**Four Steps for Improving Your A/R Collections Efforts**

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Despite the uneven nature of the economic recovery, some Los Angeles and Southern California businesses are starting to see an improvement in their sales and revenue. This is obviously good news for businesses that have been struggling to regain their footing in the aftermath of the Great Recession and prolonged economic downturn.

However, it's important not to let good news on the sales and revenue front distract you to the point that you take your eye off of the accounts receivable collections ball. Sales are great, but companies can often survive short-term periods of slow sales. But cash flow is the lifeblood of any business: Without strong A/R collections, companies can literally run out of cash and die — even if their sales are up.

**Why It's Important Now**
Focusing on improving collection of accounts receivable is especially important in a sluggish economic environment, as many businesses look to improve their own cash flow by stretching out their payments to vendors. For example, if your payment terms are net-30 days, some of your customers might start stretching this to 40 or 45 days. Or if your terms are 45 days, they might start stretching this out to 50 or 60 days.

It's important to remember that a slight delay in payment by a customer today could turn into an unpaid receivable and collection problem tomorrow. To avoid this scenario, it's important to build systems and processes that will alert you to slowdowns in A/R collections early on so you can take appropriate action before late payments stretch out too far.

The heart of these systems is an accounts receivable aging report. This report places all of your clients in categories based on their current payment status (e.g., 0-30 days, 60-90 days, 90 days+). This will enable you to 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 be most effective.

Here are four strategies to consider implementing to help improve collection of your accounts receivable:

**1. Be aggressive in negotiating payment terms with customers.** In many industries, offering payment terms like net-30 days is part of the cost of doing business. But that doesn't mean you shouldn't negotiate the most favorable terms you can with your customers. For example, if you can negotiate net-15 days instead of net-30 days, you will cut your receivables collection time in half.

You might also consider 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 improved cash flow is worth it.

**2. Enforce the payment terms you negotiate.** After negotiating favorable payment terms, companies often drop the ball when it comes to enforcing the terms they've negotiated. Keep a close eye on your aging report, and as soon as an account becomes past due, contact the customer to ask when payment will be made. Every day past the due date that customers fail to pay is essentially an interest-free loan you've made to them.

**3. Consider offering a payment plan to late-paying customers in certain circumstances.** You might find out that some customers want to pay you, but they're having cash flow problems of their own. In these situations, you could consider working out a payment plan. If so, be sure to put the plan in writing, specifying exactly how much money will be paid, over how many months, and at what interest rate (if any). Ideally, the invoice should be repaid within six months. Future delivery of any products or services to the client should be COD until the debt is fully repaid.

**4. Ask your bank about their cash management services.** Your bank probably offers cash management services that can help boost your collection efforts. One of the most common is wholesale lockbox, a service in which your customers' payments are sent directly to a special post office box where they are collected and deposited by the bank immediately. Another is electronic (or ACH) payments, which eliminate check float and get your money into your bank account faster than mailing paper checks.

If you are still dealing with one or more slow-paying clients even after taking these steps, it might be time to consider hiring 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

Taking steps now to improve your accounts receivable collections could help you avoid a serious cash flow crunch later. It will also save you time and frustration trying to track down late-paying customers to collect payment. An outsourced CFO services provider can help you analyze your current collection processes and suggest improvements that will put you ahead of the collections curve. Such a provider will look at your company's historical payment trends and develop exception reporting to help reduce the likelihood of future collection problems.

## About CFO Edge

CFO Edge, LLC delivers enterprise-class financial and operational performance solutions to executives throughout Southern California. Based in Los Angeles, our formerly-seated chief financial officers engage on demand as part-time CFOs, single-project CFOs, and interim CFOs to help business leaders successfully resolve pressing challenges and realize their financial and operational goals. At CFO Edge, we're passionate about helping our clients create, grow and sustain value. For more information, visit www.cfoedge.com or call 800.276.1750 Ext 101.