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FOUR TIPS TO IMPROVE ACCOUNTS RECEIVABLE
COLLECTIONS



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LIFE LESSONS for BUSINESS OWNERS

There's a well-known saying in business that "cash is king," but it's effective accounts receivable policies and procedures that will help your team have faster access to the cash it needs to accelerate growth and achieve company goals.

Hiccups in accounts receivable (A/R) collections can have drastic consequences for a business because it puts pressure on the amount of working capital required to fund operations. As I wrote in my previous article, the company I founded, NationLink Wireless, nearly went out of business because of cash flow challenges. As a result, we had to look at every way possible to improve A/R collections so we could have enough cash to pay the bills.

A/R management is an area in which many companies struggle. In a 2018 survey by Atradius, business to business (B2B) companies reported that overdue invoices represented 50% of all receivables. Think about that: Companies are "loaning" their clients money on half of all invoices when they are not paid on time.

In working with our member companies around the world, we've seen the negative consequences of not having proper systems in place for A/R collections. But with a little fine-tuning and implementation of some best practices, you can improve A/R collections and reinvest the cash to grow your business. Here are four ways to do it:

1. CREATE AN ACCOUNTS RECEIVABLE DASHBOARD.

Every entrepreneur and business leader needs to clearly understand his or her company's finances, especially as it relates to cash and A/R. That's because at some point in the future, you are bound to run into a rough patch when customers pay late (or worse, don't pay at all) and you have to make tough choices about allocating your precious cash.

An A/R dashboard provides you easy access to monitor and measure the cash coming into the company. The dashboard should include generally accepted key performance indicators (KPIs) such as A/R turnover ratio, days sales outstanding, average days delinquent and A/R aging by client. Think of your dashboard as an early-warning system so you can fix any challenges that may be on the horizon.

2. EDUCATE YOUR TEAM.

Once the KPIs have been determined, educate your team on the significance of each metric. Let them know how their actions affect each KPI and the overall financial health of the company. When your team sees how their work contributes to the business's growth, success and profitability, they'll work harder to achieve — and hopefully exceed — company goals.

It's also important to have a set schedule of weekly, monthly, quarterly and annual meetings to review the dashboard and keep your team aligned with A/R performance goals. That way everyone can be prepared and make the most of the time together.

3. CREATE WRITTEN POLICIES AND PROCEDURES.

Every business needs written accounts receivable policies and procedures. These policies, which should be part of a larger accounting policies and procedures manual, specify how the company invoices clients, collects payments and records transactions into the accounting system.

Successful businesses have an A/R team that is dedicated to adhering to these policies and procedures and to making sure the company gets paid on time. Their A/R teams get involved early when an account is past due, sending friendly reminders and calling clients when payments are not made in a timely manner. They bring in members of the sales or project management teams to find ways to work with clients to ensure payment. In short, these businesses make A/R collections a top company priority so it's embraced as part of the company culture.

4. MAINTAIN ACCURATE CLIENT ACCOUNT INFORMATION.

This may seem like a no-brainer, but believe me, I've heard too many stories from business leaders who complain about getting paid late because billing information in the accounting system was wrong. Accurate client data is essential to having an effective A/R collections process. Incorrect names and addresses on invoices can irritate clients and result in late payment. Billing information should be reviewed regularly and proper controls should be in place to prevent unauthorized changes to client data.

Let's face it: Managing A/R isn't the most exciting part of running a company. But by implementing these four tactics, you'll maximize the efficiency of your A/R team and better position your business for future growth.

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THE PETRA EXPERIENCE

The Petra Experience is like a Mental Marathon of focused effort to create a specific set of priorities and a planned process to achieve them... as a team.

Looking to change your business life - forever?

The daily grind of growing a business is tough... it doesn't have to be that way. We work from our own business experiences while focusing on your business – as coach and an accountability partner. We implement the Petra Process in a way that ensures it "sticks" then we stay engaged to keep you on your path to success and less frustration. We don't want this to be just another thing you start – then it gets ignored and finally dies... let's stop that cycle in your business. The Petra Program 'clarifies' what is most important to be done – by whom, by when – **AND** creates an accountability structure to ensure **IT GETS DONE**.

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