Accounts Receivable: How to tame the beast

Companies can only tame accounts receivable if they take appropriate steps to manage them by applying the right sort of pressure at the right time. The following 8 rules are drawn from more than 160 years of experience with businesses of all sizes, all descriptions, all categories, in every part of the world.

Rule No 1: He who expects to get paid, gets paid.

In the administration and control of receivables, attitude counts. We have discovered that only if you approach the matter seriously then you will get paid by your debtor. On the other hand, if you treat accounts receivable lightly, your customers will take advantage of you. What does “taking it seriously” mean? It means:

- Establishing policies and procedures that will help you make decisions faster and easier
- Making a commitment to properly training yourself and your employees in how to manage and collect receivables
- Making sure that your customers understand your terms and intentions
- Understanding and using the tools and services that are available to you

Rule No. 2: Do something every twenty days.

Nothing is more effective than a systematic, controlled approach to receivable management, step-by-step procedures are the key. The secret is to be systematic and organized. We call it the “Twenty-Day Diary” because to make it work, you have to keep track. Write down what was said, when, by whom, every step of the way, and you can’t go wrong.

1. Day one - you make a sales, deliver the product, and issue and invoice with terms set at NET 30 days
2. Twenty days later – ten days before the receivable is due – you call the customer. This is a pre-collection call that doubles as a service call
3. You ask your customers if they have received the order, if everything was satisfactory, if they have the invoice, and if they understand the terms
4. If there is a problem, you have a change to fix it before the due date, and everybody is happy. If there is no problem, you know the customer is satisfied and is likely to pay on
time, and the customer knows you care

The next call, if necessary, is then scheduled for twenty days after that—ten days after the due date. If a genuine problem has arisen, it is still early to deal with it efficiently. But if you are being stalled, you will know that too, and you can act accordingly.

**Rule No. 3: Don’t turn your back on them.**

Extending credit to another company involves risk. Of course, in most cases, the risk is part of the cost of doing business, and it is acceptable so long as it is managed properly.

Even if you were not able to apply any of the other rules to your business, we urge you to apply this one. The reason being this, unattended receivables get out of control in the blink of an eye. And out of control is the first step towards being out of business. Here are some danger signals you can watch for:

- Slow payments or a change in payment habits
- Broken promises of payment
- Unreturned messages
- Post-dated or NSF cheques
- Refinancing or changing banks
- Unauthorized return of merchandise
- Selling at unusually low prices
- Radical changes in buying patterns
- Too rapid growth

**Rule No. 4: Don’t show them any weakness.**

It is called “sticking to your guns”. When you set terms, be determined to communicate them and to stick to them, no matter what happens. Remember, a deal is a deal. You have fulfilled your obligations, now it is their turn. You do it stating your terms and intentions with clarity and firmness. If you are vague and easy-going about your terms, it is more likely that the people you deal with will be vague and easy-going about paying you. It is important to develop a set of reasonable terms and conditions, and make them part of your sales contract.

If you do not actually tell them your terms, you cannot assume they understand or accept your terms. You cannot assume that the other person is a dead-beat just because the bill wasn’t paid on time. The truth is that many disputes and late payment situations arise through simple
misunderstandings. One more thing, remember to explain your terms and conditions to your own employees. It is a common mistake to assume that your own people are well informed about how you conduct business.

Rule No. 5: Don’t be afraid to escalate.
If you find yourself with a collection problem on your hands, the important thing is to get control as fast as possible and keep pushing for results.
The key is to recognize when the process is stalled, and to be prepared to use a stronger approach each time you make contact. If you are using the “Twenty Day Diary” (see Rule No. 2), you should know that after the first or second call whether or not you have a problem. At that point, the receivable is still just a few days overdue, and if you already sense that they intend to pay, you can make an arrangement that will satisfy both parties. Remember to confirm the arrangement in writing. If you believe they will not pay, escalate without hesitation. There are many things you can do to increase levels of pressure. A series of services is needed, ranging from pre-collection letters and demand notices to full-scale personalized collections and ultimately – legal action. As you go through the process, remember this: it is your money and sometimes you don’t get paid if you don’t push.

Rule No. 6: Say what you mean and mean what you say.
In order to prevent problems, it is important to set terms and stick to them (see Rule No. 4). Rule No. 6 extends that thinking to situations where a problem already exists and you are trying to collect. When making a collection, you should make a contact with the debtor by calling to push for a resolution (you get paid), or establish the next steps to be taken (call back, send a courier to get a cheque, repossession, legal action, etc.)

To stay in control, you must keep your word. If you say you are going to call back for an answer or a response at 2pm on Tuesday, do it. If you tell a debtor you are going to cut off his credit, do it. If you tell him that the matter is going to a professional collector, send it. If you keep your word, and do exactly as you promise, you will always have the upper hand, and you will have a better chance of collecting.

Rule No. 7: Don’t go swimming alone.
It is understandable that some people are reluctant to make collection calls. After all, discussions of money can be uncomfortable and nerve-wracking.
The “buddy system” is your best defense. The key is to plan you call, and then, if you are
nervous, find a buddy and rehearse it. Take a few moments with a co-worker (or your receivable management consultant), organize your facts, discuss what you might say, and most importantly, decide what you want to achieve with the call.

Make a list of objections you might hear, and determine how you will handle them. For example, what if the person you are trying to collect from responds with this classic line: “The cheque is in the mail”. Most people will feel relieved and say “Great! Thanks very much” and end the call. Big mistake. Your response should be:

- When was the cheque mailed?
- What was the cheque number?
- What was the amount of the cheque?
- Who was the cheque mailed to?

Keep in mind that your collection won’t succeed if you allow yourself to get stalled. So when it happens, call in reinforcements. Use the resources available to you. Use your co-workers, consultants or specialists. Never go swimming alone.

**Rule No. 8: Know where to get help when the rules aren’t enough.**

In the end, knowledge is your best defense against bad debt. You have to know what to do before, during, and immediately after the sales. And you have to know who to call on for help when someone fails to pay you on time. For local transactions you can often use your own resources and contacts, or you can call on a receivable management services company for help for everything from consultation on terms and conditions, to demand letters, to personalized professional collections. But what if your business operates in other countries and has a problem with accounts receivables? Consult international receivable management companies for advice and assistance.