

Elements of a Successful Sales Collection Process

Aline O'Connor

SEMI's Marketing Module

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Key Elements of a Good Collections Process:

1. Accurate, timely record-keeping
2. Clear, advance communication of expectations *and company policy, including credit limits*
3. Disciplined follow-up by the seed company

Tool # 29, Section 2

Additional Terms to Know and Use

- Credit limit
- Aging of accounts
- Credit watch list
- Credit review

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Seed Enterprises Management Institute
University of Nairobi

Looking at real numbers

SEMI Student Seed Co (SSS Co) distributes seed worth the following in 2012:

Rice seed	\$290,000 USD
Sorghum seed	\$ 75,000 USD
Millet seed	\$ 42,000 USD
Maize seed	\$173,000 USD

5% of the seed is returned after the planting season. Dealer A does not pay for 11,000, Dealer E does not pay for 24,000, Dealer G does not pay for 5,000, and Dealers K, M and P do not pay for 1,000 each.

What is the uncollected accounts ratio?

Looking at real numbers

One of SSS Co's biggest distributors is Alice's Agrodealer Shop (AA). SSS Co's assigned credit limit to AA is \$4,000 USD.

Seed sales are brisk. At the beginning of each week, AA restocks with \$2,000 USD of seed from SSS Co. She makes payments as follows:

Day 9 after delivery \$1,000

Day 16 after delivery \$1,200

Day 25 after delivery \$800

Did Alice's Agrodealer Shop exceed her credit limit? If so, when?

Looking at real numbers

	<u>Entries</u>	<u>Cumulative Total</u>
Day 1 delivery	(\$2,000)	(\$2,000)
Day 8 delivery	(\$2,000)	(\$4,000)
Day 9 payment	\$1,000	(\$3,000)
Day 14 delivery	(\$2,000)	(\$5,000)
Day 16 payment	\$1,200	(\$3,800)
Day 21 delivery	(\$2,000)	(\$5,800)
Day 25 payment	\$800	(\$5,000)
Day 29 delivery	(\$2,000)	(\$7,000)

Looking at real numbers

At the end of the calendar year, SSS Co is owed \$42,000 USD

\$14,000 has been owed for the last year

\$ 7,000 has been owed for 6 months

\$21,000 has been owed for 3 months

What is the average age of SSS Co's receivables?

Looking at real numbers

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What is the average age of SSS Co's receivables?

$$(14,000 * 12 + 7,000 * 6 + 21,000 * 3) / 42,000 =$$

6.5 months

This is called Aging of Accounts Receivable

Looking at real numbers

In prior years, AA has always paid about 1 month after the seed is delivered. This year AA has been selling seed very well, but after several months the bookkeeper notices that payments are much slower than usual.

What should the GM do?

How do YOU collect money?

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