Know the Don’ts in Accounts Receivable

Credit professionals are always quick to share best practices with their colleagues, whether it’s pertaining to amounts of credit extended, payment plans and collection tactics, or technology in the credit department. But what about the worst practices? While some understand how good strategies can get better, it’s important to recognize how bad strategies can get worse. In the eyes of Esker Senior Account Executive and Accounts Receivable Partner Manager Jon Seaman, there are “seven sins” in accounts receivable (A/R), many of which can be rectified with the proper knowledge and execution.

No. 1: Your DSO Average Is Impressively Poor & No. 2: Manual Invoice Processing Bogs Down Your A/R Team

I have listed the first two sins together because they both involve the transition from manual to automated process. First, companies want low days sales outstanding (DSO). The desired outcome is profitability, which improves when companies collect cash in a timely manner. Seaman said there are various roadblocks that slow down DSO, including outdated credit strategies, high error rates and minimal payment reminders. However, when technology enters the picture, companies can course correct.

According to PayStream Advisors, a 2017 study found 57% of organizations automated their A/R to reduce DSO. Seaman noted automation may come in the form of real-time invoices sent in real-time.

“Then, there’s manual invoicing and there are really two areas where this bogs you down,” Seaman said. “One is the cost of the invoice and the second is the efficiency for your internal team. A lot of paper invoicing is still going on, but of course, e-invoicing is the goal.”

In addition to money, time goes into stuffing and collating, equipment as well as the storage for invoices.

No. 3: Your Team Members Are Experts at Sending Emails, Running Reports and Clerical Work & No. 4: Visibility into A/R = A Pile of Documents on Your Desk

Similar to sins No. 1 and No. 2, Seaman’s third and fourth worrisome A/R strategies relate because they demonstrate how automation can complete menial tasks, therefore, directing credit managers’ attention to hands-on duties. For instance, the 2016 B2B Billing & Collections Guide—completed by the Esker company, TermSync—reported 45% of companies don’t follow up with customers until they’re at least 20 days past due.

“It varies with companies I talk to,” Seaman said. “Some want to get collections and reminder calls before that; for some, it’s 20 or 30 days.”

Furthermore, full tracking and reporting only improves the quality of work completed by A/R.

No. 5: There’s Nothing That Makes Doing Business with You Easy & No. 6: Collections Management = Spreadsheets and Sticky Notes

As always, customer experience is a biggie. Business management consultant Walker Information predicts that by next year, customers will consider their experience with companies more important than companies’ prices and products.

"There's also the self-service through an online portal," Seaman said. "When you're looking at a tool out there to house online payment, security is huge, but also whether they accept ACH or credit card, or you pick and choose what you want. If someone tells you that you have to accept certain payments, keep looking because that's not correct. Do what you want to do."

This also means optimizing the most essential activities and pushing for organization, he said.

No. 7: You Think You're in Compliance with International E-invoicing Regulations

As previously stated, e-invoicing is entering the business-to-business credit environment. For those who handle international accounts and are embracing this technology today, Seaman said, compliance can make or break the A/R department's success.

"It can be quite frustrating, but make sure the company you work with has the capability to help you in that area if that's something you want."

—Andrew Michaels, editorial associate