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Management Report**

**Show Me The Money:
Top 12 Accounts Receivable Best Practices For Smaller Companies**

by the analysts at Smyyth LC

In an ideal situation, purchase and payment are simultaneous, but in a modern “trade credit” economy, in order to keep customers and grow your business you need to offer credit terms. Even with the buyer’s agreement on when payment is supposed to be due, payments will often lag, putting a dent in your cash flow or worse, forcing you to increase borrowing to maintain operations. Poor accounts receivable practices equal poor cash flow, so implementing some or all of these basic best practices can help your bottom line. It's that simple.

1. Credit Management: It’s surprising how many smaller companies are penny wise and pound-foolish. They will try to save the \$30-\$50 cost of a legitimate credit report, either by doing nothing at all and hoping for the best, or relying on cut-rate credit services costing (and usually worth no more than) a couple of dollars. This is like rolling the dice: saving a few hundred dollars in credit report costs while taking the chance of thousands of dollars in bad debts simply does not make sense.

2. Shorten Payment Terms: Forget the 'Net 30' or 'Net 45.' Use 'Payment due upon receipt', or Cash-in-Advance for problem payers or those with no history with you.

3. Offer Early Payment Discounts: If you do extend trade credit, try a prompt payment cash discount, such as 2%/10 Net 20 Days. Customers want to save a couple bucks, too, and are more inclined to pay up in early if they can get a discount.

4. Enforce Early-Payment Discounts. If you give a discount, whatever you do, don’t get into the habit of letting the customer have the discount and paying late, too.

5. Bill promptly. Amazing how many small companies bill weekly, monthly, or when someone gets time. Then mail or transmit the invoice immediately vs. when the receptionist gets around to it.

6. E-Mail Invoices: Using electronic billing or email, deliver invoices to customers instantly. You can also ask them for a confirmation of payment date in the email.

7. Offer Electronic Payment Options: Make sure you take payment via electronic funds transfer -- include your EFT banking information (bank, branch and account number) on your invoices. Be flexible; accept PayPal and credit cards, too.

8. Collection Management: Phone, Phone, Phone: Don't be lazy, pick up the phone and call delinquent accounts directly because the personal touch -- if handled professionally -- is much more effective than e-mail and letters. To get even better results in the future, call back to let the customer know you received the payment. They will remember that.

9. Accounts Receivable Management: Monitor all accounts receivable at least on a weekly basis and follow up on those customers when due, or in the case of very large invoices, a few days ahead of the due date as a friendly reminder to them that it is important to you.

10. Keep Records: Although this should be obvious, keep a running record of all contacts, including e-mails sent, phone calls made, and customer responses received.

11. Look at credit and accounts receivable tracking and workflow systems that help you manage the entire credit to payment cycle. A well-designed system will ensure that nothing slips through the cracks. There are a number of Internet based systems for all sizes of companies.

11. Call in a professional credit and accounts receivable outsourcing service. You will save you money, credit losses, and overhead in the long-term. Plus, you know that the job will get done without all the management hassles.

12. Before an overdue account turns into a bad debt, contact a Collection Agency. Forget about selling to that customer again, unless it's cash up front, but then again, customers that don't pay are not customers you need.

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