

MANAGING YOUR CASH FLOW AND ACCOUNTS RECEIVABLE

By DICK BARTH, SUNY GENESEO SBDC DIRECTOR

Question: I have a small business and am having a hard time getting paid by my customers in this tough economy. How can I reduce the amount of receivables outstanding and improve my cash flow management?

Answer: Great question! Most of us small business owners run our own business because we like doing the business, not because we like collecting unpaid bills. But, if you have more than a small amount of bills outstanding it can be crippling to the life blood of a small business, which is cash. The number one rule in small business (or almost any business for that matter) is don't run out of cash!

So, what should you do if you have a large balance of accounts receivable? Here are seven useful guidelines:

1. Don't assume the customer is intentionally avoiding payment. He may have simply forgotten to pay it. Providing a pleasant reminder, either by phone or letter right after the due date, will let the customer know you are watching his payment performance, and that may be enough to motivate payment.
2. Use a 3-letter system with letters that are increasingly assertive. The first reminder letter, right after the due date, should be tactful and not imply the customer is avoiding you. It should be firmly, but pleasantly, written. The second letter, probably from 10-20 days later, should remind the customer his payment is still overdue, with a firmer assertion of expected payment within 10-20 days, and encouraging the customer to contact you if payment arrangements are necessary. The third letter, 10-20 days later, must be firm and demanding of payment immediately, with the promise of turning the account over to a collection agency if not paid within 10 days.
3. Consider sending the collection messages out in many different ways using faxes, phone calls, regular mail, courier, telegrams and email. But beware that email often gets buried in the recipient's inbox and may never be seen.
4. Have one person in your firm (that may be you!) handle collections and provide him with proper training, support and an incentive for doing well. It's generally not a good idea to have sales people handling collectables because they have to maintain rapport with the customer if the account is to remain viable.
5. If 60 days has passed and your collection efforts have been futile, hire a collection agency and turn the account over to it. (Your last letter to the customer should warn him that this step will be taken.) You need to limit the amount of time the organization spends on collection activities because much time and many resources can be drained from the company that could damage operations and sales efforts.
6. An ounce of prevention may be worth a pound of cure. Before extending credit in the first place, get a credit report on the customer to be sure his credit track record is clean. Or, get references from the account that you can check (like trade credit and bank references).

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7. Maintain a high priority on delinquencies and collections and monitor your receivables and cash flow monthly, or better yet, weekly, to stay on top of it. When a problem does occur, resolve to do something about it and don't procrastinate.