

7 Ways to Boost AR Collections and Improve Cash Flow

“A sale isn’t a sale until you’ve collected payment — it’s just a loan,” a wise businessman once said.

If you’ve been in business for any length of time, you know how true this is. Many small businesses that were profitable on paper have gone bankrupt waiting for payment from their customers to arrive.

This makes accounts receivable (AR) collections one of the most important tasks for small business owners. Unfortunately, it’s also one of the most neglected. Here are 7 strategies you can implement to help boost your AR collections and improve your cash flow:

1. Make sure your invoices are clear and accurate. If invoices are vague, ambiguous or flat-out wrong, this is sure to delay customer payments as they call to try to get things straightened out. In short, you don’t want to give customers a reason *not* to pay your invoices quickly.

2. Create an AR aging report. This report will track and list the current payment status of all your client accounts (e.g., 0-30 days, 30-60 days, 60-90 days, 90+ days). This will tell you which clients are current in their payments and which clients are past due so you know where to focus your collection efforts.

3. Give a bookkeeping employee responsibility for AR collections. If collecting accounts receivable isn’t the main responsibility of one specific employee, it will probably fall by the wayside as other tasks crowd it out. Therefore, make one of your bookkeeping employees primarily responsible for this task.

4. Move quickly on past-due accounts. Don’t delay taking action once a client’s account reaches the past-due stage. Studies have revealed that the likelihood of collecting past-due receivables drops drastically the longer they go uncollected. Your designated bookkeeping employee should start making collections efforts the day after an account becomes past due.

5. Plan your collections strategy carefully. Decide ahead of time how you will approach late-paying clients. For example, a friendly reminder call and/or email from your designated bookkeeping employee is probably a good first collection step. If this doesn’t get results, you can proceed to more aggressive steps such as sending past due notices and dunning letters.

6. Consider offering a payment plan. Sometimes, customers have legitimate reasons why they can’t pay their invoices on time. Maybe the customer is having temporary cash flow problems and wants to pay you but simply can’t right now. In this scenario, you might consider working out a payment plan that allows the customer to pay the balance due over a period of time. The agreement should be made in writing and signed by both parties.

7. Hire a collection agency. If all of these steps fail to resolve a collection problem, you might have to turn to a collection agency as a last resort. However, this is a serious step that should not be taken lightly, since it will probably jeopardize your relationship with the customer. Decide whether or not collecting the past-due amount is worth possibly losing the customer. Also keep in mind that the collection agency will keep a large percentage of the amount collected.

Very few small businesses can afford not to make AR collections a top priority. Following these 7 steps will help you improve your collections — and these improvements will boost both your cash flow and your bottom line.