Discussion on Problems and Countermeasures About Accounts Receivable Management in SMEs

Yue-ping LIU
City College of Dongguan University of Technology, Dongguan, Guangdong, China
498128431@qq.com

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Abstract. With the development of market-oriented economy, competition is getting increasingly fierce, making sell on credit an important way taken by numerous SMEs to fight for customers, increase sales revenue and expand business scale. Accounts receivable refers to the fund related to sell on credit products and rendering of services that should be charged from buyers and receivers by enterprises, which can help SMEs to expand sales and increase profit. However, the credit of some customers during the sell on credit is low, so the phenomenon of overdue obligations to suppliers is severe, resulting in the surge of accounts receivable by SMEs. It becomes the burden of SMEs and even triggers the business crisis of them. Therefore, only by strengthening the accounts receivable management in SMEs can it be possible to improve the market competition of SMEs. Via the analysis and research of accounts receivable problems in SMEs, countermeasures are proposed in this paper, so as to reduce the negative influence of accounts receivable on SMEs and enable SMEs to realize the benefit maximization through accounts receivable.

Introduction

To survive in the increasingly fierce market competition, sell on credit has become a common way for SMEs to expand sales. Sell on credit can help to lower the inventory holding cost and enhance the enterprise competition, thus bringing economic benefits for enterprises. Nonetheless, it also increases the accounts receivable management risk significantly. Once the accounts receivable management is improper, not only the fund flow rate in SMEs will be lowered and the fund risk will increase, but also the risk of bad debts will increase and even the normal production and running of SMEs will be affected. Thus, from the perspective of long-term enterprise development, SMEs should increase the risk management and control awareness about accounts receivable.

Problems about Accounts Receivable Management in SMEs

A lack of Responsible Departments for Accounts Receivable Management

To take back accounts receivable timely, the sales department and financial department of SMEs have to coordinate with each other effectively. In practical work, accounts receivable is managed together by the sales department and the financial department, however, the exact duty of which is not so clear. Affected by the sales mode and the reward and punishment mechanism in SMEs, sales department usually does not take any responsibility for accounts receivable. Thus, workers of the sales department would only focus on promotion rather than credit risk. Collection index is taken as the performance evaluation index of the financial department in SMEs, but the rewarding and punishing of sales workers is completely irrelevant to the collection, instead, it only depends on the sales volume. The more sales tasks have been completed, the more performance bonus there will be. Plenty of problems about accounts receivable caused by this, however, is completely out of consideration. The disadvantage of such rewarding and punishing mechanism lies in the blind sell on credit. Sales assistants may not conduct detailed survey on credit standing of customers, which greatly increases the risk of accounts receivable management.
Irrational credit management in advance

Although the credit evaluation system taking customers as the evaluation subject has primarily been established in SMEs, it has not been perfect yet. The credit standard of SMEs is generally low, which may bring more customers to enterprises, but may also be likely to result in low customer quality due to the misjudgment of customers, thereby causing risks for accounts receivable management in SMEs and make enterprises suffer unnecessary losses. Generally, the sales department would help the financial department on credit management, such as searching customers’ information via return visit, but it usually takes too much energy. The prime task of sales assistants is still marketing, so the favor they can provide is certainly limited. Third-party credit investigation platforms are also one of the channels to search enterprise information. However, due to the high cost, SMEs will not be taken into account. The overlapping of all these factors also prevents SMEs from understanding the credit status, debt paying ability and business status of customers thoroughly.

The efficiency of accounts receivable collection is low

The collection of accounts receivable is a key link of accounts receivable management. It mainly includes collection policies and collection methods. However, the accounts collection efficiency specific to SMEs is not satisfactory, so it’s of great importance to find out reasons for the low efficiency of accounts collection. First of all, there are diverse causes for the default of customers. Maybe they are unsatisfied with the company’s services, maybe there are problems about working of their own fund, or maybe there’s the existence of deliberate arrearages. Specific to different conditions, distinguished ways should certainly be taken to cope with the collection policy issue. However, SMEs fail to analyze on the basis of specific issues, leading to poor collection effects. Second, regarding collection methods, SMEs take making phone calls as the main collection way, assisted by other collection ways. The lack of making full use of other collection ways such as letters, face-to-face visit and laws is also one of the factors resulting in unsatisfactory collection effect. Finally, there’s no professional collection team in SMEs, so the job is often done by financial workers. It is exactly because of the lack of professional collection talents that makes the communication with customers unsmooth, thus preventing the subsequent work from proceeding. Therefore, insufficient collection skills by collection workers would also lead to low collection efficiency.

Poor effect of accounts receivable management afterwards

In terms of account receivable management, in addition to advance evaluation and intra-collection, bad debt management afterwards is also important. However, the bad debt preparation system of accounts receivable in SMEs is not perfect. Improvements have to be made on the confirmation, application and application of bad debt losses. Meanwhile, data analysis of bad debt is often neglected by SMEs, so that the scientificty of credit management system cannot be evaluated comprehensively and corresponding policy regulation will not be made.

Countermeasures and Suggestions on Accounts Receivable Management in SMEs

Partial collection responsibility borne by the business department

SMEs should improve the accounts receivable collection responsibility system according to their own fact, forming the duty system that makes financial workers mainly responsible for collection with the help of sales workers. Only in this way can it be possible to improve the account collection rate effectively. In addition, the evaluation mechanism of business department should also be adjusted by establishing a comprehensive assessment system. Not only sales performance should be assessed but also the collection of accounts receivable and fund costs should be involved in assessment. In this way, the awareness of accounts receivable management by sales workers can be enhanced effectively and the customer quality can better be guaranteed, thus lowering the potential risk of accounts receivable. Of course, not only the assessment mechanism of the sales department
should be adjusted, other departments related to accounts receivable should also be involved in the assessment system, so as to promote the close inter-department cooperation and reduce the accounts receivable management stress by the financial department.

**Improving the credit management system**

To set up a viable risk prevention mechanism, SMEs have to choose customers prudently. Before signing the contract and establishing the business relationship, sufficient credit survey on customers should be carried out in advance. SMEs should try to understand the overall operation status, business capacity, debt-paying competence and credit record of the other side as more as possible. By collecting materials, the credit level of customers should be determined before choosing those with favorable credit status as cooperators. Furthermore, through face-to-face interview by business staff and logging on the public information platform of enterprises or entrusting a specialized third-party fund and credit survey agency, SMEs can also collect customers’ information. Additionally, according to the credit evaluation result of customers, SMEs should create the customer management file timely and designate corresponding credit policies specific to customers with varied fund and credit level.

**Increasing the accounts receivable collection efficiency**

**Making scientific collection policies.** Rational collection policies should be made by SMEs according to their own situations. First, causes for accounts arrears by customers should be analyzed before distinguished processing according to different situations. If the cause for accounts arrears is about the company service, business workers should take the initiative to communicate with customers and take measures actively, so as to obtain the trust of customers again and receive accounts successfully. If the cause is about fund turnover by customers, the company can appropriately prolong the credit term in accordance with customers’ fund and credit status, but relevant conditions should always be followed closely. If customers try not to pay deliberately for the sake of their own interests, a warning can be given by the company, otherwise, it can take the legal approach.

**Choosing adequate collection methods.** Rational collection methods should be chosen by SMEs by combining with the fact. Collection by making phone calls is a most common way. It has the advantage that both parties can communicate directly and express opinions clearly, so the communication effect is positive. In case it fails to reach the anticipated effect, letter collection can be used. When collecting accounts with special causes, face-to-face visit can be chosen, which can help to understand the actual situation of customers. If it is hard to take back the accounts or customers are difficult to be communicate with, it’s a good choice to select professional collection companies. For some deliberate arrears, legal approach can be taken.

**Skill training for collection workers.** Through regular trainings, such as how to get the key point of customers’ words to make communication more effective, how to enhance the language expression ability to make the point more clear, how to observe the psychological change of customers to know about their real thought, how to adhere to the stand and convince the other side eventually in case of disagreement and how to use collection skills proficiently, the collection skill and level of relevant workers in SMEs can be improved. Comprehensive training of workers’ collection skills can help to improve the collection efficiency effectively.

**Strengthening accounts receivable management afterwards**

A sound bad debt management system should be established by SMEs, so as to estimate possible bad debts accurately. Accounts receivable should be checked regularly by companies. For those unlikely to be received, causes should be found out timely. For accounts receivable that is totally impossible to be taken back, bad debt identification should be conducted timely by combining the accounting standard with the company’s own situation. Moreover, preparation for the bad debt should be made in accordance with the aging of accounts receivable. Analysis should be conducted via indexes like the overdue account rate and bad debt rate. Objective evaluation on the credit system of companies themselves should be made along with corresponding adjustment on this basis.
To conclude, accounts receivable is like a two-edged sword. SMEs are in face of awkward choices about accounts receivable management. Reducing the occurrence of accounts receivable will help to lower the bad debt rate, but the sales volume of enterprises will certainly be affected. To expand sales, sell on credit is provided for SMEs, which will certainly result in the increase of bad debts. Accounts receivable is playing an important role in economic advancement of enterprises. If enterprises are well-managed, it will facilitate their development, otherwise, significant losses and even crises may be caused. Therefore, in the increasingly fierce market competition, SMEs can only achieve effective development by strengthening the management over accounts receivable and reducing bad debt losses. Thus, the competitiveness of enterprises can be enhanced, which is of great importance to the economic benefit improvement of enterprises.

References