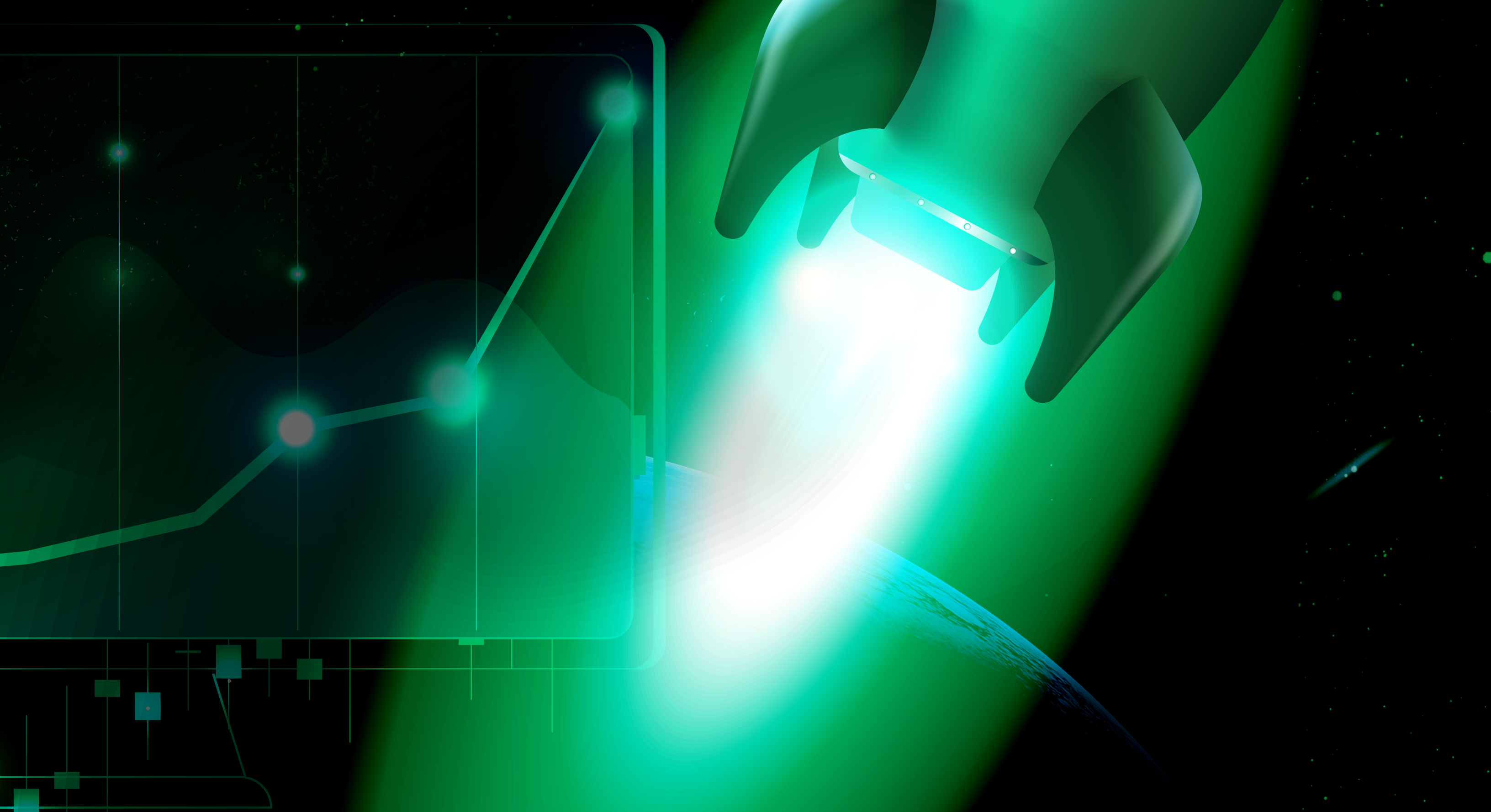
Accounts Receivable Collections – It Doesn't Have to Be Rocket Science

Learn How You Can Get Paid on Time and Accelerate Your Cash Flow

eBook



Learn How to Improve Your DSO and Accelerate Cash Flow

If you've ever had to chase an invoice, spend time nudging customers about late payments, or find yourself lost trying to navigate through a mess of Excel spreadsheets, you know how troublesome the accounts receivable (A/R) collections process can be.

Indeed, accounts receivable management is a job all on its own, when you consider just how much time gets wasted tracking down payments and data. As of 2020, SMEs spend over 56 million hours each year chasing late payments alone.

Chasing invoices is tedious, to be sure -- but it's not just a question of efficiency. It's a question of profitability. How much money in time and labor is wasted when accountants spend hours each week tracking delinquent accounts? Aside from the cash flow impact of late payments, these inefficient workflows contribute to substantial operational expenses over time.

With this routine, SMEs are always catching up rather than staying ahead. But does the process need to be so time-consuming? Or is there a better way for SMEs to handle collections that not only supports a low days sales outstanding (DSO) metric but also makes things easier for clients?

SMEs can get a handle on their accounts receivable collections processes by taking a few simple steps – and deploying a few simple automated accounting tools – that can help them along. Let's review a few best practices for efficient A/R collections and how you can automate your accounts receivable process.

01 Know Your Clients

The most important part of A/R collection is knowing your clients – past, present, and future.

What kind of situation prevents them from paying? Have they missed payments in the past? Do they have any plans that may increase their liquidity in the coming months?

Knowing your clients means examining their situations and understanding their needs.

Ideally, you wouldn't need to take such a thorough accounting of each client's history – they'd simply pay what they owe. But as bookkeepers know, things that make sense on paper don't always shake out so neatly in practice. At some point, a client will come up short. When this happens, you can improve your odds of receiving payments by approaching them with the right message at the right time.

If they're suffering from a business downturn due to a pandemic, for example, you'll likely get further by empathizing with their situation rather than taking a hardline stance. Conversely, clients with delinquent accounts that span months may require a firmer touch.

Before you make contact, look at each client's file to see their history of payment options and which methods they prefer. Include this information in your email communication, along with other details pertinent to their situation. The idea here is to draft unique reminders that speak to each client's problem rather than a form-based reminder. (Customers will have a harder time brushing off a clearly-personalized message than they do with boilerplate emails.)

In the best case scenario, you'll have an automated system that generates these reminders and sends them to clients at the appropriate time. Look for A/R software solutions that let you offload the manual work of digging through each client file. With the right platform in your corner, you'll have an easy way to generate and transmit these notifications as needed.

02 Widen Payment Options

Although a lack of preferred payment options is no justification for delinquency, your company can improve its odds of getting paid by building out your list of acceptable payment types. The traditional A/R collections process involves sending invoices that customers can choose to pay by check, credit, or cash. But these aren't the only options at your disposal, and depending on your customers' preferences, you might get paid faster with alternative options:

- Automated clearing house (ACH) payments
- Mobile payments
- Money orders
- Third-party payments (Pay With Amazon, etc.)

In particular, research on B2B preferred payment methods shows that ACH payments have grown in popularity, eclipsing methods like checks or wire transfers. Every industry will have its preferences, so look at your customers (the customers we got to know so well in step one!) and see which options are popular.

This flexibility is great for the customer experience as it allows them to make payments on their terms. But it also encourages them to follow through with their payments rather than put them off; every point of friction you can remove from the business relationship will help streamline these transactions.

Look for opportunities to expand your options and integrate them into your A/R collections software. The process might be a little work up front, but after integration, they'll become part of your collection of accounts receivable, just like your other automated workflows.

03 Invoice Immediately

As a collections best practice, draft and send invoices immediately after providing services and verify that the client received it. This simple task measurably improves DSO by making regular communication part of your workflow.

The sad fact is that many companies won't pay up without a little nudging. They have their own cash flow to worry about, and vendor payments aren't always on the top of their list. According to an A/R collections benchmarking study, the median DSO for companies is around 36 days; over a month to close the A/R cycle from the time of service.

However, depending on your industry, you may wait even longer. For example, companies in manufacturing and construction may have a DSO of between 60 to 90 days before closing an A/R cycle. And while every company has its own policies for collections, it helps to stay on top of your clients with immediate contact followed by regular touchpoints. This is another area where automated A/R software pays dividends. When you have accounting software that automatically tracks these touchpoints and sends follow-up notifications, you'll have a system that reduces client DSO and time spent waiting for payments overall.

04 Analyze A/R Data Regularly

A/R collections improvement is an ongoing goal that becomes much easier when you have real data to work with. This data is one of the main benefits of A/R collections software.

As soon as you assign payment terms, discounts, or credits for a customer account, that data should be accurately reflected in the collections system. After you've built up enough of this data in your platform, use it to run A/R summary reports that detail open A/R cycles, pending invoices, DSO, follow-up notes, cash flow forecasts, and other information pertinent to each customer account. These reports organize all customer data and present it in a useful format that functions as a snapshot of your A/R collections health – a valuable tool for long-term financial planning.

You can run daily A/R reports to stay on top of these issues and leverage strategic planning insights from the data. For example, you may run an A/R summary report to see that your overall cash flow is suffering due to a broad economic downturn. Let's take a look at the impact of COVID-19, for example. With a steep decline in the economy, customers become wary and nervous. They hold onto their money tighter, and for good reason. This is why it's important to identify which companies may be delaying their payments by studying daily reports, as managing your cash flow becomes critical. Developing a strategy for balancing your collections incentives with your incoming revenue is just the type of financial planning that A/R data supports, and it's a crucial part of financial planning around inconsistent cash flow.

05 Be Proactive With Client Outreach

Contact clients when payments are due – but don’t let this be the only time you interact. You can improve your A/R collections process by contacting clients more regularly to strengthen the customer relationship.

Reach out to clients before their invoice due date and engage in more frequent, ongoing collection efforts. Don’t just ask for payment in these communications; use them to ask about the company, whether they’re happy with your service, and what else you can do to make their experience better. This type of outreach can provide insight into your client’s plans (remember step one!), and if you’re launching new initiatives that might interest the client (such as new payment types), this is the perfect place to share that information too.

The idea here is to build a stronger bond of mutual value. When clients feel a sense of partnership with their vendors, they’ll be more likely to commit to repayment schedules and provide timely responses to communications.

If a client has trouble paying, collaborate with your sales and account management departments to negotiate payment plans. If you’ve followed the above steps, you should have a good idea of each client’s situation and the factors limiting their ability to pay.

But despite your best efforts, you may encounter clients who simply can’t (or won’t) pay. When customers are delinquent regularly, it helps to establish DSO benchmarks for cutting off service. Your customer relationships are valuable, so ending service shouldn't be your go-to option for overdue accounts – but at a certain point, you'll need to cut your losses. And when you do, you should have a plan in place that gives you a firm cut off point rather than sticking to a cycle of endless grace periods.

06 Use Automation as a Solution

As finance professionals know, there are plenty of simple ways to improve manual A/R process efficiency. The problem comes when organizations come to rely on these workflows but find that they're growing too fast to make them tenable at scale. It's easy to run a report or file details in your A/R software – but what happens when your accountant needs to run a dozen of these reports?

In these cases, automation is the answer. Automated A/R software gives companies a new way to get work done by streamlining basic tasks within the platform. This type of software is a powerful tool for A/R collections, but it’s also an essential one. As a company grows, it’ll inevitably reach a point where manual accounting workflows, contacting clients, and chasing invoices become too time-consuming to be financially feasible. When this happens, automation is there to fill the gaps.

Automated A/R software (such as Gaviti’s A/R collections software) offers a platform to review these workflow gaps and get proactive about time-saving improvements. From centralizing customer data to setting up automated reminders for collections, there’s a lot that accounts receivable automation can bring to your DSO improvement process. And across the board, companies seem to agree: Statista reports that 64% of small-to-medium businesses in the U.S. leverage accounting software for task automation.

Benefits of A/R Automation

Of course, automation isn't just a trendy approach to A/R collections; it's one of the most powerful ways to improve your accounting workflows. Did you know that the average accounting team may spend as much as 90% of its time on financial close and only 10% of its time analyzing numbers? It's true.

The reason is the time-consuming, inefficient processes that force finance professionals to spend their limited energies on administrative tasks rather than strategic planning. Automation is a solution to this problem that offers a scalable workaround for many of these time-consuming tasks. Companies who set up an A/R automation solution can expect to receive the following benefits:

- Improved DSO through a streamlined collections process
- Faster invoicing and customer communication
- Accelerated cash flow – a.k.a. getting paid
- Improved collaboration through centralized data and institutional knowledge
- Real-time visibility into performance metrics and data
- Better customer experience

Get Started With Automated Accounts Receivable Software

A/R doesn't need to be rocket science – if you switch from manual processes like Excel sheets to automation. And no doubt you do need to approach it with a plan. Start with the best practices outlined above and assess your cash flow alongside your existing workflows. From there, look for opportunities to automate. Your goal is to establish a system where metrics are measured in real-time, workflows are smart, and reminders are scheduled on time.

Automation modernizes your A/R collections and allows your collections teams to stop chasing invoices and start chasing value-driving insights. It’s a lot to take in all at once – which is why Gaviti offers a hands-on approach to A/R optimization that maps out your receivable collections process and improves it over time. Whether you need help with your A/R strategy, daily receivables collection workflows, or enhancing your customer’s experience – Gaviti will be behind you every step of the way.