Ask Andi

Trusted Advisor to Business Owners

Billing for Accounts Receivable

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Clients are going past due. Our standard terms are 30 days. We have a clause in our contracts that we can bill interest at 30 days, but we've never done that. What do you suggest we do to get paid?

In tough economic times clients stretch out what they owe to many of their vendors. It's commonly called, "vendor financing." It's happening more than usual in this recession, as credit lines are being shrunk by banks and new financing is hard to come by.

This company is most likely caught in the crossfire of clients who are short on financing ability and also short of cash flow. It needs to be careful not to let things get too far out. And it needs to recognize that allowing clients to go late on payments is the same as extending a loan. There are several actions it can take.

ACCOUNT FOR YOUR ACCOUNTS

Monitor all client accounts carefully. Make calls to accounts and track down the person responsible for cutting the check. Monitor clients for solvency. Keep an eye on industry segments that might be vulnerable to collapse. Impose interest. Cut off terms until accounts are paid up.

Ask the bookkeeper for a report on any accounts that go over 30 days past due. If you bill monthly like this client does, you'll want to look at your receivables aging report around the 10th of each month.

Assign one or more people in the company the responsibility of calling past due accounts. Consider having your sales people make the first call, since they often have the strongest relationship with the client. Ask if everything is OK and inform the bookkeeper of the results from every call. The easiest way to do this is to hand out a list of calls to be made, with room for notes on each account. Collect the list at the end of the week, so things don't drag out. If anyone in your company is having trouble making the calls, sit with them and make calls together until they get more comfortable with the responsibility.

CHECK ON THE CHECKS

Find out who cuts the checks to pay your company. Track that person down. Find out if they have an invoice, and if the amount matches what you believe you're owed. If they don't have the invoice, ask who they get invoices from and work back up the chain of command until you find the roadblock.

Once you find the person who cuts checks and he has your invoice, ask when you can expect payment. Ask for a specific date when he will cut the check. If the company is local, consider telling the person cutting the check that you'll stop by that day to pick up the check.

At the very least, ask the person if he's making you a promise that the check will go out on the day specified. If he waffles, nail him down by asking what might get in the way of keeping that promise. Then call on the date promised to be sure the check is cut. Remember to be the squeaky wheel since that's the one that usually gets greased.

In the last big recession, one big construction-related firm went under and took some 100 other vendors down with it. And it happened very quickly. If you have any concerns push hard to collect now, before they run out of money.

PAY UP

Now to this week's question. Of course impose interest charges. Put it right on the monthly statement. Make sure everyone at the client 's workplace sees the interest charges, from the president to accounts payable. Make it clear you expect to collect the interest charges.

The first time you impose interest charges it may come as a shock to your customer. Offer to waive some or all of the interest, one time, if past due amounts are paid in the next five to 10 days. Don't go longer than that or the incentive loses it's teeth.

If the client still refuses to pay past due accounts, somewhere between 45 and 60 days past due, cut the company off from additional services. First, this will serve as notice that you're serious. Second, if the company threatens to go elsewhere it's just a further indicator that it can't pay you - and may not have ever intended to pay you.

At the point that a client goes past due, you need to realize you're a vendor, not a partner, not a friend. Your sole job is to collect the money your company is owed, any way you can. You cannot afford to work for free, which may become the case if you let things go forward without resolution of outstanding accounts due.

Looking for a good book? Try "Paid In Full" by Timothy R. Paulsen.

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