

The Check is in the Mail

04/28/08

My concern is this. I have a couple of customers who aren't paying, and I have to decide what to do. They have been good customers in the past and I think that they're just hurting from the economic downturn. I'm afraid that if I send the accounts out to collections, they'll be gone forever. How long do I string them along, and what kind of risks am I taking?

Sometimes carrying an account that is historically sound and solid is a good idea. Carrying too many accounts at once can land any business in cash flow problems. In the worst case past due accounts can ruin a business.

There are several actions any business owner needs to take and several decisions that need to be made, when it comes to surviving credit and collections problems. First, know the current financial status of any account over 30 days past due. Second, contact someone who has the authority to make payment. Third, decide if this client is going to make it, long term. Fourth, weigh out whether or not you can afford to lose the entire balance, plus anything additional you allow that client to buy. Fifth, decide if the client is telling you the truth, based on facts not hopes. Let's get to work.

Find out as much as you can about any delinquent client's overall financial health. Pull a D&B, or ask your accountant or

attorney to pull one for you. Look the company up on the internet to see if there are any problem postings. Call other vendors that they use. How much are they owed? How far past due are they with this client?

Find out how their sales are doing. If they've recently gotten any big sales, that will always tie up cash flow for awhile, but things should ease up eventually. If their sales are down, that's going to make it harder for them to make payment in the future.

Talking with clients who are past due is essential. If you can't get a return call, escalate the contact point. If you reach the top of the firm and still can't get a response, it's time to move to plan B. Send a letter, registered mail, informing the top dog that you're sending their account to collections unless you hear back from them immediately. And then follow through.

Let's assume you do get through to speak with someone in authority. Negotiate. Get them to tell you how much they can afford to pay each week. Decide if that's enough, and if it is, tell them you expect them to stick to the terms of payment. Decide on consequences if they fail to keep up payments, up to and including sending the account to collections. Tell them you intend to follow through with the consequences if they fall behind on their payments.

Negotiate for weekly, rather than monthly payments. It's a small, steady amount that usually gets paid. If the client falls behind, you'll know sooner, and can act faster. Stay on top of the weekly commitment by putting someone in your company in charge of notifying you anytime a payment is late or missing.

Now it's time to assess the situation in the cold hard light of day. Is this client going to make it, long term? Evaluate your research and their performance on the deal you've struck to get paid weekly. You need to decide how long this client will last.

Ultimately you have to decide if the client is telling you the truth, based on facts not hopes. Is delinquency a common problem with this company? Are things getting a lot worse for them? What does all of the information you've gathered tell you?

Remember your #1 job is to protect your company. Tell clients they have to clean up past due balances in order to get more goods. If you think clients are basically sound, just stretched, apply payments for future goods to the oldest balance. That may help them come closer to current, while you help them keep going.

If you think they're going to go under, act now, rather than wishing you'd acted later. Move in to recover any inventory of yours that they have on hand. If they're



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far away, you may tell another customer in the area that they can have the inventory if they'll go and pick it up – assuming you believe the client will let the inventory go. Get back opened stock, and use it for samples. If you leave your goods at their company, they're likely to use your inventory to make sales, to keep themselves afloat – which may not include paying off your company. Don't wait!

Looking for a good book? Try Ultimate Credit and Collections Handbook by Michelle Dunn.

Business owners regularly turn to Ask Andi and Strategy Leaders for advice on how to grow profitable, successful companies. They find what they need time after time. Specific advice is available at www.AskAndiBlog.com. Ask Andi is also published weekly in the Westchester and Fairfield County Business Journals and Hudson Valley Business. Written by Strategy Leaders President, Andi Gray, the Ask Andi column is a rich source of advice for owners of established, privately held businesses.

*If you are a business owner and you have a question or would like to discuss some aspect of your business, call **1.877.238.3535** or send an email to AskAndi@StrategyLeaders.com.*

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