



[Home](#) » [Open Scan Blog](#) » Short Pays: Why They Happen and What You Can Do About Them

Short Pays: Why They Happen and What You Can Do About Them

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Customers underpay their invoices for a variety of reasons, all of which hinder your company's cash flow and cause your accounts receivable department to slow while it deals with these inconsistencies. And while, yes, overpaying also exists and also throws off balances, somehow it's just less of an issue for the treasurer...

Understanding why your customers aren't paying their invoices correctly and how to deal with this when it does occur will help you avoid this wrench thrown into your A/R process.

amount?

There are as many different reasons why a customer short pays as there are customers. Let's look at a few of the more common ones.

Disputed rates

If customers have previously been offered “special rates” such as prompt pay or other type of discounts, they will find a way to take those discounted rates as often as possible even if, for some reason, they don't qualify for that particular invoice.

Multiple invoices

If a customer receives your original invoice and then receives one or more updated invoices for different amounts, he just seems to have a knack for processing the invoice with the lowest amount. Why would he? It's an easy rationalization to make.



Short or damaged orders

Instead of filing a claim or requesting a credit memo, the customer sometimes just short pays the amount she owes. Yes, she makes an executive decisions about how much of a discount she should get. Isn't she independent and resourceful!

Oops!

This is when your customers “accidentally” pay the wrong amount (oddly enough it’s rarely an overpay). Darn it! Well, they’ll catch up next month (when they short pay again because it’s just so confusing)!

The best ways to handle short pays

Preventing short pays might be the best solution of all. But it's likely that some will slip through. Having an action plan for how to deal with them will help your A/R department run more smoothly.

Automate, automate, automate

How many times in this blog have I been trumpeting the benefits of automating your cash application process? (More than a few but look [here](#) , [here](#) , and even [here](#) , where our Director of Client Success, Connie Grivas talks about letting the system do the work.)

Handling short pays can be time consuming work for your cash posting team. Finding a way to automatically recognize and route specific short payments to automatically refund or re-invoice customers can give you a break on the amount hours you’re paying employee to do it.

(Hint: Take a look at what Open Scan’s Dynamic Receivables Deductions Engine does. It helps users identify predictable deductions (and unpredictable short-pays) so that the cash application department gets a clear picture of all deductions and can make the right decisions about them.

Set tolerances

Defining or setting an automated write-off—or “tolerance”—for a certain amount can take a lot of work off your plate. And if you compare the FTE hours dealing with short pays and other deductions to using a set tolerance, you might find it’s totally worth it to define a tolerance. However, it’s a best practice to fluctuate that tolerance from time to time in order to avoid a customer who might be gaming your policy.

Analyze



Reporting on short payment (and overpayment) results can help identify customer service issues as well as allow you to identify customers who continually try to “pull one over on you.” Analyzing this data and passing it on to your sales team or billing team to address the root cause can cut down on these short and over pays in the future.

Moral of the story? Don’t be lackadaisical when dealing with these sort of annoyances. But also, certainly don’t feel like it’s out of your control, either. With a few policies in place, you can minimize the havoc and lost money that short pays and unrecognized deduction can bring.

Speaking of automation...

Want to learn more about what an Open Scan automation solution can do for you, even if you’re in the middle of an ERP overhaul?

Download for free and read [The right time to implement Open Scan](#).



"What if everything is an illusion and nothing exists? In that case, I definitely overpaid for my carpet." — Woody Allen



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