



Handling Collections

You've delivered the product and performed the service, now make sure you get paid for the goods!

Minimizing collection dread

Probably the most uncomfortable part of operating a business is asking your customers for money. Many business owners would rather have a root canal than have to ask a customer about an unpaid invoice. While it's not one of the most enjoyable duties of owning a business, it is one of the most important. Fall behind on your receivables collections, and your bottom line will undoubtedly feel the impact.

The thing to keep in mind about collecting receivables is that you are in a race against time. Every day that passes with money locked up in receivables is another day you can't use that money to turn a profit for your company. Even more, the likelihood you will ever collect that money decreases with each passing day. The reality is that your business can't afford to ignore collections, and it's your job to make sure your company has a proactive collection process.

It begins in the beginning

If you grant everybody credit, you probably don't have a credit policy. So the first step, if you haven't already done so, is to establish your company credit policy, and give it the priority it deserves. Once established, educate your staff, suppliers, vendors and customers about the policy, and make sure they clearly understand. Impress upon all these groups that you take billing and receivables very seriously — and so should they.

Do your homework

As eager as you may be to bring on a new customer, and as good as you may feel about them, always initiate a credit check. Regardless of how long or how well you know someone, resist the temptation to take everything they say at face value. Follow these procedures:

- Check customers' credit and references, including bank, industry, character and history.
- Pull credit reports.
- Establish credit limits, and stick to them.
- Review credit histories and limits annually (more often if you suspect financial difficulty).

Making quality collection calls

- Research the customer's history of calls before making the call. Get an idea of what is going on with the account.
- First call should be made when account is 45 days old if terms are net 30.
- A second call is made if the payment is not received within one week of the first call. This call will refer back to the first call when they said nothing was wrong.
- Third and any follow up calls are made if payments are not received within a week of the last call. These calls are made weekly until there is a satisfactory payment schedule.

Communicate expectations clearly

When securing new customers, you will be well-served in the long run to initiate frank discussion about your company's invoicing and payment expectations from the beginning. Explain when they will be invoiced (your billing cycle), how long they will have to pay (terms), what forms of payment (cash, check, etc.) are acceptable and actions they can expect if payment isn't received by the due date (collection policy). Remember that if you don't tell them how long they have to pay, you can't justify penalizing them for paying late.



Other considerations

- Send invoices immediately after product is delivered or service is performed.
- Charge late fees or penalties on past-due accounts and enforce them.
- Accept as many payment options as possible.
- Monitor your accounts receivable reports, and take action on past-due accounts immediately.

The art of collecting

So you've done the credit checks, collected references, explained the terms. As thorough and proficient as you strive to be in qualifying customers, you will encounter late payments — even among your best clients. Honing effective collection skills will be important in recouping payments that are justifiably owed to your company.

- Don't feel guilty asking for the money. If you provided goods and services in accordance with mutually agreed-upon terms, customers have an obligation to pay. They should feel bad or guilty for not paying you.
- Contact customers immediately if they become past due.
- Set up payment plans on the full amount, and get a signed contract.
- While there may be times when you will need to be somewhat flexible, be persistent, and don't accept excuses.
- Always be professional.

Know when to call it quits

No matter how diligent you are about your collection process, there are simply some accounts you will never be able to collect. Your best chance of collecting those accounts lies with a professional collection agency. These agencies know the tricks of the trade because they specialize in collecting receivables from nonpaying customers. They also have the added benefit of knowing how to leverage the customer's credit rating and other legal avenues as a collection tool.

6 things to keep in mind while collecting

- Be professional
- Be persistent
- Be informative
- Be personal
- Be firm
- Be prompt