

# 5 BILLING AND COLLECTION PROCESSES TO KEEP FINANCIALLY SOUND



The global pandemic and the impacts it had on the economy at large presented significant challenges for nearly all businesses over last two years. Businesses are looking for new and creative ways to steady revenue streams and improve their overall financial position. One fundamental aspect of doing business that is often overlooked lies in billing and collections. Here are five considerations to revisit in your billing and collections processes to ensure they are as efficient and effective as possible.

## **Maintain relevant and timely procedures**

With all the distractions present daily, it can be easy to overlook the billing and cash collection cycle for your business. Managing receivables can be a challenge in any environment - especially when recovering from a global pandemic - while seeing the highest inflation rates in decades that serve to hamper purchasing power. To keep your business financially strong, it is vital to revisit your billing and collection practices on a regular basis to ensure you are operating in the most effective way to maximize the timeliness of billings and cash collections.

## **Understand your costs**

To properly price your products and maintain strong profit margins, you need to

understand and monitor your costs. Failing to monitor your cost of goods sold can potentially erode your profit margins and can lead to selling goods and services at or below the market price. Where possible, maintain dynamic pricing so you can quickly adjust the pricing in response to variables. For example, competitor pricing changes, increased consumer demand, supply and demand challenges, commodity prices, etc. While maintaining dynamic pricing may sound daunting for a small business, it will provide a boost to your bottom line.

## **Strong collections begin before you send the invoice**

Like anything in life, if you want to be successful you need to be proactive. This holds true to the billing and collections cycle of your business. Strong collections and a healthy receivable aging portfolio begin with performing proper credit evaluations and setting limits and watching out for customers whose circumstances may have changed. Remember the mantra of garbage in, garbage out. If you don't have the right customers, you aren't going to sustain strong cash collections. Make sure you have a policy in place to approve new credit and follow your policy while setting and adjusting credit limits.

## **Invoice timely and effectively**

Send your invoices out as soon as the job is complete or as soon as the contract allows for invoicing. You may also consider an automated invoicing/collection tool to assist with generating invoices when milestones are met or the work is complete. Wherever possible, send invoices electronically to get them in the hands of your customers immediately. Look to automate follow-up emails or statement generation when possible.

Regularly evaluate the methods used to collect receivables. Some questions to ask are:

- Are we offering our customers multiple convenient ways to pay their invoices?
- Do we perform periodic reviews of our customers' account information to

ensure information is up-to-date?

- Do we have clear language on our invoices that identify payment terms and methods?
- Have we set appropriate expectations with our customers for payment?

## **Be prepared for struggling customers**

Regardless of having strong policies and procedures in place, there will eventually be a customer(s) unable to pay or slow in paying their invoices. Consider the following to improve the chances of collecting your receivables timely:

If you know you have a customer that is struggling or a newly formed business, etc., consider requiring up-front payments until they have a proven track record of timely payments.

- Consider offering discounted payment terms for timely payments.
- Assess fees or finance charges for customers who do not pay within the terms of the agreement.
- Place delinquent accounts on hold timely to mitigate the potential for losses.
- Stay in regular contact with your customers, especially the ones who are struggling. If they are struggling and you work with them to build rapport, they may be more likely to prioritize your payments in the future.
- When all else fails, seek professional help. Contact an attorney or collection agency to assist in the process of recovery.

Remember to stay proactive in your efforts to collect your billings and improve cash flow at your organization. There will always be uncertainty in the economy but having well-thought-out policies and procedures in place and being followed can make the difference in effectively managing collection and cash flow efforts. Consult your BMF advisor for more ideas to improve your business's overall financial position.