



# Accounts Receivable Management: Effective Policies and Practices

by Kathy Ligon

Collecting payments from parents is vital to maintaining the financial health of an education business and in effectively managing cash resources. Cash management and the challenges in collecting tuition are often the last considerations of business owners as they begin their businesses, and often one of the frustrations that eventually leads to exiting the business. Careful consideration in creating healthy policies is critical when developing the business initially, and most important in the daily management of practices and processes that minimize collection issues. When done right, proper accounts receivable management allows business owners and managers the time to do what they love — care for and educate children!

## Possible Payment Options

### ■ Mandatory Bank Draft

Schools that require bank draft for payments love the ease and reliability



Kathy Ligon is founder of Strategic Solutions Group Advisors, a team of experienced financial experts and business and real estate brokers with over 50 years combined industry experience. SSGA focuses exclusively on supporting clients in the education industry with their business and real estate sales and purchase needs. Kathy holds a degree in Accounting and has served in various operational and financial roles in large educational organizations before founding SSGA.

of this option. It has been our experience that direct withdrawal (sometimes called ACH) is most successfully implemented when a center opens because parents are often reluctant to change to this option later. The center simply pulls payments from the family's checking account each week and only has to follow up on accounts that did not have sufficient funds for payment.

### ■ Credit Card and Online Payments

Allowing families to pay by credit card or online payment systems is increasingly popular. Parents love the ease of swiping a credit card and enjoy the benefits of rewards with using their card for a significant expense. Owners need to carefully analyze the 'swipe fee' percentage charged by credit card merchants and study whether adding that 2 or 3% charge to the customer's bill (to offset the convenience of credit card billing) will chase customers away. That extra 2 or 3% fee may not seem like that much for each individual family, but in the aggregate, center owners may be unnecessarily losing revenues with this approach.

### ■ Payment by Check

Still the most popular payment option, most schools accept payments by personal

or business check and increasingly utilize a check scanner to avoid trips to the bank. Owners might try to slowly migrate check-writing customers to the ACH method and emphasize that parents will not have to manually write so many checks. After all, many families are utilizing automatic 'Bill Pay' services through their bank checking accounts to handle recurring payments for utilities and cable bills. Why should child care services not be afforded similar treatment?

### ■ Accepting Cash

Most schools prefer to avoid accepting cash payments due to the risk associated with having cash on the premises and minimizing the risk of employee or intruder theft. Some have eliminated this option altogether. However, there are still some schools that will accept payments by whatever method a family has available and will never turn down a payment! In some demographic markets, parents simply do not have bank accounts, and cash or money order is their only option. Our recommendation is that schools phase out cash payments over a 60- or 90-day period, if possible. After cash payments are completely phased out, owners may also see a side benefit — a reduction in insur-

ance costs, since cash will no longer be on the premises.

## Effective Policies Minimize Collection Issues

More often than not, schools have effective policies in place, but are not enforcing them consistently. This creates a strain on cash flow and diverts valuable time that owners and directors would rather spend on strengthening programs and services to children and parents. Make no mistake — managing accounts receivable will always take some amount of time — the objective is to be effective and efficient with that time.

The first step in accounts receivable management is to be sure that an effective policy is articulated and provided in writing to all parents. Most schools have payment policies similar to the following:

### Policy

Tuition is due no later than Tuesday by 10:00 am for the current week of service. After that time, a \$25 late fee will be assessed. Students with accounts not paid in full by the end of the current week will be disenrolled and will not receive services the following week.

Note the significant late fee assessed for late payment in the policy statement above. Late fees are the most effective means of encouraging prompt payment; the larger the fee, the more the encouragement! Of course, another way of stating the same thing in a more positive manner could be to state tuition rates higher and give a discount for early payment. The danger to this approach, however, is that the newly stated rates might be too high for price sensitive shoppers when compared to competitor's rates, leading to

the unintended consequence of discouraging enrollment.

The second step in effective accounts receivable management is repetition, follow through, and consistency. The key is to actually do the work. This could mean setting up a regular time each week where the owner or director makes accounts receivable the number one priority. As uncomfortable as it might be to make collection phone calls, think of how uncomfortable it will be if there is not enough cash to pay the bills!

We suggest using the phone or personal contact during the morning or afternoon pick-up hours rather than sending out email collection notices or notes home to parents. Email and written notes are easy to avoid and ignore. Speaking personally with each parent or a professional, persistent phone calling program, however, are more likely to yield results. Of course, schools also have the ultimate option of disenrollment (or threat of disenrollment), which should be enough to get a parent's attention.

Here is a creative idea to consider if you want to make a positive impact on weekly collections: consider moving to a pre-paid MONTHLY fee schedule (paid in advance!). This will reduce the number of checks to process, both for you and for the family, it should improve the ratio of cash on hand vs. upcoming expenses, and will reduce the amount of time spent on weekly collection problems to (perhaps) monthly collection problems. Delinquent parents should still be given notice that if payment is not made during the first week of the month, then disenrollment is possible. Do not let a monthly payment scheme result in waiting weeks to collect overdue enrollment fees.

## Consistent Application of the Policy is the Key!

One common question we hear from owners is: "I haven't been enforcing my

current policy. What now?" Again, it is generally non-enforcement rather than lack of policy that leaves owners vulnerable to managing large balances and putting themselves at risk of losing income when parents leave the center. The longer an account is allowed to build, the more likely it is that you will never collect it. And at the end of the day, you are not doing families any favors by allowing their account to get to the point that it is impossible to catch up. It is our suggestion that when policies are not enforced, but ownership is now ready, willing, and able to begin better enforcement, schools should then state in writing to parents a reminder of the policy and a notice of pending strict enforcement. Below is an example of a letter that could serve as notice of policy enforcement:

Following such a notice to parents, the policy must be strictly enforced to prevent falling back into the same collection issue. It is very difficult to get a system consistently enforced and very easy to fall quickly back into a collection problem.

## I Have a Collection Problem with a Current Family — Now What?

Another common question that is raised by owners is: "How and when do I work with parents struggling to make tuition payments?" And "Is there ever an exception to the 'no tolerance' policy?" In my opinion, yes. The long-term customer who is having an issue and is *communicating* with you regularly could be considered for special arrangement. Be sure that the special arrangements are in writing and are followed through on. Be very wary of the family that sends Grandma in to pick up their child to avoid seeing you and who does not communicate with you regularly. This is not a good candidate for special allowances. It is not just the income lost that should concern owners and directors. The problem of 'free rider' children also could create an imbalance

in teacher-student ratios, resulting in the addition of a teacher into a classroom, or the depletion of school supplies including food or learning supplies. Owners need to think not only about the loss of income, but also the increased expense load from non-paying families.

### **Now that Collections are Under Control, can You Relax? Absolutely Not!**

Collections of accounts receivable is a challenge that will remain a weekly task that must be managed constantly and consistently. Owners and directors may need to go back to step two above, and realize that collecting accounts receivable is not a destination, it is a journey. NEVER hesitate to ask parents for prompt payment. Remember, it is your stewardship to not only provide for the children entrusted in your care, but to act as a responsible manager of your center's resources, including taking responsibility for collecting and managing tuition paid by parents. This includes collecting funds in a timely fashion, controlling wasteful spending, and using available cash for strengthening children's early education.

Healthy control of accounts receivable is also an indication of the overall health of the company. If you are presenting numbers to outside stakeholders such as partners or lenders, large amounts due may have a negative impact on what you are trying to accomplish. Also, if you want to eventually present financial statements to a possible buyer for their consideration in purchasing your business or real estate, problems with parent accounts are an indication that the overall health of the business is questionable.

Creating a system for management and employing it dependably are the keys to keeping your company healthy. You should not apologize for having a consistent policy on collecting tuition payments from parents in exchange for providing a safe, respectful, and engaging atmosphere for their children. After all, you will not be doing any favors to your students or their parents if you cannot keep your doors open. Start today. Do not wait to collect what is due to you. You and your staff are working too hard to neglect this simple system!



Dear Parents,

We appreciate the opportunity to serve your family at our center and value the time that we spend with your child. Because of the increased number of families with balances due and the amount of time spent by our management team in collecting tuition, it is necessary to begin enforcing our current accounts receivable policy so that we can spend more time in program development and less time in collections.

Our current policy as stated in your parent policies is as follows (state current policy).

Effective \_\_\_\_\_, (four weeks' notice generally gives parents enough time to catch up) this policy will be enforced without exception.

Thank you for your support.

Sincerely,  
Owner