The money or the ………!

Smarter debtor management procedures and proactive promotion of available payment options can refocus customer habits that have been allowed to develop over many years.

We suspect that many Micro & SME businesses adopt far more stringent debtor management procedures than the very accounting firms that consult to them.

Yes, we understand that in different geographic areas competition amongst accountancy firms will vary plus, there are client inter-relationships to be considered and this influences how aggressively accountancy firms can become in their pursuit of smarter debtor management.

However, the bottom line still remains 'Is each client profitable or likely to be profitable to your firm?' 'If marginally profitable, will the client pay interest costs if they won't meet your credit terms?' If the answer is 'no' to either or both, depending on how desperate your firm seeks to hold onto the client, then they are better as an ex-client.

Some thoughts.

Being in business:

- The first reality is that, if accountancy firms want to achieve better than 30 or 35 days payment period, then your credit terms need to be 14 or 21 days. Yes, it's a big mindset change that must be consistently adopted by all. Importantly, your firm MUST make it easy for clients to pay – refer **#** below.

- The second reality is consistency. All staff members must avoid clients delaying payment based on what's occurred in the past; playing one staff member off against another (i.e., Partner Bill or Staffer Mary said my paying late is OK); partners vetoing standard credit terms; client pressure or influence due to cross-client relationships; etc.

- To achieve 14 or 21 day credit terms, your firm will likely need to amend current workplace procedures. The best results are achieved where a 'partner' and a 'senior operations staff member' champion the cause and where the overall process is split amongst several other staff members who have a singular role to focus on in the overall process i.e., a staff member who ensures Tax Invoices are generated as quickly as possible after client activity has been incurred; a staff member that handles overdue accounts from say day 21 if working on 14 day credit terms; and a staff member to handle problematic debts and to manage external debt collections or oversee legal recourse.

- Ensure your clients are aware of your credit terms and your debtor management process including various contact persons if there is any issue re the Tax Invoice received or possible payment issues. These details should be clearly accessible via your website and regularly spelt out to clients via periodic newsletters or dedicated email that purely focuses on credit terms and payment issues.

- With most Self Employed and Micro Businesses, the client contact will most likely be the owner, so easy to convey credit terms. With SME businesses, the person responsible for accounts payable is likely to be someone other than the owner. It's important that they are aware of your credit terms. Ensure that Tax Invoices are mailed to the accounts payable client contact as this will avoid delays in Tax Invoices being slotted into the payment process.

- Does your firm have a policy of 'New or additional business at any cost' or 'New or additional business on our credit terms'? The latter attitude has multiple impact on many areas of your business and will remove or greatly reduce the potential of conflict and professional liability exposure.

- If not on ‘your credit terms’, is your firm prepared to walk away from potential new or existing clients.

- If a poor performing client moves onto another firm, do you forewarn the new accountancy firm? It’s not about ‘sour grapes’ – it’s about all accountancy firms working as one to change business attitude towards acceptable debtor management because the accountancy sector has a well entrenched poor debtor management history.

- When reviewing acceptance of a new client, ask them to confirm their procedures re paying debtors. Ensure accountancy firms are not treated differently to other debtors. Seek credit references and ask the reference parties not only to confirm that the potential new client pays their debts, but ‘Do they consistently pay within your credit terms?’ Find out how easy or difficult this potential client is going to be re payment of your professional fees.

- Test a potential client. Charge an initial consulting fee, even if you afterwards apply as a credit to future activity. If they baulk, your firm should be concerned.

- Whilst accountancy firms typically seek potential and existing clients’ P&Ls and Balance Sheets, few seek a copy of cash flows. This assists to identify lean cash flow periods in the clients annual business cycle and allows for a better understanding of what available ‘cash’ resources are available to the client should your firm be seeking payment of professional fees during these period(s).

- What payment options are you prepared to offer clients and are there incentives offered to prompt payment within credit terms? Given that many accountancy firms have expensive resources tied up with debtor management, incentives should be of substance.

- Payment options include estimated annual fees paid in periodic instalments (preferably by debit authority); cheque; direct deposits; EFT; BPay; Credit or Debit Card (via phone or website); direct debit; or Professional Fee Funding.

- **#** Ask potential or existing clients to nominate their typical method of payment and personalise their Tax Invoices based on their choice i.e., if by EFT, ensure your bank details are displayed on their Tax Invoice; if by credit card, ensure you allow the necessary fields for the client to complete (including their preferred date to complete the transactions and have them immediately fax back) etc. The aim is for your firm to identify the preferred method of payment … have clients confirm this preferred method by return acknowledgement … and then act upon their instructions … and track payment.

- The real value of identifying your clients ‘preferred payment’ ASAP, is the benefit of being proactive or further reacting sooner rather than later. Take the example of Professional Fee Funding. If your client has nominated this preferred option, send the funding contract with their Tax Invoice. If your client wants to utilise this option after receiving their Tax Invoice, your firm can generate a funding contract ASAP. Being proactive (and allowing 5 working days for the funder to process), payment can still be achieved within your firm’s credit terms i.e., 14, 21 or 30 days.

Before starting accounting activities:

- If your firm is going to undertake additional activities for a client that are outside the norm and will result in fees outside the quantum of previous professional fees, it’s best to confirm upfront your client’s capacity to pay. *(This is where Professional Fee Funding shines as it provides your clients with the financial support and allows your firm to take on larger sized client assignments/projects.)*

- Issue interim Tax Invoices – don't wait until the task or project is completed. Clients find payments in 'bite size' more easy to swallow. The easiest option to manage internally (and automate) is to generate Tax Invoices once a $ amount of fees has been incurred. This may be $500 for small clients; $1,000 for mid size; and $2,500 for larger clients. Producing interim Tax Invoices allows your firm to cease client activities if payment issues emerge. Producing interim Tax Invoices make the task of handing the client the final Tax Invoice at the sign off or hand over interview that much easier. Plus, provides the opportunity for the accountancy firm to raise any issues re payment of existing Tax Invoices and clear up any client issues about the activities undertaken, as reflected in the various Tax Invoices generated.

Whilst issuing a Tax Invoice:

- Limit or remove any issues that may give your client grounds to defer payment i.e., typos, addressing mistakes, clarity as to what activities the fees relate to etc.

- Promote your clients preferred payment method by providing relevant detail i.e., refer '**#**' above.

After issuing a Tax Invoice:

- If not already known, seek/identify method of payment to be used by your client as early as possible and track. If payment by credit card, it's better to have your client complete the debit authority and nominate the authority date and receive the authority back and then have accounts staff diarise to act upon on the nominated date.

- If your client is baulking or avoiding your contact or identifying how payment will be made, assume there's going to be a payment issue. It's better to confront the client early and agree on a part payment plan or place onto Professional Fee Funding rather than leave until after the 'credit term' has passed. The longer left, the longer the client assumes they can continue this delaying practice.

- Don't send Monthly Statements as payment reminders – resend the original Tax Invoice. If the original Tax Invoice is lost in the post or mislaid, your client is going to want a replacement Tax Invoice anyhow. Monthly Statements, particularly those with greater than 30 day columns send a signal to clients that your firm caters for late payment.

- If payment late, fax the problematic Tax Invoice to your client – don't rely on the post. In addition, if your client typically pays by cheque, avoid cheque payment on overdue fees. Have them EFT or, if they don't have online access, include your bank account details on the Tax Invoice and have them deposit into your bank account at a nearby branch or, if economical to do so, collect by hand or have a courier collect. Avoid any steps that will further delay or frustrate your firm receiving payment.

- Having to write off large fees hurts. So ensure your Debtor Reports list outstanding amounts in order of size and stay focused on the larger amounts. This will, to a certain extent, be influenced by the amount outstanding relative to the overall fees paid by particular clients.