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The Worst Advice We've Ever Heard about Receivables

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The Irish writer and poet Oscar Wilde once famously said, “The only thing to do with good advice is to pass it on. It is never of any use to oneself.”

While this rings mostly true, there have probably been times in your life when you've been handed a piece of advice only to realize you'd be a fool to take it:



- **Forget about the past.**

Right. Didn't someone very wise once say something to the effect that *those who forget the past are condemned to repeat it?* I'm pretty sure [I've heard that...](#)

- **Oh it's fine — permanent markers aren't really permanent.**

Anyone with a toddler can debunk this myth pretty quickly.

- **Do what you love and the money will follow.**

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Grand Theft Auto, barbecued chicken nachos, Hooters.
Need I go on?

When bad advice costs you good money

Bad advice can come to you anywhere, at any time. But when it's your business's cash flow we're talking about, you can't afford to take it. Let's look at some of the more common words of advice and misconception about how to run a receivables department.

The more people who can touch the remit and payment the better.

That may strike you as the utmost of efficiency and mindfulness, to make sure everyone has had a shot at matching up all the data, but have you ever heard the expression *too many cooks spoil the broth*? That fits in pretty well here, too. Whether you have 10 people or two opening envelopes, keying in remit and payment data, and dealing with exceptions (and there will be plenty) that's too many. Even lockbox processing returns dismal automated match results while costing you thousands of dollars per month. These low match rates require yet another set of eyes and hands to touch and massage the data in order to update your ERP system and customer account information accurately.



What you need is a system that automates the entire process from payment and remittance matching to ERP posting. And yep, [it does exist](#) and you will [reap the benefits](#) when you have less people manhandling your data.

If you want to post cash faster, hire faster keyers

If you aren't able to take advantage of the luxury that lockbox keying provides, you're familiar with your staff keying the data themselves. This job can be quite tedious and the burnout rate for these folks is very high and now you're sacrificing your knowledge workers for what is probably not a viable long-term solution.



First, consider [automating your receivables process](#) and then put these awesome employees to work doing something more meaningful where they can use their skills to [help your business move forward](#).

Money in the bank is fine – you can take your time to post

Money in the bank is not money applied.

As important as DSO is, Days Receivables Outstanding (DRO) can have a major impact on your business, as well. For example, say you're a fertilizer business that extends \$50,000 worth of credit to

some of your farmers. One day, Farmer Ryan calls in a \$30,000 order. You ship the product and send an invoice. Not long after, the farmer sends a check that you deposit and a remit that you give to the receivables department, which is running several days behind on cash application.

A couple of days later the farmer places another order for \$30,000 but you deny him, telling him he only has \$20,000 in credit because according to the ERP he still owes \$30K. Your sales manager places a frantic call to the credit manager asking for an increase in credit line for the farmer. The credit manager must then research the farmer's payment history and discuss the account with the credit and collections team. During that discussion, the credit manager finds that a payment had been made, and the whole issue could have been avoided had cash been applied real-time.

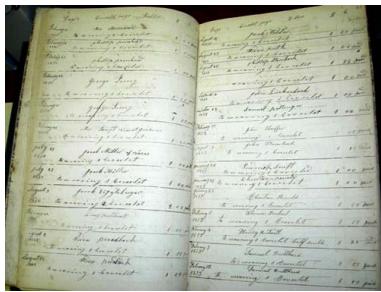
This is an example of a poor customer service experience that can lead to lost sales. Your farmer calls a competitor who now has a loyal client.

The moral of this story is: efficient cash application can keep your customers happy and loyal.

Customers should allow at least two weeks from payment date for their money to post to their account

Sure, in the olden days when the stagecoach, steamship, or Pony Express carried your customers' checks to your home office and you sent a courier to the bank after you'd hand-keyed all the information into your ERP, maybe.

(Were ERPs around during the time the

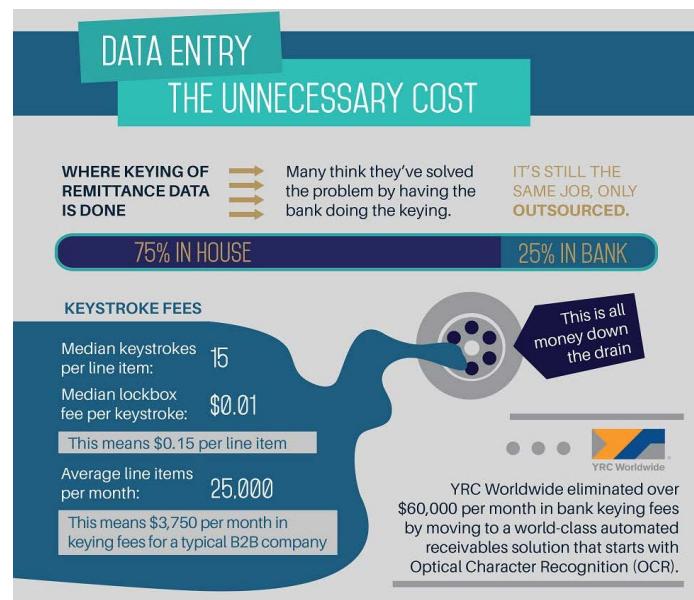


Pony Express? Yes—they were big, unwieldy ledger books where everyone's handwriting looked like your grandpa's.)

If you're running an automated and efficient A/R department, customers can expect their electronic checks to sometimes post the same day and their paper checks maybe the very next day. That may take some getting used to on their end but that's the way a smart and efficient company needs to do it. Money applied same or next-day is the norm when you're running a smooth system.

If your process ain't broke, don't fix it.

Aside from having such lousy grammar, this really makes no sense at all because your process may be broken — whether you know that or not. While it's a fact that 95 percent of survey respondents from a [survey done by the Accounts Receivable Network](#) said that they're satisfied or very satisfied with their cash application process, it's apparent these people don't understand how much better things could be. (Take a look at [Open Scan's Infographic](#) that illustrates this.)



And how do we know this? Because we know that the majority of companies that haven't employed an automated A/R system like Open Scan's are not fully taking into account the money they're tossing away for processing and keystroke fees (either in-house or to a bank's lockbox). I wrote extensively about this in my [post about matching](#).

Terrible, bad advice, right? So now that you've gotten good advice, consider following it. Your company, your customers, your CFO, and your employees will thank you.

"Wall Street is the only place that people ride to in a Rolls Royce to get advice from those who take the subway." — Warren Buffet