



- [MAGAZINE](#)
- [TOPICS](#)
- [BLOGS](#)
- [ABOUT US](#)

[SMALL BUSINESS](#) |

COLLECTING RECEIVABLES

BY H. ROY AUSTIN, CMA, CPA

October 1, 2019



Collecting accounts receivable is one of the biggest headaches for small businesses, but it's critical for improving cash flow.

Management accountants know cash flow is critical to the survival of any business. The timeless question is: "How can we improve cash flow?" There are numerous elements of cash flow, but let's focus on one of the biggest problems for small businesses: collecting accounts receivable (AR). It isn't unusual to see companies with significant receivables on their books that are 18 to 24 months old. What are the odds of collecting those receivables? The fact is the older the receivable, the less likely you'll ever collect it.

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

The following are 11 ideas for improving your company's collection of receivables:

1. Drop the excuses and take action. No one likes to make collection calls. Sorry, but you have to manage all the functions of your business, even the ones you don't like. It doesn't have to be unpleasant, however, if you do it correctly and stay on top of receivables. Most companies want to pay their bills. I once worked for a dying company and got 15 to 20 collection calls a day. It broke my heart that we couldn't pay.

2. Follow a standard procedure. Develop a collections procedure, and assign responsibility for collections to current staff or hire additional help. What do you do at various stages of the aging—seven days, 14 days, 21 days, 28 days, 60 days, and so on? Prepare a script for calls at each stage. If you need help designing a procedure, then ask a retired businessperson for advice.

3. Train employees. Train your staff on how to make collection calls and how to treat delinquent customers. You want to collect the outstanding AR, but you also want to maintain customer goodwill. It's a balancing act, and your staff needs training to do it properly. The companies that owe you money may be going through bad times right now yet could be great future customers. Always treat people with respect.

4. Review your accounts receivable aging. Review this report weekly so you know when receivables are getting too old. This seems obvious, but it's amazing how many small businesses never look at their receivables aging.

5. Calculate average days receivable outstanding. This is an excellent key performance indicator to track your progress in improving your collections process.

6. Modify the aging reports. Most accounting programs set the receivable aging reports to capture whether a receivable is 30, 60, or more than 90 days past due. If your program will allow it, reset these buckets to 25, 50, and 75. Why wait until the invoice is 30 days past due to call the customer? Even if you can't reset the AR buckets, make it a part of your procedure to call when the AR is 25 days old.

7. 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're satisfied with the product or service provided. And, oh, by the way, this invoice will be due in a couple of days. We implemented this procedure when I was the CFO of D.J. Powers, and our collections soared.

8. Hire part-time help. Hire a part-time employee to help with collections. Retired businesspeople with collections experience are often happy to help a small business, and they normally work for much less than they were paid when working full-time.

9. Offer a payment plan. Talk to your customers to see if they'd be open to a payment plan. Offer to let them pay a portion at a time over the next few months.

10. Hire a collection agency. One of my clients gave some receivables to a collection agency and in a couple of months collected most of them and retained the customers who were going through a rough time. A good collection agency will help customers get current with their bills without damaging your relationships with them.

11. Consider factoring. I'm not a fan of factoring, which is when a business sells its accounts receivable (i.e., unpaid invoices) to another company (i.e., factor) at a discount. It's an option, albeit the last resort. Often the fees and risk of damaging customer relationships outweigh the benefits. The factor pays the business a percentage of the invoices' face value, and then the factor attempts to collect the receivable from the customer. In effect, the factor is a type of collection agency.

Here's a true (anonymized) story of how factoring worked for one company. XYZ sold a \$1,000 invoice to a factor named Wegotcha, Inc. Wegotcha immediately paid XYZ \$800. How much the factor pays you may depend on how long it takes it to collect from your customer.

In this case, if Wegotcha collects in fewer than 30 days, then XYZ gets an additional 15% of the original invoice back, or another \$150. Now XYZ has received \$950. If it takes Wegotcha 30 to 59 days to collect, then it'll pay XYZ 10%, or \$100 more, for a total of \$900. If it takes 60 to 89 days, then the factor pays XYZ 5%, or \$50 more, for a total of \$850. What if the invoice can't be collected in 90 days? In this case, the factor sells the invoice back to the company minus its fee. The most you can expect for that \$1,000 invoice is \$950, assuming Wegotcha can collect in fewer than 30 days (the \$800 it paid you when it bought the invoice plus the \$150 when it collected in fewer than 30 days). Is it worth it to sell your receivables for 95 cents on

the dollar or less? If you're desperate for money and have no alternative, then factoring may be worth considering.

Be cautious before entering into a factoring agreement. Not only is this decision a matter of cost, but you also need to take into consideration how the factor may treat your customers. The factor is more interested in collecting from your customers than in sustaining your relationships with them.

If you're considering factoring as an AR collections alternative for financing your business, consult with legal counsel. Factoring contracts can be very complicated, and you must understand everything to which you agree.

Collecting receivables may be the most significant way for small businesses to improve cash flow. Every business has unpleasant tasks that have to be done promptly and effectively. I've never met a person who liked making collection calls, but I have met a number of small businesspeople whose company died because they ignored collections. If you call delinquent customers and ask how you can help them, then both you and the customer are more likely to have a pleasant AR collections experience.



H. Roy Austin, CMA, CPA, CPA, is the managing principal of Rockwell Business Solutions. You can reach him at rockwell@hargray.com.