Motorists know high-octane fuel burns cleaner and keeps their cars running more efficiently. Similarly, executives must realize cash flow is really the “high-octane fuel” for effective business management and optimum profit performance.

While it’s simple to switch fuels at the gas station, it’s also relatively easy to become a more efficient cash flow manager. What follows are several tactics every company, large or small, should employ.

Conduct a proper credit analysis. The highest priority in the management of accounts receivable should be given to investigating a potential cus-
Many small companies are hungry for business and may neglect to properly review potential customers to determine whether they are a good credit risk.

Companies should ask customers to complete a detailed credit application. Credit information should be obtained by contacting trade and supplier references, credit reporting agencies and consulting bank and financial statements. Trade and bank references are often the most reliable sources of current and accurate information.

Start a credit file and begin monitoring your customer. Develop an individual line of credit for each new customer. Some suppliers assign an automatic line of credit to new customers. But credit lines should not be given out indiscriminately, and, once authorized, they must be continually scrutinized with your predetermined company policy kept firmly in mind. For example, start your new customers with a credit line of $500 and do not raise their limits until they develop a pattern of timely payments.

An amazing number of companies run into problems because they approve an order for a small amount initially and, within four or five months, find that the customer has obtained thousands of dollars’ worth of goods for which he or she is unable to pay. Faulty credit procedures helped create the collection problem.

Make sure your customers know payment terms. The best time to do this is immediately after receiving the first order from a new customer. Consider calling customers 10 to 15 days before the due date of the first invoice to
express appreciation for this business. In addition, you might also want to ask questions like these:
• “Were there any problems?”
• “Was the order received in good condition?”
• “Was the invoice received?”
Close with “By the way, did you know payment is due on the 15th? We expect prompt payment.”

Establishing clear credit terms right at the beginning is extremely important with new customers. Once bad habits have developed, they will be difficult to change.

Change your terms of sale. Many small-business executives automatically give their customers 30-day terms based on industry standards. However, this practice might not be the best policy for your company.

If your prices are lower than your larger competitor, then why should your sales terms be the same? One solution is to make the terms net 15 days or per-

If the customer realizes his discounted price is determined in part by the terms, he will pay faster.

haps net cash upon receipt of invoice. A small company’s selling point to customers should be that it is giving customers a price break compared to the competition; your company should get paid on time to be able to afford giving that preferred price to customers. If the customer realizes his discounted price is determined in part by the terms, he’ll pay faster.

Collect accounts receivable as quickly as possible. One way to accomplish this is by shortening your collection schedule through the use of statements, follow-up letters and phone calls. For example, send your invoices out the same day your products are shipped. Don’t wait a few days to allow for shipping. The accounts payable depart-
ment usually looks at the invoice date to schedule payment.

If your terms are net 30 days, contact your customer two to five days past the due date. This is a combination customer service and collection call. If you haven’t already done so, a customer service approach is taken to see if the products arrived on time, if they were delivered in good condition and if the customer received your invoice.

By contacting your customer quickly, you can catch and resolve problems early and, quite possibly, generate some add-on sales. After that point, remind the customer that you expect the terms of your agreement to be kept, and prompt payment is necessary.

Extend your accounts payable. Before contracting with a new supplier, negotiate up front the longest possible terms for payment. That way you retain cash as long as possible without hurting your credit rating.

Cash management is one of the most important functions in the business environment. Executives who devote ongoing attention to cash flow and accounts receivable will significantly enhance the chance to build and strengthen their companies’ financial positions.

About the Author
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