

Key Steps to Managing Your Collections Process

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In today's economy it is more important than ever to focus on collections. When sales are slow, companies tend to focus on increasing business and securing new contracts, however it is important to stay just as focused on managing collections.

The popular expression "Cash is King" rings true. Sales don't pay bills, cash does. While increasing sales is a critical part of building a successful business, if you aren't being paid for your product or service, you are causing your business more harm than good.

There are some steps small business owners can take to manage the collections process and positively impact the bottom line.

Before you make a sale or enter into a contract, you should understand the value of your product and the competition. It is important to know your customer and your "customer's customer." It is important to be aware of end-users ability to pay your invoice. Can they honor the terms of the PO and will you only be paid after your customer gets paid? For example, if you are selling your product through a distributor to a large retailer, you will likely be paid once the distributor gets paid. When evaluating the risk, it is the distributor not the retailer who is responsible to pay the invoice, so you will need to look at the strength of the distributor. Balancing sales with collection is looking at risk versus the reward. As a business owner, you should ask yourself "how much am I willing to lose?" and "how many 'good' sales do I need to make up for the 'bad' sale?"

The internal collections process is often overlooked, but it is crucial that you establish a clear collections procedure for your business and stick to it. Be sure you know what you can bill for, when you can bill for it and where to send the invoice. Send your invoices in a timely fashion and make sure to get customer approvals or "signoffs" on your work. It is also important to make sure you have a purchase order before you start work. Too many invoices don't get paid because there was no formal purchase order issued.

As with any other aspect of your business, communication is imperative. You should follow up with your customer's Accounts Payable (A/P) department early. It is much better to be aware of an issue early rather than after the payment is not received as expected. Building a trusting relationship with your customer will keep the lines of communication open and increase the speed and reliability of repayment. Internal communication with your sales department can also be helpful, as they may be able to collect an invoice as they are making another sale.

Unfortunately, despite efficient processes and consistent communication, issues can arise. Note red flags along the way and respond accordingly. Some key indicators include slow payments, rush orders, change in payment form and excuses are signs that you may have a problem. When this happens, know your leverage points. If you can not negotiate a payment plan, be prepared to scale back work or human resources and file liens where appropriate. You can also consider legal action or collection agencies but weigh the costs against the benefits.

While you will likely not collect 100% of your invoices 100% of the time in your business, however, following these tips may make it easier to secure your firm's most precious resource - cash.