

Ten Steps to Better Receivables

We should've known a recession was coming. All of a sudden, our best clients who usually paid in 10 days were paying closer to 30 – sometimes 45 days. In every industry, cash flow plays a role, but in some such as health care and auto dealerships there are many areas where outstanding receivables can wreak havoc.

Slow payment is one of the toughest issues small businesses face. However, you don't have to take it lying down. There are ways to better manage payments. Follow these guidelines to securing prompt payments month after month.

1. **Revise terms.** With the recession, many companies changed terms from 30 days to 10 or 20 days. Some even made invoices payable on receipt knowing that customers would pay in 30 days.
2. **Extend credit only when necessary.** Credit is a privilege – not a right. An increasing number of companies face more stringent guidelines related to obtaining credit terms. Many companies routinely work with companies that do not extend credit or work on a cash-only basis. Depending on your customer profile, this may work to help you increase cash flow.
3. **Check references before extending credit.** From office supplies to printers, more and more companies require businesses asking for credit to complete credit applications and provide references. Join them to ensure your customers are credit-worthy.
4. **Ask customers to sign a credit agreement.** If, in the future, you need to collect money owed, a signed credit agreement will put you on solid ground. A credit agreement also ensures that all credit details are fully disclosed.
5. **Set a credit limit for each customer account.** Limiting customer credit accounts allows you to manage risk and exposure. Even large customers need limits. Vendors for Enron discovered how just how quickly one large customer can put a company out of business.
6. **Establish purchasing processes.** Ensure all orders are made in writing and adhere to both your purchasing policy and your customer's.
7. **Send invoices immediately.** Some companies have become so good at this one dimension of collecting that they put the invoice on any goods delivered. The client receives the good and the bill all at the same time. There's no room for float on receivables handled this way.
8. **Make invoices easy to read.** Invoices that don't clearly denote the purchase order number, or that fail to list the good or service provided have a chance of ending up in the "problem invoice stack," which means a delay in payment for you. Revamp invoices if needed to ensure they are paid without delay.
9. **Keep collections tidy.** Establish a process, keep records of customer contact, and follow through on the collections process – even if it means hiring a collections specialist. You'll earn the reputation of being a fair yet firm company. If an invoice is partly disputed, ask for immediate payment of the undisputed part, then resolve the dispute separately.
10. **Resolve problems early.** If a company regularly pays promptly, and has started to pay more slowly, investigate to see what has changed. It may be a precursor to problems ahead.

As simple and straightforward as these steps are, they can help you increase cash flow and avoid problems with receivables. If your business has many divisions or areas where cash flow can be an issue, give us a call so we can help you collect more even faster than before.



Our mission is to provide information and strategies to business owners and managers for improvement in the effectiveness of its business management so that key objectives can be realized.

CFO Plus, LLC

Ted Hofmann - Principal/Senior Consultant

John Morre - Principal/Senior Consultant

Linda Panichelli - Principal/Senior Tax Consultant

1450 Grant Avenue, Suite 102
Novato, CA 94945-3142

Home Office: 415-898-7879
Toll Free 866-CFO-PLUS or 866-236-7587

Email: thofmann@cfoplus.net
jmorre@cfoplus.net
lpanichelli@cfoplus.net

Web: www.cfoplus.net