

# Accounts Receivables Collections

Many businesses are left in the lurch—trying to find themselves in a struggling economy. We had a dismal, cold, damp June and July in the Capital Region. Luckily August has given a bit better cash flow and hope to our area merchants and contractors. A constant theme with our clients is that their sales are down, and their accounts receivables are through the roof. This makes it difficult to meet financial obligations, as cost control is a concern. People are wary of investing in new equipment, let alone advertising dollars. We have observed many businesses, with little or no plan for an advertising and public relations budget, throw their money into the ring for a full page newspaper or television ad in hopes that someone will call for an appointment. This is not wise. As a business owner, you must have a proper plan to collect your current AR and then reinvest your hard earned money into a well devised media campaign.

Accounts receivable are dollars due from customers. Receivables exist because most industries, except the retail business, offer their customers payment terms other than cash on delivery. A company that refuses to offer terms, that is demands cash on sales, will likely lose sales and customers to competitors who offer such terms. The customer prefers to receive the goods now and pay for them later to conserve their cash.

Receivables are a use of funds. They represent dollars the company does not have available to reinvest in inventory and pay its obligations. If the company had no receivables, it would collect cash upon the sale of inventory and have the cash available for the business.

If a company gives 30 day period terms, it should collect a receivable in 30 days. Anyone can sell. Not everyone, however, can collect.

Keys to collecting debt legally and successfully include preparing a policy and procedure manual and a credit application form. You must also have a contract that spells out the terms and conditions of your payment schedule and procedure for collections. A measured approach to debt collection is better in the long run than immediately going to a collection agency or court. Consumer credit laws affect preliminary debt collection methods, while the Truth in Lending Act regulates the amount of interest that can be charged on overdue payments.

The basic message here is simple. The longer an account goes unpaid, the more difficult it becomes to collect. That being said, the biggest

problem with many businesses and their collection departments is that in many small businesses, there is no collection department. They rely on the accounts receivable clerk to also act as the collector. There has never been a set procedure for credit policy on their contracts. Many businesses “shoot from the hip” and just hope people pay them on time.

The person, who is “selling” the product, should NOT be the person “collecting” the debt. It’s too much of a conflict. If you’re a very small business and do not have separate personnel, you may just want to use a collection agency if all other attempts within that first 120 days fail.

No account, with the exception of the government or certain medical claims, should be hanging around uncollected for more than 90 days. By 120 days very serious measures should have been taken. After the original billing goes out, a notice should be sent once the due date has passed. Notices should be sent out at 30, 60, and 90 days. During this time, phone calls should be attempted to reach the party. If no arrangements are made and there has been no response, there are a few options to take:

1. Send out a pre-collect notice with options
2. Turn it over to a collection agency
3. Take it to court

There is a place for collection agencies. You don’t have time to mess with an account that isn’t paying. As we said before, take action no later than 120 days out. Never pay an up front fee to a collection agency that does not ensure they will be able to give you a return on your investment in them. You should understand what is expected when you use the legal system. You may hire your own attorney or go to court by yourself depending on the amount, but who has the legal training or the time to go to court?

Imagine that you have \$100,000 in accounts receivables and you have had no luck collecting your money. Now imagine that you collect \$50,000 of that money giving you \$33,000 to pay bills and invest in a positive marketing campaign. This is the key to your success in this uncertain economy and Success, Inc. is available to consult with you on this matter.

**Do not let your AR go any farther. Take action today. Be a success.**

# SUCCESS SOLUTIONS

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Receivables into  
Funds Available  
for Cash Flow  
and Advertising*

**Collect Accounts  
Receivables**

- Plan for Success



- Advertise with  
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