

Credit and Collections Tools and Tips

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There are any number of ways to accelerate collections. Here are some useful tips:

- If you do not have a lockbox system, consider investing in one since doing so will accelerate cash inflows assuming that you encourage / require customers to remit payments to the lockbox address.
- If you have a lockbox system, track your customers that are not using it. Contact those customers. Get their commitment to start sending payments to the lockbox remittance address. Occasionally, this requires that you escalate the issue beyond A/P to the buyer's Controller or even the CFO. Note that companies that refuse to remit to a lockbox are aware that lockbox payments reduce check float and therefore are reluctant to make the change.
- Be sure there are no internal problems that result in delays in your invoices being mailed or transmitted to customers. The simple way to do so is to find out of invoices generated each day are sent to the customer on the next business day. If not, the system is in need of some improvement.
- Make certain that your order entry department carefully reviews purchase orders and to reject purchase orders with invalid prices, unacceptable payment terms or other incorrect terms and conditions. The alternative is for orders to be entered with incorrect information which will result in a dispute which in turn will usually result in a short payment or a delayed payment. The credit department should track the number of mistakes made by other departments resulting in payment delays and report the number and dollar amount of these deductions and delays monthly to management.
- Provide the training necessary for your collection team to work to the best of their abilities.
- Enforce your early payment discount policy. Charge back unearned cash discounts and insisting that customers repay them... or as a fallback position agree to stop taking unearned discounts. A compromise that sometimes works involves an agreement to reduce the chargeback by an agreed amount in exchange for an agreement that unearned discounts will not be taken by this Customer in the future.
- If customers are not taking the early payment cash discounts your company offers, contact their Controller [or equivalent] to ask them to do so. Remember that early pay discounts are a huge incentive for customers to pay within the discount period.
- Shorten any grace period that exists before calling customers to inquire about the status of past due balances.
- Create a schedule indicating how frequently past due customers should be called for collectors.
- State in writing the maximum amount of time the collector has to make first contact to a customer with a past due balance.
- Be sure that your collectors are prioritizing collection calls. The low tech solution to this is to provide collectors with a list of customers showing descending dollars' delinquent.