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Effective cash collection through positive attitude

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Credit has become an effective marketing tool and an essential source of finance to many businesses and consumers.

Both the creditor and the credit customers should be fully aware that credit is granted not only to make a one sale possible but also to build and maintain a mutual long-term business relationship between the seller and the buyer, and this business relationship should justify the costs involved in credit. In other words, the creditor is investing money in the credit customer and as any other investment, it should be profitable.

If one has to analyse what is happening in the field of credit management, one would immediately learn that late payments and non-payments are becoming the order of the day more than ever before. This is neither my hypothesis nor a sweeping statement! Statistics compiled by a number of organisations indicate not only the magnitude of non-payment but also an alarming upward trend.

Therefore effective collection of dues is important. One has to keep in mind that by collection of money, one is referring to the completion of sales, and efficiency in the completion of sales can only materialise if the credit control personnel are themselves positive about completing the sales - cash collection.

Unfortunate attitudes still persist in many businesses, such as the perception that collecting cash is offensive and may damage customer relationship. It cannot be offensive to ask for what is rightfully and legally ours nor can it damage the business relationship, as the customer knows well that the account is overdue and the awkwardness of the situation, if any, is with him, not with the seller.

Therefore, credit controllers must possess a positive attitude towards completing the sales and the following ten clichés or statements, although may be seen as rather negative by the sales teams, should help to improve the attitudes of the credit controllers and increase collection efficiency:

A sale is not a sale until it is paid for: Firms are not charitable institutions. They are there to make a profit and this can only happen if they are paid, and paid on time, for what they have sold to their customers.

Every penny the firm earns comes in through us: The credit controllers are as important as any other employee of the firm. Having an efficient credit controller would result in better cash flow and profitability, the life-blood of any business.

Profit is reduced more by slow payers than by bad debts: Credit costs money both to manage it and to control it. Besides, the opportunity cost of the amount tied to credit which is overdue may mean less turnover for the seller due to lack of liquidity and inability to purchase supplies.

Collection of cash is highly competitive: Firms compete not only when they sell but also when they collect their dues. It is therefore necessary to invest in an effective credit management information system in order to monitor closely the credit customers list.

The sooner we ask, the sooner we are paid: Collection effort should be put right at the onset when the account is due with no reason of procrastination. Being assertive and on time in our collection is only a sign of professionalism.

It is our money, the customer has only borrowed it: The customer knows that the seller has supplied what he had ordered and he has legal obligation to pay for it at the agreed due date.

Customers are never genuinely upset by being asked to pay: In business-to-business transactions, collection staff deal with payables staff, who usually follow standard procedures laid down in their organisations. The perception of 'upsetting' the client is hard to grasp as our experience shows that some late payers pretend to be upset as a tactic for getting rid of a collection attempt.

Customers respect suppliers with a professional approach: Customers know they have to pay as agreed but credit controllers should have the skills to get the message over, establish a brisk rapport with the customers, work to help their customers, be confident and knowledgeable.

We believe in first-class service to customers and we expect first-class payment in return: A business relationship between the seller and the buyer, which is important for both, should be sustained not only when providing the service but also when the account is due for payment.

We can't pay salaries or suppliers with sales – we need cash: Sales are obviously crucial, but we need to get paid on time in order to move forward and expand our business. Sales without cash are only a gift! This brings us back to the first cliché: **A sale is not a sale until it is paid for!**

Completing the sales (cash collections) effectively requires special people with a committed attitude to succeed in spite of all the obstacles. They have to be outgoing persuaders, not introverted methodical people who prefer accounting work. The people employed to complete the sales are the only financial people working in the commercial area, interfacing with customers to complete a process started by the sales people.

Good cash collectors are worth cherishing and rewarding, and to get the best from all staff, training is the most positive investment any company can make. Well-trained, motivated and rewarded collection staff have a dramatic effect on the company's performance – Sound cash flow and sustained profit!

Josef is the Director General of the Malta Association of Credit Management and President of the Federation of European Credit Management Associations. He is also a credit management lecturer and coach.

He obtained his MBA from Henley Management College, Member of the Chartered Institute of Marketing (UK), and Fellow of the Chartered Institute of Credit Management (UK).

He has contributed with intuitive workshops and presentations addressed to various business people worldwide. Josef is a regular contributor of business articles to business press.