

COLLECTING RECEIVABLES – MAY, 18 GATOR BITES

“A sale is a gift to the customer until the money is in the bank.” Nolan Bushnell, founder of Chuck E. Cheese

We all know cash flow is critical to the survival of any business or organization. The timeless question is: how can we improve cash flow? There are numerous elements to cash flow, but today let's focus on one of the biggest problems for small businesses – collecting receivables. It isn't unusual to see companies with significant receivables on their books that are eighteen to twenty-four months old. What are the odds of collecting those receivables?

Gator Bite: The older the receivable the less likely you will ever collect it

One of my clients was terrible at collecting their receivables. They would do the work, invoice the customer, but didn't pursue receivables. Consequently, the partners were constantly loaning the company money to keep it afloat. By not collecting receivables, they were effectively working for free.

Following are nine ideas for improving the collection of receivables:

1. **Drop the Excuses and Take Action:** No one likes to make collections calls. Sorry, but you have to manage all the functions of your business, even the ones you don't like. However, it doesn't have to be unpleasant if you do it right and stay on top of receivables. Remember, most companies want to pay their bills. I once worked for a company that was dying and got 15-20 collection calls a day. It broke my heart that we couldn't pay.
2. **Procedure:** Develop a collections procedure and assign responsibility for collections to current staff or hire someone to help them. Need help designing a procedure? Do an internet search. Ask a retired business person for advice.
3. **Train:** Train your staff on how to make collection calls and how to treat delinquent customers. They may be going through bad times right now but could be great future customers. Always treat people with respect.
4. **Review your Receivables Aging:** Review this report weekly so you know when receivables are getting too old.
5. **Modify the Aging Reports:** Most accounting programs set the Receivable Aging Reports to capture whether a receivable is 30, 60, or over 90 days past due. If your program will allow, set these “buckets” to 25, 50, and 75. Why wait until the invoice is past due to call the

customer. If you can't reset the "AR buckets," make it a part of your procedure to call when the AR is 25 days old.

6. **Turn a Collection Call into a Customer Service Call:** When an invoice hits 25 days old, make a courtesy call and ask the customer if they are satisfied with the product or service provided. And oh, by the way, this invoice will be due in a couple days.
7. **Part-Time Help:** Hire a part-time employee to help with collections. Retired business people with collections experience would be happy to help a small business, and they normally work for a lot less than they got paid when working full time.
8. **Offer a Payment Plan:** Talk to your customer and see if they would be open to a payment plan. Offer to let them pay a little over the next few months.
9. **Collection Agency:** Use a collection agency. This is the last resort. However, be sure the collection agency will not damage your relationship with the customer. One of my clients gave some receivables to a collection agency and in the next couple months collected most of them AND retained the customers who were going through a rough time. A good collections agency will help the customer get current with their bills.