

Best Practices for Accounts Receivable Collection

Personalizing the process reaps benefits

by Dennis Niven

THE CASH-FLOW CRISIS resulting from inadequate accounts receivable collection practices in a growing business is generally the greatest threat the business will ever face. Even a profitable firm can be forced to close by the resulting cash crunch. Here are a few tips that, when taken as seriously as client service, will greatly help collection efforts:

Invoice clients in their own right time. Rather than invoicing all clients at, for example, the end of every two week cycle, invoice them at just the right time to get necessary approvals for immediate payment.

Deliver invoices electronically. Whether through an electronic network, e-mail or fax, electronic delivery is timelier. Don't lose the several days it takes an invoice to travel through the mail to its destination.

Document charges concurrently. If all the documents related to an invoice have been scanned in or copied, there's no scrambling when it's time to send it. Where are the receiving documents? Where are the POs? Project managers should track and scan or copy any documents related to an invoice on a daily basis.

Delegate invoice collection to the person responsible for the work. The professional staff on the job on a regular basis is in the best position to know the person or persons who must authorize payment and field the "Yeah, but ..." questions that accounts payable clerks are trained to ask. Collections are best done as a matter of course by the person responsible for the billing.

Implement a process for prompt approval. The reviewing manager should have 24 to 48 hours to approve outgoing invoices; if not done, the approval request should be escalated up the chain for immediate approval. Consistently followed, this policy ensures timely approvals and invoicing.

Offer a discount for early payments. Any amount less than one percent might not be worth the effort for payables to get it out early, but most companies are attracted enough by that one percent to take it.

Before the invoice goes out, call those who must approve the invoice before the client will pay it. This first call is an intelligence gathering mission as much as it is a quality control step. Verify that the job is going well enough to be approved and discuss any problems. Confirm that the person will be available to approve the invoice, or find out who will approve in the person's absence. Flush out any objections right away, rather than allowing problems to surface at the 60-days-past-due date.

Grasp the forgotten relationship. Account or project managers have relationships with client supervisors involved with the project, but they are forgetting someone, the one who controls the purse strings: the accounts payable (AP) person! Account managers should get to know this person quite well, stopping by regularly when they are in the client's office. It's valuable to build a cordial relationship. Remember, to be the company that gets paid — especially when money is tight — maintain a relationship with the client's AP contact.



Call again, two days after the invoice was sent. This time, call the AP contact. Make sure the invoice was received in the AP department and not lost on someone's desk. This second phone call is still a call offering to be helpful.

Call a third time the day the payment is due. If the company is holding onto their payables because they are having cash-flow problems, reinforce your discount terms and suggest they pay discounted invoices only at that time. Even without discounted terms, this call from you, one of the vendors the AP person enjoys talking to, will help you get moved to the front of the list when there isn't enough money to pay all the vendors.

In a recession, even clients who have paid regularly for years can have cash-flow problems. Slow payment requires human intervention; problems are not solved by automated systems or a call one month too late. Companies with cash-flow problems will put off every invoice they can, but vendors that fit comfortably within the client's paper-flow deadlines, are completely documented and have better AP relationships are the ones that get paid. ■

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