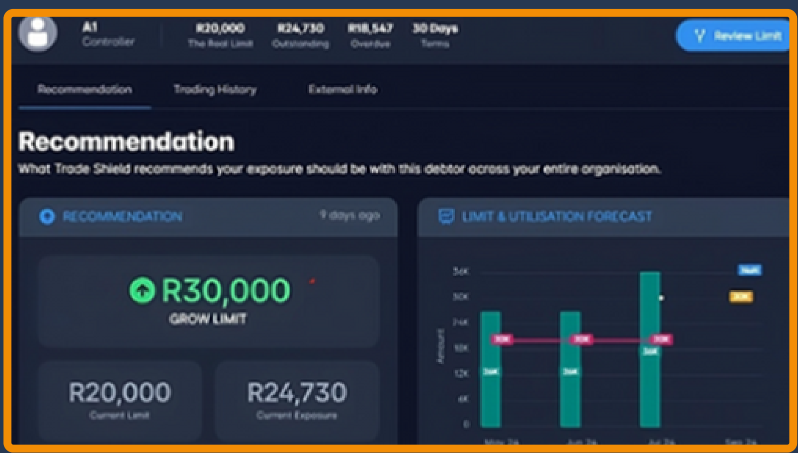
Here's how:

In South Africa, late payments are common, and many businesses operate on thin margins. Knowing who is likely to pay late helps companies tighten terms and protect cash flow.

Real-Time Credit Scoring and Recommendations

Trade Shield provides businesses with real-time insights into customer payment behaviour, allowing them to identify which clients are likely to delay payments or default. This helps companies proactively manage their receivables and avoid surprises that extend DSO.

"By flagging deteriorating payment behaviour early, Trade Shield allows businesses to intervene before invoices become overdue. This reduces the number of days sales remain outstanding and improves working capital."



Dual-Risk Assessment: Payment Risk + Default Risk

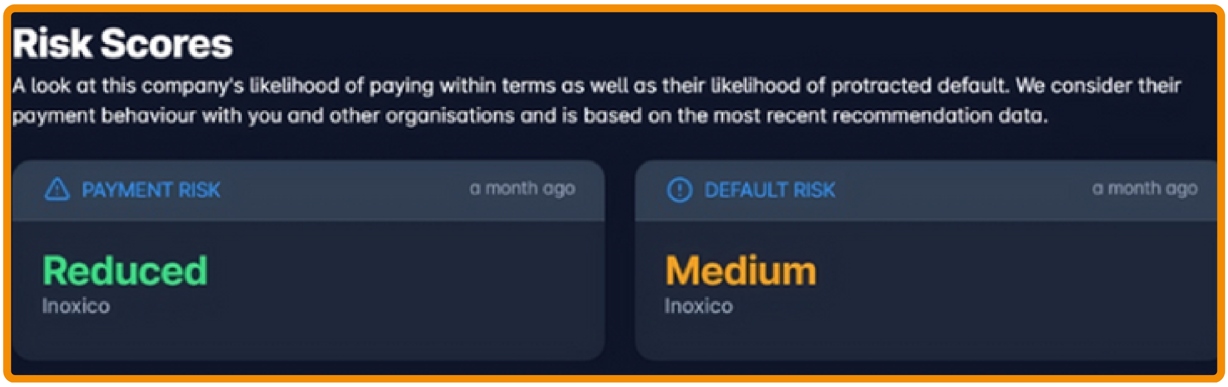
“Trade Shield can help you to reduce your DSO by changing the way you trade with your debtors. We are shifting your focus away from companies that take long to pay you.”

Trade Shield empowers CFOs with tools to assess and manage two critical risks:

- Payment Risk: Are customers paying on time?
- Default Risk: Are they likely to pay at all?

“Trade Shield indicates your DSO movements by assessing payment risk.”

With predictive analytics, automated credit scoring, and digitised workflows, Trade Shield helps companies make smarter decisions, reduce delays, and improve collections, without increasing risk.



Trade Shield gives CFOs the edge they need. By combining real-time credit scoring with predictive risk analytics, it transforms credit management from reactive to proactive. The result? Faster collections, lower DSO, and stronger cash flow, without increasing exposure.
For CFOs, Trade Shield isn’t just a tool, it’s a tactical ally in building financial resilience and smarter growth.

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The Invoice Process, Where DSO Begins

Martin emphasises the importance of aligning internal processes with debtor expectations:

"We had to start making sure that we are acting upon our debtors' expectation. They call it an invoice process."

Invoices must be accurate, complete, and tailored to each customer's approval workflow. Some companies have up to 28 touchpoints before payment is authorised. Trade Shield helps by standardising formats, automating checks, and integrating with customer systems to ensure invoices move swiftly through the pipeline.

Trade Shield also supports better internal processes by highlighting where invoice delays originate, whether it's missing documentation or bottlenecks in approval workflows. This helps companies streamline their invoice-to-cash cycle, a key factor in reducing DSO. Improving your invoice process isn't just about getting paid faster, it's about empowering your credit team to work smarter. By aligning with debtor expectations and streamlining internal workflows, businesses can reduce friction, accelerate collections, and significantly lower DSO.

Tools such as Trade Shield make this possible by automating checks, standardising formats, and identifying bottlenecks, turning invoicing into a strategic asset for cash flow management.

Margin vs Terms: The CFO's Balancing Act

"Your margin will tell you how long your payment term should be. If I take only 10 cents and I wait for 30 days and my cost of capital is 1.50, it means I'm losing 1.40."

To explain this more, if the profit margin is low (e.g., 10 cents per unit) and the company waits 30 days to get paid, but the cost of capital over that period is R1.50, the business is effectively losing R1.40 per unit sold. This happens because the cost of financing (e.g., overdraft interest or missed investment returns) far exceeds the profit earned.

In South Africa, where many businesses operate on tight margins and rely on overdraft facilities or short-term credit, this scenario is common, and dangerous.

It means:

- Sales can become loss-making if payment terms aren't adjusted to reflect margin realities.
- Cash flow is strained, forcing businesses to borrow more, increasing financial risk.
- Profitability is eroded silently, making it harder to grow or invest.

CFOs must align payment terms with product margins.

- Low-margin products require shorter terms to avoid profit erosion.
- High-margin products offer more flexibility.

Negotiating terms isn't just about customer satisfaction, it's about protecting profitability. For CFOs, margin is not just a pricing issue, it's a strategic lens through which to view credit policy, DSO management, and overall financial health.

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Bad Debt: The Silent Profit Killer

Bad debt write-offs are more than accounting entries, they're lost opportunities. By monitoring payment behaviour and using IFRS-based provisioning, CFOs can anticipate and mitigate losses. Reducing DSO is a key defence, ensuring invoices don't age into risky territory.

"If I write off R100,000, I've reduced my profit by R100,000. Because I'm taking that money out somewhere and I'm now cleaning a bad account which I'm not going to get paid for."

In South Africa's B2B landscape, where economic volatility and payment delays are common, bad debt is more than a financial inconvenience, it's a strategic threat. Many businesses operate on thin margins, and a single large write-off can wipe out months of profit.

For example, at a 5% margin, recovering a R100,000 loss requires generating R2 million in new sales, an uphill battle in a competitive and cash-constrained market.

Bad debt often stems from aging receivables, which is why DSO must be treated as a frontline defence mechanism. The longer an invoice remains unpaid, the higher the risk of default. By actively monitoring payment behaviour and applying IFRS-based provisioning, CFOs can anticipate losses before they materialise and take corrective action.

Platforms such as Trade Shield empower finance teams with behavioural analytics and early warning signals, allowing them to intervene before receivables become write-offs. In a South African context, where access to affordable credit is limited and customer liquidity can be unpredictable, this kind of foresight is not optional.

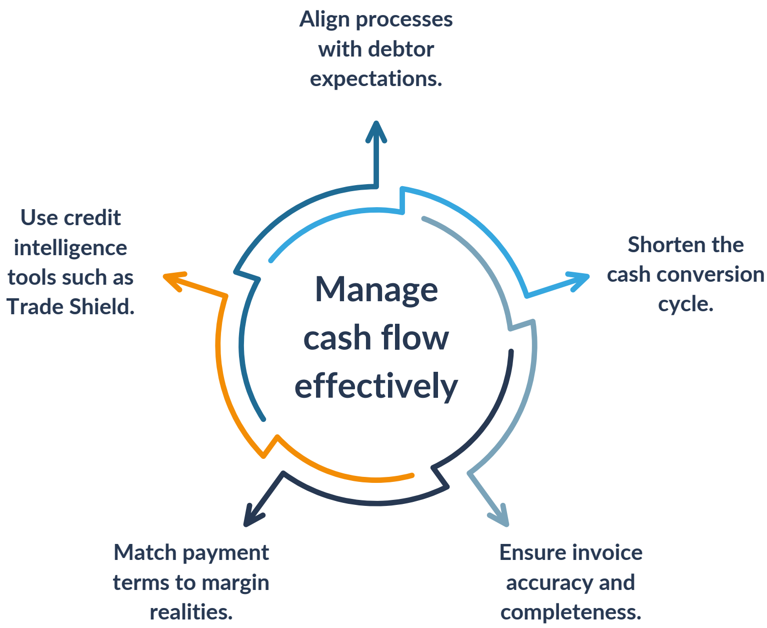
Strategic Cash Flow Management

"The first thing, of course, is always to ensure that your invoice and administrative processes are aligned with those who owe you money. Because that's your cash flowing out. That's your product leaving there and it's got a value connotated to it and to improve my cash flow I need that money to get back to me as quick as possible."

Cash flow is the heartbeat of any business, but in South Africa's B2B sector, it's often under pressure from extended payment terms, inefficient invoicing, and fragmented internal processes.

Martin's advice is clear:
"Cash flow starts with operational discipline."

DSO and cash flow management are deeply linked, the longer it takes to collect payments, the more working capital is tied up, limiting a company's ability to invest, pay suppliers, or respond to market shifts. For South African B2B businesses, where late payments and thin margins are common, this can be especially damaging.



Trade Shield helps solve this and enables CFOs to reduce DSO, improve collections, and unlock cash flow, turning credit management into a strategic advantage.

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CLARITY AND CONFIDENCE FOR SMARTER CREDIT DECISIONS

Request a demo with one of their trade credit experts. This is the fastest way to see how the platform works and how it can be tailored to your business.

When you connect, be ready to share your current DSO figures, credit management pain points, and goals. This helps Trade Shield tailor their solution to your business needs and show you how to unlock faster cash flow and reduce risk.

For inquiries, contact us.

www.tradeshield.ai
info@tradeshield.ai
+27 10 753 1630