Schools are in business to provide an education to young men and women. And in return they charge tuition. The accurate billing and collection of this tuition drives revenue for the school and ensures its long-term sustainability. But a more efficient and effective billing process has additional ramifications.

For starters, it can lower the cost of doing business. Utilizing electronic billing, for example, can reduce the amount a school spends on paper, postage, and envelopes. However, when mailing statements, batching them and utilizing bulk mailing rates can also help cut down on unnecessary costs.

And of course improving the timeliness of collections will improve a school’s cash flow. The faster the money comes, the more valuable it is to the school. Money today is always worth more than money tomorrow.

But an often overlooked benefit is improved relationships with parents and students. By having a well-documented, consistent, and fair process, each parent will have a clear understanding of what is expected of them and will also understand that no one gets treated any differently.

And, of course, by collecting more of the charges that are billed, the school will increase its revenue.
Tips to Improve Every Step of the Billing Process

STUDENT REGISTRATION

• Get the details right.
  It’s imperative to capture a student’s biographical information early. And it’s just as important to clarify the billing arrangements and the biographical details for all potential payers.

• Ensure you have all the information you need.
  Getting all relevant information the first time is much easier than having to go back and get it later. Missing information will cost your staff time and your school money.

• Ask if there are address or billing changes at every encounter.
  It’s imperative to capture a student’s biographical information early. And it’s just as important to clarify the billing arrangements and the biographical details for all potential payers.

BILLING SCHEDULES

• Pay close attention to secondary payers.
  This is important when a second party is paying for something the primary payer will not cover. Know which students have secondary payers and what items should be routed to them.

• Document, share, and then enforce your policies.
  Everyone wants to know the rules before they play the game, and everyone wants to know the rules are fair for all. This ensures there are no questions later and the excuse of not knowing the process cannot be used.

• Encourage acceptance of electronic invoices and bill payments.
  When parents are determining the right billing schedule for them, take the opportunity to introduce electronic billing to them. Explain how it will help save the school money and how it ensures more timely delivery of statements. It also provides another payment option, and it is often the most convenient.

CAPTURE AND BILL CHARGES

• Bill earlier.
  If a charge is incurred on the fifth of the month, you wait until the end of the month to send statements, and you provide thirty days until the bill is past due, then there is automatically almost two full months between the charge and when you receive the payment. Consider moving to “on-demand” billing, particularly in combination with electronic billing, to reduce the amount of lag time between charge and payment.
- **Designate duties, but cross train staff.**
  The delegation of particular duties to specific staff members will make them more efficient. Plus, certain personalities are better suited to certain jobs. However, the school can’t be in a position where only one person knows the job. Not only is that bad from a fraud prevention perspective, but it could also leave the school in dire straits if someone quits who has exclusive knowledge of a single part of the billing process.

- **Right-size your billing staff.**
  Not having enough staff to manage billing and the collection of receivables will cause errors and delays. But having too many staff can cost the organization precious dollars. There are specific recommendations in the Benchmarks section as to how many staff members are required to effectively manage billing and collections.

- **Have the right staff.**
  Getting the right personalities in the billing office is critically important. You will need self-motivated problem-solvers with attention to detail who can troubleshoot issues and converse effectively with parents. Look for people with billing experience, even if it’s not in a school environment.

- **Be prepared to offer training.**
  Performance is always going to be better when employees are trained. Ensure your team not only understands the software they use, but also the processes they are to follow. Consider non-traditional training as well. Instruction on how to follow up with a difficult collection, for example, can turn a non-payment into cash just by using different tactics and approaches than an individual staff member may have thought to use.

- **Brand your statements.**
  Use your statement or invoice as a tool to promote your institution and its brand. Make sure it reflects the highest quality, just like your school reflects the highest quality in education. It’s also a chance to foster a connection with your parents by displaying your school’s logo prominently on the statement.

**RECEIVABLES MANAGEMENT**

- **Make sure your bills are easy to understand.**
  The goal is to deliver an invoice that is easy for parents to understand so there are no questions about what they are paying for. Tie the invoice details to the payment terms and schedule for each student. For example, a student on a ten-payment plan should only see the amount currently due that month rather than the total amount of tuition. Charges should be clearly explained with full descriptions versus using the internal codes.
• **Post targets and reward staff for achieving them.**
  Your billing function should have clearly articulated goals. A terrific motivator for staff is to display the goals in a prominent location and reward them when they meet or beat targets.

• **Post actuals.**
  Display the actual progress against those goals, so staff can see on a daily or weekly basis how they are doing relative to the goal. Later, in the Benchmarking section, specific measurement ideas are given to help business offices understand the right data to use for goals and achievement tracking.

• **Hold your staff accountable.**
  While the occasional error may not hurt your collections efforts too badly, if it happens repeatedly and/or is not detected for a long period of time, the impact can be tremendous. Make sure each person is doing exactly what he or she is supposed to be doing.

• **Focus on tuition.**
  Since tuition represents by far the largest receivable amount, it should be the focus of your receivables effort. Ensure tuition is properly billed and accurately reflected on the statement sent to parents, including reductions for any and all financial aid. As the saying goes, “Don’t sweat the small stuff.” But be sure to place emphasis on getting timely payment of tuition as it will have the greatest effect on revenue and cash flow versus smaller, infrequent charges.

**FOLLOW-UP**

• **Make PDF copies of your statements.**
  This is much easier if your software does it for you, but having a soft copy of each statement allows your staff to review exact copies of a parent’s statements. Most items can be resolved in one phone call when the business office sees the same thing the parent sees.

• **Archive statements.**
  When statements are archived, office staff can review past and current statements with parents anytime. In fact, any visit to the office can serve as an opportunity for parents to resolve questions, thereby saving billing resources later. And phone calls are smoother and more efficient because, again, the staff can see what the parents see.

• **Don’t just roll over balances — pick up the phone.**
  It happens a lot in school business offices, but if you’ve sent a bill and have not received payment, just sending it again isn’t going to help. Simply rebilling is a waste of time. There are exceptions, of course, but for the most part it’s best to call the parent before sending the same bill again. Often, staff members are unsure about what to say if they receive voicemail, but the best message reports that the call is regarding a billing matter and please call the office as soon as possible.

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• **Adopt a “three strikes and you’re out” policy.**
  As a general rule, if payment hasn’t been received after sending a third statement, refer the matter to a collection agency. Stamp the second payment “Past Due”, and the third should be stamped for collections action. Be sure to flag the account at this point. Most software provides a way to do this, but the best software integrates with the student information system and prevents report cards from being sent or doesn’t allow the student to graduate, go on field trips, or even make purchases at the school store.

• **Use benchmarks to gauge progress.**
  In order to properly analyze productivity and results, particularly after these efforts are applied, schools need to use benchmarking data effectively.

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**Benchmarks to Use when Gauging Progress**

In order to see the improvements from adopting these tips, nonprofit organizations should consider choosing from the following set of benchmarks. It is very helpful to also consider making one or more of these benchmarks the foundation for an employee incentive plan.

**DAYS TUITION OUTSTANDING**

“Days Tuition Outstanding” is a way to evaluate how effective a school is at collecting tuition. It’s calculated by taking the average Tuition Receivable balance for a period, for example the school year, and dividing by total tuition revenue for that same time period, then multiplying by the number of days in the period.

Identifying the current state is critical to understanding how much improvement is needed. Since cash drives so much of a school’s activities, it should aim to collect receivables as quickly as possible. The best practice for schools with a combination of paper and electronic billing is 45 days, and for one that has mostly adopted electronic billing, the best practice is 20 to 35 days. While these are good values to shoot for, schools should seek to know where they are as an organization and create goals based on the current state.

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BEST POSSIBLE DAYS TUITION OUTSTANDING

The best way to begin to set goals is by utilizing what’s known as “Best Possible Days Tuition Outstanding.” This formula is the same as before, except the average receivables balance is replaced with just the current receivables balance. The closer your Days Tuition Outstanding is to your Best Possible Days Tuition Outstanding, the closer your receivables are to the optimum level.

NOTE: Be careful with using “Days Tuition Outstanding” and even “Best Possible Days Tuition Outstanding” by themselves as a measure of how well a school is collecting receivables, as it has a key weakness. Since it fluctuates with revenue, a sudden dip in tuition revenue will cause it to rise significantly even if the average receivables balance is steady. Also, some schools recognize all tuition revenue at the beginning of the school year (the “butts in seats” mentality), while others recognize over the course of the year. So analyzing “Days Tuition Outstanding” on a period less than a school year can be misleading.

AVERAGE DAYS DELINQUENT

“Average Days Delinquent” (ADD) has a different meaning in the business office than it does in the principal’s office. It calculates the average time from a receivable’s due date to its paid date. In other words, it’s the average number of days that invoices are past due. It provides a snapshot to evaluate a school’s overall collection performance. ADD here is much different than ADD in the classroom, and it’s calculated by taking “Days Tuition Outstanding” less the “Best Possible Days Tuition Outstanding.”

STUDENTS PER STAFF MEMBER

As mentioned above, ensuring the billing staff is the right size can save a school thousands of dollars in wasted overhead or in collections inefficiencies. There are several industry standard benchmarks to use, but the best is “Students per Staff Member.” There should be no more than 400 students for each member of the billing and collections staff. Other popular methods to determine staff size include staff costs as a percentage of billed revenue (best practice is approximately five percent) and staff per dollar collected (where the benchmark should be one staff person for every $1 million of past due income).

CASH COLLECTION AS A PERCENTAGE OF NET TUITION REVENUE

Tracking this number will not only help a school determine what its allowance for doubtful accounts should be in future years, but it will serve as a baseline for its ability to turn billed services into cash. Of all the benchmarks, this one combined with yearly “Days Tuition Outstanding” serves as the best motivating factor since it has the biggest impact on the school’s free cash flow. The best practice is a collection of at least 98% of net tuition revenue (full tuition less financial aid and staff discounts); however, some schools may need to strive for at least 95% at first, particularly if this has not been an area of focus in the past.

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AGED ACCOUNTS RECEIVABLE OVER 60/90/120 DAYS

Another way to benchmark your ability to quickly collect on outstanding bills is to identify the percentage of outstanding receivables over 60 days, 90 days, and 120 days. Schools should attempt to keep their receivables balance of “over 60 days” at less than 25 percent of total accounts receivable, while less than 15 percent should be “over 90 days,” and less than ten percent of total accounts receivable should be “greater than 120 days” past due at any time during the school year.

Summary

Understanding the billing process, identifying areas for improvement, and benchmarking the results is the best way to ensure a school improves its ability to turn more of its receivables balance into cash. Almost all of the tips in this document can be easily summed up by remembering C-A-T-S.

C  Clarity
A  Accuracy
T  Timeliness
S  Simplicity

If a school is able to provide clear, accurate statements in a timely fashion and make it simple for parents to pay, then it will be able to lower expenses, improve cash flow, increase parent engagement while strengthening relationships, and increase revenue.

About Blackbaud

Serving the nonprofit and education sectors for 30 years, Blackbaud (NASDAQ: BLKB) combines technology and expertise to help organizations achieve their missions. Blackbaud works with more than 28,000 customers in over 60 countries that support higher education, healthcare, human services, arts and culture, faith, the environment, independent K-12 education, animal welfare and other charitable causes. The company offers a full spectrum of cloud-based and on-premise software solutions and related services for organizations of all sizes including: fundraising, eMarketing, advocacy, constituent relationship management (CRM), financial management, payment services, analytics and vertical-specific solutions. Using Blackbaud technology, these organizations raise more than $100 billion each year. Recognized as a top company by Forbes, InformationWeek, and Software Magazine and honored by Best Places to Work, Blackbaud is headquartered in Charleston, South Carolina and has operations in the United States, Australia, Canada, the Netherlands and the United Kingdom. For more information, visit www.blackbaud.com.

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