

7 Ways to Significantly Improve your Accounts Receivables

Past due accounts cost you money and a good deal of it. Every day an account is not paid you are losing money in a number of ways. You must control this process both aggressively and systematically.

1. The bigger the invoice the better the cash flow.

These words of wisdom apply to every area of your business. You must prioritize your activities based on which are most important, which will generate the most profits, or which will somehow have the greatest impact on your bottom line. All activities are not equally important and, therefore, will not have an equal impact on your bottom line.

Let me give you an example of what I am saying; if, for some reason, you cannot get your bills out on time then you should at least make sure that all your larger invoices are sent out. Don't just let your AR people go along billing based on ship dates, order numbers, or in any other sequence, unless you can get your billing out on time.

At least bill the ones that will have the largest fiscal impact and result in the biggest improvement to your cash flow.

2. Delayed billing is costing you dearly.

Preferably, you must get your billing out the same day or at least within a day of the date you ship the customer's order or provide the service. Surveys of accounts payable managers around the country have indicated that the vast majority of invoices they receive **arrive 30 to 45 days after the product** was delivered or the service was rendered. **This is a disgrace.**

If you are taking this long to generate invoices this is costing you a great deal of money and represents very poor customer service and financial management. Every day you delay getting the billing out you are losing profits. If additional staff is needed to get the billing out during busy times then bring them in.

3. Errors result in delayed payments.

Make sure each and every invoice you send out is clear, easy to read and, most of all, accurate. Many customers would like nothing better than to delay paying your invoice because of errors in billing. When you indicate the wrong shipping location, the wrong quantity, leave off the P.O. #, etc., they may wait for 30 days or more, or wait until you try to collect, to tell you why they have not paid. Then they shall request a new revised invoice which would start the 30 day count all over again.

4. Put the odds in your favor.

Make your terms 10 days net. If they pay within 10 days you have reduced your normal collection time by at least 20 days thereby greatly improving your cash flow. If they do not, you will be able to send them a past due statement after the 10 days are up. This will give you at least two shots at collecting them in the first 30 days instead of one.

5. The power of a letterhead.

When you feel you have exhausted all efforts to collect a past due account, have your attorney send them a letter. Work out an arrangement with your attorney whereby they will send, at your request, a standard letter that informs your customer that legal action will be taken if they do not pay within 10 days. The legal action can be further action by your attorney or placement with a collection agency.

The power of an attorney's letterhead never ceases to amaze me. Just seeing a lawyer's letterhead will spur many of your customers to action when all previous calls and correspondence from you accomplished nothing.

Do not allow your attorney to collect a percentage of the proceeds for collection at this stage. Instead, pay them a flat \$25 to \$50 fee for sending out the letter.

If you turn a \$2,000 past due account over to an attorney and allow them to collect on a contingency fee it will cost you \$500 or more. In many cases the \$25 letter will get the same results. Many lawyers will ask for this and tell you their collection efforts justify this fee, but let me tell you many past due accounts will pay off the very first letter from your lawyer.

Pay for the letter only and then decide how to proceed if payment is not made.

Remember, this should cost you no more than \$50. This is what I pay my attorney. Of course, this was after he tried to charge \$250 for the same letter. We quickly reached our current arrangement of \$50 per letter once I explained to him I knew exactly what was involved and that the letter was simply pulled up on his computer by his secretary and the required names and figures dropped in. The attorney never even handled the letter and it takes about 3 minutes.

The intimidation value of an attorney's letterhead is strong and tells your customer you are very serious. Always take this step before you turn past due accounts over to a collection agency or lawyer for legal action.

6. Use your fax to speed up your receivable collections.

A good low cost way to improve the response to your past due notices is to fax them. You will be very surprised at the increase in response that you get when you fax a past due notice. I think there are a number of reasons for this; faxes are hard copies that are harder to ignore than a phone call or an email.

Faxes are seen by others in the company since someone picks it up and brings it to the party it is being sent to. This means others in the company know your customer is behind on his bills and this is not something your customer will want their employees to know. The fax conveys a greater sense of urgency than a letter, a phone call or an email. Try it.

7. Get a guarantee.

If you are selling to a customer who is a sole proprietorship, partnership, or even a corporation whose fiscal stability is questionable, ask for a personal guarantee. This will, in effect, make the individual responsible for the debt regardless as to whether the company can or will pay. In most cases a debt that has a personal guarantee will be paid and paid first regardless of the fiscal condition of the company. If you personally guaranteed a debt incurred on behalf of your company wouldn't you make darn sure that debt was paid by the company no matter how close to closing down you were?

If an account with a personal guarantee does not pay you this will also provide you with many more powerful collection options.

This edition of The Welch Report has been provided by Derrick Welch the author of **'In Pursuit of Profits: How to at Least Double your Profits Without Increasing Your Sales'. Including 1,000 Cost Control, Expense Reduction, and Income Producing Strategies You Can Start Using Today To Dramatically Increase Your Bottom Line.**

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