



Five Proven Ways to Collect Accounts Receivable

All successful businesses must have an effective AR collection process. Based on DBR's decades of experience with AR collection, the following are some simple steps every business can take to collect what they are owed.

1. The Right System – The starting point of all AR collection is having the right system. Effective AR collection systems will have the following elements:

- A Good Accounting Program – All businesses must have a good accounting program to track customer charges, create invoices and generate AR aging reports.
- Terms and Conditions – All quote forms, purchase orders and invoices should have a small text box detailing payment terms, late fees and what will happen if bills are not paid.
- Delivery Confirmation – Written customer confirmation of acceptance of products or services eliminates payment delays.
- Consistency – Invoices should be sent out at the same time each month. Monthly billing keeps unpaid balances to a minimum, making them easier for the customer to pay.
- Early Payment Discount – One way to assure prompt AR collection is to offer a discount for early payment.
- Collection Action – At some point, something more than a phone call or an email will be required to collect an invoice. When this happens, it is important to know what steps need to be taken to move into a more aggressive collection process.

2. A Good Attitude – People in accounts payable departments have a difficult job that involves dealing with angry vendors, so a good attitude is an important part of any AR collection system.

- Build a Relationship – If you create a personal connection with AP representatives, they will be more likely to help you solve payment issues and get your invoices paid on time.
- Be Positive and Respectful – AP representatives will avoid someone who is angry or disrespectful and will put that invoice at the bottom of the stack.
- Never Make Threats – Do not ever make a threat of collection action in a conversation with an AP representative. This will cause your invoice to be put on hold until a manager can review the situation.



- Do Not Get Emotional – No matter how angry or frustrated you are, it is vital that you stay calm when dealing with AP representatives

3. Communication – All AR collection systems are based on effective communication.

- Receipt Confirmation – For all invoices over a certain amount, immediately after the invoice is sent it is helpful to confirm with your AP representative that the invoice has been received and provides all information required for payment.
- Phone Calls – A personal phone call can be very effective (i) at the beginning of a relationship; (ii) to quickly answer a question and (ii) follow up if a payment is late.
- Emails – The best way to avoid collection disputes is to have written confirmation of what was promised by an AP representative. Emails are a simple way to do this.
- Checking In – From time to time it is a good idea to check in with purchasing agents, facilities managers and other key representatives of your customers to make certain there are no unknown issues about the quality of your products or services or anything else that might delay a payment.
- Personal Visits – Whenever possible, it is helpful for the right person at your company to personally meet with the AP representative of your customers.

4. Be Pro-Active – Effective AR collection programs are based on specific actions happening at the right time.

- Anticipation – Billing issues often arise because something gets changed. Whenever you know there will be a situation that is different from a normal process, reach out to the right customer representative to make certain the price, paperwork and timing of your invoices are what is needed to quickly process your invoices.
- Timely Billing – In addition to sending out invoices at the same time each month, make certain any billing for change orders, cost increases or any other ongoing issues are detailed on an invoice that is sent immediately after the products or delivered or the service has been provided.
- Complete Paperwork – One of the main reasons AR payments are delayed is incomplete paperwork. For all billing, it is essential that any paperwork the AP department needs to quickly process a payment is included with the invoice.



- Personnel Changes – AP departments can have high staff turnover. Whenever you get notice of a personnel change, make sure you make an immediate connection with your replacement representative and find out if they have a different way of processing your billing.

5. Know When to Take Action – Timing can make or break your AR collection process. There are specific things to do on milestone dates while your invoice remains unpaid.

- First 30 Days – Most invoices are set up to be paid on a Net 30 day basis. Unless an issue comes up regarding the invoice, no action may be required during this period.
- 5 Days Past Due – When an invoice is more than 5 days past due, it is important to contact the AP representative to inquire when payment can be expected. All good accounting systems can generate alert reports showing which invoices are past due.
- 15 Days Past Due – When an invoice is 15 days past due, it is important that a response is received from your AP representative with a promise when the invoice will be paid.
- 30 Days Past Due – As shown by the chart below, invoices that are more than 30 days past due have only a 84.6% chance of being paid in full. If your AP representative is not responding with a specific date when your payment will be received, it is time to contact a management representative.
- 60 Days Past Due – Except in very unusual circumstances, when an invoice becomes 60 days past due it is time for serious action that includes: (i) direct contact with top level customer representatives; (ii) written demand for payment and (iii) indication that the account will be turned over for collection.
- 90 Days Past Due – Any invoice that is more than 90 days past due should be considered uncollectable by anything other than a collection action. For amounts less than \$10,000, based on the advice of an attorney a small claims action should be considered.

Collectability of Past Due Invoices

Current	30 Days Past Due	60 Days Past Due	90 Days Past Due	6 Months Past Due	12 Months Past Due	24 Months Past Due
97.9%	84.6%	72.9%	67.3%	41.9%	25.4%	12.5%



A Disturbing Trend - As a financial services company that has provided funding for all purposes for small to medium-sized businesses for more than 27 years, Diversified Business Resources, Inc. tracks the financial actions, events and trends affecting these companies. Since the financial meltdown of 2008, we have noticed a disturbing trend occurring in the payment of accounts receivable by large companies.

As an emergency measure to deal with the global financial meltdown, in 2008 Kraft Foods announced they were extending vendor payment terms to 120 days, but despite increasing profits since 2010 they have kept that policy in place. In 2013, Fortune 100 company Procter & Gamble and pharmaceutical giant Pfizer both announced that they were lengthening payment terms to their vendors from Net 45 to Net 75. In the Wall Street Journal story where they made this announcement, P&G said this change would add \$2 BILLION to their bottom line profits.

As more and more large companies increase the delay for invoice payments to their vendors, it is increasingly important that every business has an effective accounts receivable process in place to manage cash flow. Helping companies manage their cash flow through alternative forms of funding is what DBR has been doing since 1988.

Any questions about how these funding programs work can be directed to Ben Gage at (760) 738-1400 or ben@dbrfactors.com.