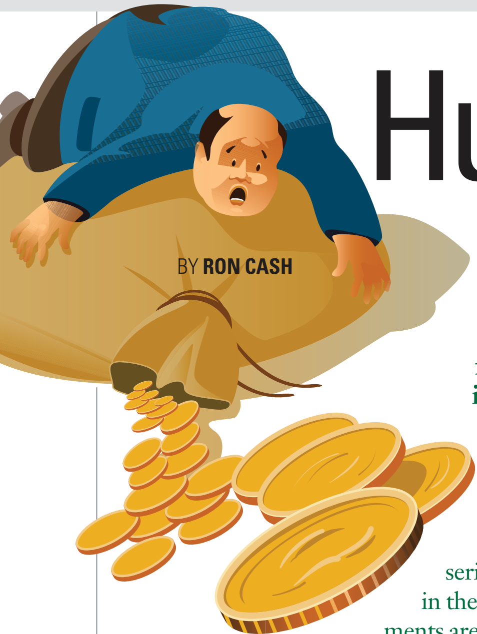

Hustle & cash flow

BY **RON CASH**

TODAY, NEARLY 70% OF CFOs and other corporate finance managers at mid-sized businesses say it's the intense challenge of managing cash flow that worries them most concerning business this year, according to a TD Bank study.

When a business provides a product or service, it has a right to expect to be paid on a timely basis. But prompt payment is not always the case. Often, accounts become seriously past due, or there are insufficient funds in the customer account to cover a check when payments are made.

Accounts not paid within terms can have a serious impact on the cash flow of the business. Owners should be mindful of these trends as accounts payable departments everywhere are putting the brakes on "prompt payments," and consumers are tightening their belts like never before.

Accounting managers and their staffs often learn managing accounts receivable is tricky and involves the delicate matter of asking for payment without coming across as harsh. There are processes that once implemented, and employees are trained on, can be effective in obtaining payments. The balance a customer owes is often a moving target. Continual monitoring is required from day to day as the status of these accounts change with new orders, the posting of payments from prior invoices, partial payments and requests for back-up documentation.

Here are some of our suggestions for better managing accounts receivable and having a positive impact on cash flow.

1 Have a defined credit and collection policy. A major cause of overdue receivables is not providing a clearly defined policy to customers — in writing — when payment is due. If customers are unsure of the payment terms, they may feel 60-day payments are acceptable, especially if there are no penalties for paying late. Put clearly stated payment terms in writing on the work order, agreement or invoice. If payments are late, have a defined procedure for the accounting department to follow as to when to make a call (day 40) and when to sent a reminder notice (day 45), and instead of sending a 60-day statement, try sending a 'serious reminder' letter. Make another call attempt, too.

2 Send statements promptly and consistently. If you don't have a systematic billing system, get one. Many times, the customer has not paid simply because they have not received an invoice. Once reminded, customers are more likely to pay in a timely manner. Doing the necessary follow up and sending statements every two or four weeks can make a big difference in your cash flow.

3 Use "Address Service Requested." One of the most difficult collection problems is tracking down a customer who has "skipped." A service offered by the U.S. Post Office might help. Any statement or correspondence sent from a business should have "Address Service Requested" printed or stamped on the envelope, just below your return address.

If a statement or invoice is sent to a customer who has moved without providing you a new address, and "Address Service Requested" appear on the envelope, the Post Office will research this information. If they can locate a change of address on that person or business, they will send you form No. 3547 with the correct address for a small fee.

4 Contact overdue accounts more frequently. No law says you can contact a customer only once a month. The old adage "The squeaky wheel gets the grease" has a great deal of merit when it comes to collecting past due accounts. Contact late payers every 10 to 14 days. Doing so enables you to diplomatically remind customers of your terms of payment, and it ensures the customer is satisfied with your company.

5 Use your aging sheet, not your feelings. Many a well-meaning employee lets an account age beyond reason because he or she felt the customer would pay eventually. While there may be exceptions or unusual situations, most customers should be treated similarly. Try to focus on EVERY account over 30 days, and stick to your systematic plan. Initially, these calls are like customer service call — a warm and friendly reminder. After speaking to the customer, take the next step once you know where you stand.

6 Make sure your staff is trained. Even experienced staff members sometimes become gun shy when dealing with past due accounts. It is important to be firm, yet courteous, when dealing with excuses. Your staff could benefit from customer service training to help sell your customers on the idea that you expect to be paid on time. Instead of pushing the

continued on page 10

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continued from page 8
customer against a wall, pull the customer to your style of thinking while maintaining good will. Be sure your staff has all the tools to make it easy to process a credit card payment or ACH check draft.

7 Admit, correct and apologize for mistakes. Sometimes a customer delays payment because of a mistake. If you messed up, admit and correct the error quickly. Customers realize mistakes happen, but many believe a misstep permits them to delay payment. Covering up a mistake often leads to losing trust and customers.

For one contractor's story on controlling cash flow, see "My Biggest Mistake" on page 48.

8 Follow state collection laws. In many states, businesses are governed by the same laws as collection agencies. For example, communicating in writing or verbally that an account will be forwarded to an attorney or credit bureau and then failing to do so can be a violation of some state and federal collection laws. Harassing or contacting a customer at unreasonable hours or using threats might lead to serious consequences. If you are not sure about customers' rights, contact your state's consumer protection agency. The Fair Debt Collection Practices Act (FDCPA-federal law) applies to Business to Consumers and not Business to Business collection techniques.

9 Use a third party sooner. Once you have systematically pursued past due accounts for 60 days or more (and they have avoided your attempts to contact them), send a FINAL NOTICE. Generally, if they have the ability to pay, they will do so or communicate their intentions. Most agencies (and collection attorneys) charge a percentage of the revenue collected, typically 30% to 50%. Some firms offer a pre-collect or early-out service and charge a small fixed fee per account depending on the volume and balance due. Ask about a pre-collect service since this allows you to keep 100% of the money collected in the first 45 to 90 days.

The impact of the "third party" (agency/attorney) reprioritizes the debt and forces customers to make a payment decision. Designed for early intervention, "pre-collection" services can save businesses the internal costs of working accounts beyond reason, typically 60 or 90 days. At that point, consider using professional third-party intervention.

10 Remember nobody collects every account. Even following a specific collection plan, there are accounts that will never be collected. Identify these accounts early and save your business a great deal of time and expense. Even though some may slip by, overall, the number of slow pay and nonpaying accounts greatly diminishes, and that's a victory in itself.

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