

TIPS *from* LauberCFOs

Collecting Accounts Receivable Keep the Cash Flowing

One of the wisest sayings in business is that you haven't really made a sale until you have the money in hand. So if having good sales practices is important for a company, having good credit and collection policies is even more important.

We're sure you're familiar with the problem; every business at some time and for a variety of reasons has trouble or fails to collect invoices.

In worst-case scenarios, unpaid accounts receivable can cripple or bring down a business. A much greater amount of new business must be generated to make up for the lost profits of an unpaid invoice. If the invoice is paid but late, the cash flow impact can be costly, eroding your profit margin. And remember, the longer an invoice goes unpaid, the harder it is to collect.

You may not be able to escape the problem, but there are steps you can take to reduce losses from unpaid invoices. Those steps are both proactive and reactive.

Proactively:

- 1) **The No. 1 factor in collecting accounts receivables is attitude.** Businesses that are proud of the product or service they provide and simply expect their customers to live up to their end of the bargain and pay the invoices always get paid faster than businesses that consider slow paying customers a fact of life.
- 2) **Exercise due diligence in obtaining new clients.** Be aware of a prospect's market conditions and of the payment policies of prospects. These days, it's not uncommon for larger companies to have vendor payment periods longer than 60 days – in some cases much longer. Make sure you understand the cash flow implications of such extended pay customers.
- 3) **Some large companies have special shorter payment terms for "qualified" small businesses.** Determine if you qualify.
- 4) **First do the things you control.** Speed up your internal billing process. The quicker a customer

receives an invoice, the quicker you get paid – no matter what the customer's payment cycle is.

- 5) **Bill in increments.** Several small invoices or progress billings tend to be easier for customers to pay than one large billing at the end of the project.
- 6) **Establish clear credit policies and adhere to them.** Your customers should know and understand those policies as clearly as you do. Payment policies should be incorporated in sales contracts. That will not only help ensure the prospect is aware of the policies, but it will give you leverage should a collection action become necessary. Be consistent with payment policy enforcement.
- 7) **Set the proper tone with a new customer.** It is always harder to change bad habits once they go unchallenged for a period of time than to get started on the right track.
- 8) **Consider sending invoices electronically to avoid delivery delays,** but make sure you have a clear delivery path that will enable your invoice to get past spam blockers and other filters. It is best to ask permission before e-mailing invoices. Some customers still consider this a hassle and tend to "lose" them.
- 9) **Maintain good relations with clients, especially with people responsible for authorizing and issuing payments.** If a client short on cash has to pick between two vendors to pay, you stand a better chance of being the one getting the money if you have maintained a strong relationship with the client.
- 10) **Monitor your aging reports.** Your accounting system should be able to generate daily accounts receivable aging reports, giving you information to initiate collection processes.
- 11) **Make sure your invoices are correct.** An incorrect invoice can sour a relationship and cost you time.
- 12) **Establish a credit limit for each customer.** Do not let an account build up to a level that it becomes an

“impossible” burden for the customer to pay. Use your accounting software to flag orders that exceed the credit limit. If necessary, initiate semi-monthly payments to keep the balance within a reasonable range.

- 13) **Maintain a credit file on all customers.** Include trade and bank references as well as contact information. It is a red flag if a prospect is reluctant to provide trade and bank references. Keep a copy of a check that you receive from a new customer in the file. This way you have the bank and account number if you ever need to garnish their account.

Reactively:

- 1) **Communicate internally with the appropriate departments.** When an invoice passes the due date, your sales, service and delivery staff on that account should know, especially if your policies call for denial of delivery to clients with past-due invoices.
- 2) A simple first step for a past due invoice is to make a copy, **circle the date and your terms with a red marker and write PLEASE!** across the face of the invoice and mail to the customer.
- 3) **Get on the phone.** A designated person, such as the bookkeeper, should inquire about the late payment in a respectful manner. There may be a good explanation for the late payment; starting off the phone conversation in a negative way might exacerbate the problem. If the customer relates a cash flow problem, consider offering some payment plan, whereby at least a portion of the bill is paid immediately. Try to get the customer to make some commitment even if small. Small steady progress is much better than no progress.
- 4) **Don't forget the old adage: “the squeaky wheel gets the oil.”**
- 5) **Record your steps.** After the initial phone call, consider sending a letter to the customer, detailing what you verbally agreed upon. Include a copy of the

invoice. Keep records of your attempts to collect unpaid invoices.

- 6) **Introduce e-mail into your collection efforts.** It is often easier for a customer to respond to an e-mail and easier for you to remind the customer of commitments and pressure the client to live up to promises.
- 7) **Follow up.** If the first phone call brought no results after your company's designated time period, call again with a more stern inquiry. Make sure you get a renewed and specific payment agreement. If that call brings no results, a third phone call should be made in a polite but firm manner. This may be the time to note that your company turns unpaid invoices over to your attorney or collection agency, if you have such a policy.
- 8) **Acknowledge payment.** Call the customer when the invoice is paid and, if you determine the client is still valuable to your company, stress your desire for a continued relationship.
- 9) **COD + some amount** can be a good tool if a customer needs continued product but is unable to pay the past due balance in full, e.g., COD + 10%.
- 10) **Don't be afraid to “cut off” a customer who is not paying or responding to your requests for payment.** If you work on a 20% margin, it takes \$10,000 of new sales to make up for a \$2,000 write-off. The amount is much greater if you consider the cost of the aggravation of a bad account.
- 11) **Proceed to collections.** If your procedures fail, consider turning over the invoice to a collection agency or, if the amount is very large, to your attorney. Remember, the older it gets, the harder it is to collect.

If you'd like to personally discuss how your company can more effectively collect accounts receivable, call us at 414-273-8060 or, outside of Milwaukee, at 800-358-8060. You can also send me an e-mail at John.Lauber@LauberCFOs.com. One of our LauberCFOs would be happy to work confidentially with you.