

## Ten Steps to Improving Cash Flow

Cash is king, and in these tough economic times collecting all the money owed to you is more important than ever. Here are ten steps you can take to improve your cash flow and receive more of the money owed to you. Remember, a customer who does not pay you is not a good customer.

Step 1. Develop and follow an accounts receivable (“A/R”) policy. A good policy should including the following components:

- address who gets credit
- define your A/R practices e.g.,
- when you cut off credit
- when an account goes to collections
- when you sue a customer
- when you discount and settle for less
- when you decide to write-off a bad debt

Most important, your customers should know your policy as it relates to when you cut-off credit, go to collections, and sue.

Step 2. Learn about your customers’ pay practices and follow them. For example, do they want a purchase order (“PO”) number on invoices; is an invoice received by Wednesday gets paid by Friday or; invoices are paid net 30, etc.

Step 3. Meet or have someone on your staff meet each customer’s accounts payables person and build rapport. This makes getting issues resolved easier, and if a customer is juggling which invoice to pay, there is a better likelihood your invoice will get paid because of a good relationship with your A/R professional.

Step 4. If there is a contract or PO, follow the terms of the contract or PO. This includes how and when to invoice, the quality and/or quantity of work, what to do if there is a dispute, etc.

Step 5. If there is a dispute over paying, follow the steps outlined in the contract as soon as possible without delay. If the contract says all notices must be in writing, make sure a letter is sent.

Step 6. Confirm the work to be done is finished or the product to be sold is received by the customer and that the invoice is correct in describing the work to be done or product to be sold. Provide sufficient detail in the invoice to describe the work that was completed or product sold.

Step 7. For best results follow-up with a phone call one day after you expect the invoice will have been received by the customer and confirm receipt of the invoice; that the product or service was received and there were no issues with the customer; and ask when the invoice will be paid. If the customer says the check is in the mail, ask for the check number and mail date.

At a minimum make this phone call no later than the 20<sup>th</sup> day after the invoice is sent.

Step 8. If you have not been paid within the agreed to time period, promptly call the customer and ask why the invoice has not been paid. You may find out the service is not completed or completed to the satisfaction of the customer or that the product did not arrive or it was damaged. If the customer says the service was completed satisfactorily or the product was delivered, ask when they will send payment. If you have the capacity, offer to take a credit card number over the phone.

Step 9. If the customer has no problem with the product or service, and you cannot receive a commitment for payment, send the customer a letter confirming that they owe you money, that in accordance with your policies you are suspending further work or deliveries until full payment has been received. If you have the ability to accept a credit card payment, tell the customer that you will accept a credit card payment. Explain that as of a specific date the matter will be sent to collections, and reported to the credit bureau.

Whatever you say you will do, keep your commitment.

Step 10. Outline actions to encourage prompt payment. (a) 2% discount for full payment within 10 days (not more than 10); (b) Payment by credit card, with a credit card number on file. The customer doesn't need to remember to pay and may also earn point or miles; (c) auto payment from the customers bank.

Some work is required up-front to establish such a process for your business, but following these steps will improve your cash flow. For more help or for a complimentary review of your A/R process call Ernst Enterprises, LLC, (see [www.eellc.us](http://www.eellc.us)) today.