



---

## Accounts Receivable Best Practices

---

Many small companies do not have a full force of resources dedicated to collecting accounts receivable. Here are a few simple guidelines for maximizing collections in difficult times:

- Put your collection efforts 'up front.' Thoroughly evaluating customer creditworthiness cannot be overlooked, especially in difficult times. Selecting suitable customers and establishing proper limits and terms will go a long way towards creating a smoother collection process.
- Stamp invoices with the date that payment is due to you. Do not assume that the customer will automatically add 30 days (or applicable trade terms) to the invoice date. Be clear and concise on when you expect to be paid.
- Offer discounts for early payment and charge interest on late payments. Don't be afraid to offer higher than normal early-pay discounts to entice early payment. Receiving 95% of the account within ten days from now is better than having 100% of the account in the 30+ bucket next month.
- Payment past due? Pick up the phone. Sending follow-up letters can prove useful, but calling the customer soon after an invoice becomes overdue is a much more effective way of getting what is owed to you. Plus, it indicates to the customer that you closely monitor your receivable balances.
- Have the facts in front of you and be willing to negotiate. Knowing the circumstances of the overdue account and having them in front of you while on the phone will help you avoid getting 'the runaround' from your customer.
- Make use of COD, when necessary. If some of your regular customers are getting significantly behind on payments, start asking that they pay Cash on Delivery on some (significant) or all of their future orders until they can get caught up.
- If all else fails, resort to collection agency or, if necessary, legal means. Collection agencies typically charge a flat fee for smaller balances but will charge a commission percentage (25%-50%) for moderate past due balances. Consider using an agency to help collect on these balances that will only cost a percentage of the receivable. Getting 70% of the balance is still better than a write off for the entire balance.

Using these guidelines will not only help you keep in touch with your receivable balances, it will also let your customers know that you're keeping an eye on them as well. Managing expenses is crucial in times like these, and as such, it is imperative that we try to minimize bad debts.

---

**Author:**  
Nate Radabaugh