Successful Accounts Receivable Collections

This brief presents three principles for successful Accounts Receivable (AR) collection and the simple steps for implementation. It is intended to provide direction to both the business owner and the collections staff.

Successful collection of money owed (AR) to the business is obtained by following three basic principles:

1. Preparation
2. Process
3. Persistence

Principle 1: Preparation

Preparation Step A: One of the major impediments to collecting money is simply not knowing who the players/people are in the entity that is not paying. Determine who is really empowered to make payment decisions. This can be difficult when the situation has become adversarial as the debtor simply will not tell you much. Therefore, when establishing a new client, the completion of a credit application form (See SCORE Brief 04.33 for sample) will provide the names that you will need to contact when the going gets rough.

Preparation Step B: Clearly set and communicate to the buyer: (1) Terms of payment for the sale, and (2) Steps you will take if payment is not made per the agreed-to terms. This might specifically include: cutting off further open credit, late payment penalties, shutting off or withdrawing service, or sending the account to a collection agency. Sending the client written notice before the first sale and then continuing the payment terms on each and every invoice is recommended.

Preparation Step C: If at all possible, send all invoices to the client’s Accounts Payable (AP) function. Let the client’s AP department handle the internal approval steps. All too often if the invoice goes elsewhere, it: (1) does not get logged into the clients accounting system or, (2) is held up or lost by some approval individual.

Principle 2: Process

Establish a written “process” for collection activities and train your AR collections person in the “art” of dealing with over-due accounts. This will increase your success rate and lower the time spent/wasted doing collections work. It is important to have a well understood process and a good understanding by your AR collections person of what to expect from the client. Also, it is
important to be timely with your collection efforts because most collections fail because of waiting until it is too late to be successful.

The steps needed in the process are:

1. Establish an internal communication/documentation system that allows you to:
   a. Record the collection activities (who, when, what was to be done and by whom) for each client with aged ARs.
   b. Maintain a historical account of past collection actives, the bad ones are repeaters.
   c. Provide an automated reminder system to your AR collections person and management staff.

   NOTE: This can be very easily done with several different computer applications. If more than one individual is working on the collection process you will need a server-based application so all can see and use the same data.

2. Perform weekly reviews of the Aged AR list for those companies over 60 and 90 days. Identify:
   a. Who will generate the list.
   b. Who will review the list.
   c. Who will take action on the Over 60 and Over 90 accounts.

3. For Over 60 accounts:
   a. Make an initial phone call to the client’s AP person asking “Is there an issue with the product/service your company has provided?” You will quickly determine if the invoice arrived (50% of time it simply has not). If it has not been approved, ask who does that and make a very specific next call asking the same question about any issues with your product or service.
   b. Indicate to the individual your expectations of them and the timing of the next step if it becomes necessary.
   c. Then record the transaction and perform your process steps.

4. For Over 90 accounts, you presumably have had several contacts with the client. If there are no issues with the products or services you might indicate in writing that you will be taking one of several next steps including: action by our attorney, small claims court, or repossession of the product, if applicable.
   a. All over 90 should be handled personally by the owner. Nothing gets attention in a buyers company like your President / Owner calling theirs. This is serious, so don’t leave it to your staff.

5. When the steps are identified, write down who does what and when, and how each step is to be documented.
**Principle 3: Persistence**

Nothing convinces a buyer that you will be seriously proceeding with collections like well executed and consistent communications.

You must do what you say you will do (send a copy of the invoice, return a call on a next fixed date, etc) or the buyer will not take you seriously. Nothing is more fearful to a buyer than to know you will be calling again because you have done it before. Secondly, if you do find yourself in court (more likely small claims) a well documented case history showing consistent communications with the business is powerfully stuff.

Unless you put in place a system for documentation of what has happened and an automated system for reminding you to take the next step, you will not be persistent. The keys to successful AR collections are the process you establish and how well you execute it.

**The Bad Apple**

A high percentage of collection issues occur because: (1) the invoice did not arrive, or (2) someone is unhappy with your product/service and your employees did not resolve it.

Occasionally a “bad apple” buys something from you. When this happens, usually a very short, one page collection letter from your attorney (costs less than $200) will resolve the issue. If that does not work then you have real issues that are beyond the scope of this brief.

If only a small amount of money is involved, you can try Small Claims Court (SCC). You do not need an attorney, but it will take your time. The secret to winning in small claims court is “he who is well prepared with complete documentation usually wins.”

You will stand in front of a judge who hears both sides and makes a decision. If you are prepared, with evidence of: (1) satisfactory delivery of your product and / or service, and (2) failed collection activities, you will usually win.

SCC procedures are different in each county, so contact the local county court clerk to obtain a booklet that will give you all the requirements for filing a claim. There are filing costs, but the biggest issue will be the time necessary to get through the claims process and often you will have to return to the court more than one time. If you do win, in many courts the collection can be done by the local sheriff / police. There is nothing like law enforcement knocking on your door to get you to write a check.