

Question: My accounts receivable are so high that I am having difficulty keeping my accounts payable current. Are there any creative collection techniques for a small business owner without a separate A/R department?

Answer: Ensuring a healthy cash flow through effective collecting on accounts is important to any business owner's success, and is one area where how you dress cannot help.

Whenever you accept a cheque for payment or agree to invoice for either products or service you are granting credit to your client. And granting credit can potentially lead to the need to collect on the account.

It is important to develop policies for payment, but even more important, you must follow the policies and inform your client of them. Sometimes, especially as a new business owner, we want to attract new clients and bend the policies to obtain new business. This can lead to overdue unpaid accounts, which then leads to a cash flow problem.

Clients value their product or service the most at the time they receive it. The best time to collect your fee is right then, so providing electronic payment options is the first and best way to collect on your accounts. The minimal service fee for these devices far outweighs the cost of collecting on overdue accounts, and the high service charges on your bank account if your cash flow is negatively affected by non-payment of accounts.

There are times when granting credit and invoicing the client is the only answer. Follow these simple tips for helping ensure speedy payments:

- Require a written contract from each new client
- Include your tax number on your invoices
- Include a detailed description of what the bill is for
- Provide client with a return envelope for payment
- Ensure you have adequate contact information for your client should this debt go into arrears.

Your payment policy should state at what point you call a client regarding their account (after 30 days, for example), and follow up procedures. Format three template letters for contacting the client regarding their overdue account. The letters should clearly and plainly describe the arrears, the action you require, the consequences of their non-compliance, and a time-line for action. The first letter is friendly but firm, the second is firm and formal, and the third letter is final. After three months, and three letters, you can take the account to collections.

The best way to avoid high accounts receivable is to ensure your company has easy and immediate payment options for clients, a clear policy on the system of addressing overdue accounts, and the strength to ensure these systems are followed.

Answer courtesy of Sharon Skaling, owner of Panoply 3D Image Consulting.
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