

THE NEW YORK ENTERPRISE REPORT

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Where is the Money?

All business owners struggle with accounts receivables. Here are tips to help you get paid.

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There are few things more destructive to your business than having an ineffective system for collecting accounts receivable. Your cash will dry up. Your collection activities will take up too much of your valuable time. A few recalcitrant debtors will impact the relationship you have with all of your customers.

Many of my clients have learned the hard way that it's important to have a process in place to manage your receivables and bring cash into your company's coffers. Below are the components of an efficient process.

Stop being a banker

A client of mine, a long-time friend and an attorney, once told me that he doesn't believe in accounts receivable at all. "I am not a banker," he said "My clients buy blocks of time up front." Your very first step is to consider rejecting receivables altogether, if possible. If your company provides services, bill in advance. The same goes for products sold. Ever wonder why those late-night telemarketers insist on credit card or C.O.D.? Because they can! At the very least, think about requiring partial payment in advance, when work is partially completed on a job, or after you've shipped a portion of an order. If you do have to accept accounts receivable, include favorable terms in your sales agreements.

Check on customers up front

I know you want the sale. We all do. And I know that the prospective customer seems like a good person. They all do. But before you ship anything, do some checking. Use a credit service or talk to a few references. The more you do in advance, the less trouble you'll have later on. When you take on new customers, establish credit limits for each company and stick to them. Make sure you have a company-wide process that ensures no goods are shipped when the credit limit is reached. This way, if someone doesn't pay, your losses are limited.

Get invoices out the door immediately

It may be easier to bill at the end of each month, but that practice is a cash killer. If your customers aren't going to pay you for 30 days (if you're lucky), then the least you can do is to get them your invoice as soon as possible. Most good accounting programs allow you to e-mail invoices. There's nothing quicker than that (although you should check to make sure the e-mail was received and not tripped up by a spam filter). Make sure the invoice is going to the right person, too, by specifically requesting that information in your purchase order or contract. You don't want your bill to go to Cleveland when the payables office is in Sarasota. When an invoice goes out to a customer, call to confirm receipt and verify that the information on the invoice (i.e., the purchase order number, part numbers and so forth) is the information required, that the invoice went to the right person, and that it is scheduled for payment. Keep careful records of your phone conversations. Follow up on the e-mail invoice with a hard copy in the mail.

Watch the calendar — and set up an alert system

Once the invoice is out the door, the clock starts ticking. Especially when the invoice is a large one, it helps to call a few days before it's due to reconfirm that it's scheduled for payment. Most accounting systems will allow you to set up automatic alerts to warn you of things like overdue accounts.

Establish collections procedures

If you get that automatic alert telling you that an invoice has gone unpaid for more than 30 days, it's time to call and e-mail the customer to remind him. It's my view that letters don't work well anymore in collections, unless they are legal notices. Once an invoice is 45 days past due, the customer should be on a weekly calling plan. After 60 days the calls should be daily. At 90 days past due, seriously consider using a collection firm.

One of my clients uses a retired CFO, Phil, who comes in twice a week to help the company collect open receivables. Phil uses a contact management software program to track telephone conversations he has with delinquent customers. He refers to his notes when he makes his follow-up calls. "Sir," Phil says, "Last Thursday you told me this would be paid. Did I record my note incorrectly?" Phil's a machine. But without his system he'd be much less effective. There are plenty of different contact management programs out there. (See page 44 for more information). Get one and you'll start keeping better track of your collection calls. When you are at the point where you do not think you can collect, you may want to think about outsourcing your collections, in the same way busy owners outsource payroll and bookkeeping functions. This becomes more urgent with seriously overdue invoices. Outside collections firms may charge a commission of up to 30%, but this is negotiable. And 70% of something is better than 100% of nothing. Plus, these guys do this for a living. They like being the bad guys... and

they're good at it.

Keep good records

Whether you're using a computer or not, keeping a great filing system will enable you to track open invoices, access documentation quickly and collect money faster. Make sure you retain all necessary information, like purchase orders, e-mails and notes from telephone orders and calls, and have it organized when a customer is disputing a charge.

Read your receivables like a book

Don't let more than two weeks go by without printing out your listing of aged open accounts receivable and reading it. You will always learn something: a customer that's slipping behind, an invoice that you thought was already paid. Or perhaps your overall receivables are higher than you expected. My most successful clients read their accounts receivable reports often and carefully. Expect the worst and don't lose your cool. Even with these steps, there will still be losses. Accept them. Reserve for them (e.g., allowance for bad debt). Incorporate them into your cost structure. Just because some dope decides that he doesn't feel like paying doesn't mean that the world is falling apart. There will always be people who don't do what they promise. Your job is to avoid doing business with those deadbeats and ensure that the rest of your customers don't use you as a banker.

For tips on how to talk to customers who give you the run-around when you're trying to collect, [click here](#).

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