Improve Collections <u>Today</u>

Without changing your general business practices and without hiring new collections personnel, is there anything can you do to collect the money that is owed to you in less time than it takes you today?

In a word, **<u>NO</u>**. No growth occurs without change. You will have to change. If your current practices could get you paid sooner, they would be doing that already. So, the first thing you have to agree to do is...CHANGE.

Change is important indeed, but change for change's sake will not relieve your stress nor shorten the collection cycle. The changes that you implement must be based in truth. It is true that your customers are taking longer to pay you. It is probably true that your largest customers take the longest time to pay you. But why is this true?

The time value of money. It is true that your customers can do a lot with the money they owe you while you sit and wait to be paid. Paying you faster is not a value proposition to them. In truth, you are financing your customers, especially your large customers. The fortunes of the Fortune 500 are essentially built on the backs of small vendors, suppliers and sub-contractors. That would be you.

Did you ever think you were financing some of the richest companies in the world? No, because you are an <u>involuntary</u> lender. Ten-to-one you did not set out to lend money to your large clients. Actually you set out to make money by getting that BIG contract and selling your products and services to “the big guys”, whoever they are in your industry. But the truth is that waiting for those “big guys” to pay what they rightfully owe you is costing your dearly.

So, how do you ***change*** this pattern? Can you call up the “big guys” and demand that your invoices be paid in a timely manner? Such a demand will not likely be received well on the other end. Can you put in your contracts the stipulation that if the “big guy” doesn't pay you within 30 days you can repossess your product or charge thousands of dollars in penalties and fees? Not if you ever want another contract from the “big guy”. So what is to be done?

Basically, this is a two-step process. First Step, you must clean your own house. Granted, it is business brutality for the “big guy” to hold your money when you desperately need it to pay your workers and suppliers, not to mention your mortgage. But the cleaning must begin at home. Don't go to your customer and demand that they change the way they pay you until you have cleaned up what you give them.

It is probably true that you do what you do very well; that is why you got those big contracts in the first place. You pay attention to the design, execution and delivery of your product or service. Your name is on it. You value your name and your reputation in your industry. So, where is that same attention to detail when it comes to creating the documents that will initiate the payment process? Usually, you turn this function over to someone less skilled and often less experienced than yourself.

Now, your accounts receivable person does not set out to do a poor job. But, because of work load and insufficient training, this person frequently fails to see the creation of the invoice and the accompanying proofs of performance for what they truly are: the most valuable assets you have. Many a company has failed, or entered into bankruptcy while perfectly good receivables languished unpaid.

So, change number one is with your accounts receivable personnel. You must convey to them the essential nature of their work and its critical importance to the survival of your business. Then stop and observe how the job gets done. Look at the systems you use: Are they effective and efficient? Do your people in receivables know why they do things the way they do? Or, are they doing what their predecessors did without considering a better alternative? Are you stuck in a loop of legacy practices that is neither efficient nor effective in getting your receivables paid?

Your most critical person in the invoice generating process may be charged with answering phones, making and filing copies and dealing with sales personnel in the field. Do you ever turn off the phones long enough for <u>concentrated attention</u> to the critical detail of creating the invoices? If this is your most valuable asset, your ***working capital***, your ***cash profit***, then begin by giving the person responsible for creating the invoices enough focused time to do an excellent job.

Then teach that person what an excellent invoice looks like. How do you know what an excellent invoice looks like? Ask your customer. Sit down in your customer's accounts payable department and ask the following five questions:

1. What are the essential elements that you need to see on the face of my invoices in order for you to be able to pay them? (Purchase Order numbers? Contract number? Ship to address? Detailed Product Description? Project Manager's Signature?...take notes, get it all)

2. What specific back-up documents do you need attached or accompanying my invoices in order for you to be able to pay them? (Purchase Order? Work Order? Drawings? Product Specifications? Signed Time Sheet?)

3. What is your internal approval process? Who has to approve my invoices before you can pay them? How long does that usually take? What can I do to facilitate that process for you?

4. How should I submit my invoices for you to easily pay them - mail, fax or email?

5. Is the information you need clearly presented on my invoices so that you can easily find it?

6. Is there anything else I need to change or improve that I have not asked you today?

Take what you learn from your customer and go back to that very valuable person who creates and sends out your invoices. Share what you have learned. Ask your accounts receivable person how you can make the changes your customer wants. Then DO IT. Be sure to FOLLOW-UP to make sure it gets done. (Performance that is not consistently inspected cannot be consistently expected.)

Now for the Second Step. This step is everything else. What's everything else? Well, there are manuals for running a good accounts receivable department but generally the best practices boil down to some very implementable procedures. There are no secrets here. Here are the typical recommended best practices:

1. DO STEP NUMBER ONE ! If you jump to this part of the process without doing what is necessary in step number one, you will fail. It is just that simple. If you don't make "pleasing the accounts payable clerk in your customer's office" step number one, you will fail. So don't short cut the process. Don't do the following steps unless you are willing to first change your invoicing procedures to comply with the needs of the people in charge of paying you.

2. Find problems sooner rather than later. Some companies send out their invoices like a chain letter, hoping for something to come back to them but with no planned system of follow-up. With this "mail, sit, and wait to be paid" approach, no action is taken until patience is exhausted and frustration is extreme. With the company desperate for working capital, somewhere around the 65^{th} day past due, the word goes out from the top to "find out why that invoice has not paid!" Unfortunately, the answer is all to often, "We don't have that invoice. Would you please send a copy?"

   So, establish a consistent procedure for follow-up on invoices and not on the 65^{th} day. Thirty to thirty-five days after you deliver the invoice make <u>contact</u> with the person responsible for paying your invoices. Verify that the invoice was received and that there are no problems with it. You can make this contact via email, fax or phone. But make the contact and get acceptance of the invoice by someone at your client's office. This can be very low key, very friendly and not intrusive, just touching base with them, but in the process you get someone to say "all is well." Or, you find out what you did wrong and you can fix it immediately.

3. Follow-up on the follow-up. Simply stated, write a series of form letters to which you can add new recipients and new details when needed. Letter one should ask again if there is any problem, any reason why you have not been paid. You are asking for information in this letter. This letter should go out

when your invoice has passed the agreed upon payment day. If your customer says he will pay in 40 days, don't send this letter out until the 41st day. But do send it.

4. Follow-up again. Follow-up letter two should follow letter one by one week and should give all the invoice information, list the contacts made prior and the promises given for payment. Then this letter should ask that payment be made by a certain date or that the customer notify you immediately as to why payment has been delayed. Around about now you should suspend any further shipments or service to this client until the payment is resolved. This sounds risky but this customer has essentially lied to you at this point. He has promised to pay and perhaps even promised again, but no payment has been received.

5. Follow-up letter three is a demand letter. Again, list everything you have done to collect the payment along with the promises made by your customer. Give the pertinent details of the invoice (invoice number, date, amount, etc.). Then - and this is the critical part - demand that payment be made immediately. Advise this recalcitrant customer that if payment is not received at your place of business within ten (10) days, you will take legal action to collect and you will report the customer to the commercial credit agencies. All legal expenses incurred in your attempt to collect will be the responsibility of your customer (though, in reality, this is hard to enforce and they know it). At this point this customer will either pay or you will have to engage a lawyer and fight for your money.

REMEMBER, these letters assume you have faithfully completed STEP NUMBER ONE! Until you have done it right, you cannot expect your customer to pay you, ever. If you consistently **don't** do it right you will eventually get so tangled up in their problem resolution process that you will lose your status as a valued vendor. So, don't point fingers at your customer until you have first taken the 2 x 4 out our your own eye.

In closing, remember that people do business with people. Get to know the payables departments of your customers. Know the people by first name. Show genuine care for them. Don't just tell them to “have a nice day”, though that is better than nothing. But know what makes them smile, comment on their manner of dealing with you, thank them for their kindness, stop pushing and start pulling. Help them help you. Ask what you can do to help them. In short, bless them. They will bless you in return. You can still have favor with the payables personnel.

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