Accelerate Collection of Your Accounts Receivable

Arthur F. Rothberg, Managing Director, CFO Edge, LLC

In our last article, we talked briefly about how accelerating collection of accounts receivable is one of the best ways to improve your company's cash flow.

Prompt and timely collection of receivables is important in any economic environment, but especially during uncertain economic times like these. Making things even more challenging for many CFOs is the growing trend among many large corporations to stretch out payments to their vendors as far as possible—in many cases, well past the customary 30-day payment terms.

A Company-Wide Effort

Collecting accounts receivable in the most timely and efficient manner is a company-wide effort, not just the job of the accounting or bookkeeping department. Representatives from sales, management and other areas of the company should also play a key role in devising a comprehensive collections strategy—before a large volume of receivables is past due and your company finds itself in a cash flow pinch.

Here are six strategies for accelerating accounts receivable collections:

1. Negotiate payment terms aggressively.

Accelerating receivables starts with negotiating the most favorable terms you can with your customers. In many industries, negotiations start with net-30 days, but if you can get customers to agree to make payment within 10 or 15 days of invoice receipt, you've cut your collection time in half or more, which can have a significant impact on your cash flow cycle.

One strategy many companies implement to speed up collections is offering prompt-pay discounts for early payment. For example, a "2-10, net 30" discount offers customers a 2 percent discount if they pay invoices in 10 days instead of 30. Determine how much this will cost your business in lost revenue and whether the boost in cash flow is worth it.

2. Enforce your payment terms.

Negotiating payment terms is one thing—enforcing them is another. Unfortunately, many companies fail to enforce the terms they've set by allowing customers to pay invoices well past the due date.

If your terms are net-30, you should be contacting customers (either by phone or email) on day 31 to ask about payment if it hasn't been received yet. Every day past the due date that customers fail to pay is essentially an interest-free loan you've made to them. Speaking of which, you can also charge interest on late payments if you choose—this can be a strong incentive for customers to pay on time in the future.

3. Create an aging report.

An accounts receivable aging report places clients in payment categories (e.g., 0-30 days, 60-90 days, 90 days+) so you can see at a glance which customers are late in their payments, how much they owe, and how late they are. Armed with this information, you can focus your collection efforts where they may do the most good.

4. Consider payment plans.
Your collection efforts may reveal that some customers want to pay you, but they're having cash flow problems of their own. In these situations, you might consider working out a payment plan. Such a plan should be in writing and specify exactly how much money will be paid, over how many months, and at what interest rate (if any) until the invoice is repaid in full—ideally, within six months at the most.

Both parties should sign the agreement, and future delivery of any products or services to the client should be COD until the debt is fully repaid and you are confident that the customer is on solid financial ground.

5. Send past-due letters.
If courtesy calls or emails don't generate a response, send a past-due letter informing the customer of the delinquent status of the account. Be positive and non-threatening and give the customer the benefit of the doubt, at least in your first letter. If subsequent letters are required, increase the firmness of your tone and stress the seriousness of the situation.

6. Hire a collection agency.
If all of these collection efforts result in continued stonewalling, excessive excuse-making or other evasive techniques by the client, you might want to consider turning the account over to a collection agency. However, this is a serious step that should not be taken lightly. Weigh the potential damage to the relationship and loss of future business against the cost of writing off the debt to determine whether this is a step you want to take.

Concluding Thoughts
Accelerating collection of accounts receivable is one of the best ways for Los Angeles and Southern California CEOs and CFOs to improve their cash flow. An outsourced CFO services provider may be able to help you devise a comprehensive collections strategy and share expertise gleaned from helping other businesses similar to yours meet collection and cash flow challenges.

About CFO Edge
CFO Edge, LLC is a leading Southern California provider of outsourced CFO services. Based in Los Angeles, we are a group of experienced chief financial officers who engage with CEOs and CFOs on demand to address strategic planning, business management, and day-to-day financial operations challenges. Our seasoned professionals deliver services as interim CFOs, part-time CFOs, project-based CFOs, recruitment-to-permanent CFOs and interim-to-permanent CFOs. At CFO Edge, we're passionate about helping our clients create, grow and sustain value. For more information, visit www.cfoedge.com or call 626.683.8840.