

Business Bullet ~ Collecting Debts

We've all been there and it's very painful for a business of any size and type. You have payables due and are trying to deal with overdue receivables. One of the major causes of needing to collect debts is that the business has not defined to its personal and/or commercial customers and staff when accounts are to be paid. If your customers are not educated that accounts are to be paid on time, then chances are they'll pay late or sometimes not at all.

So, your first step is to **establish ground rules** for how payment must be made and stick to them. On your order form, brochure or website, clearly spell out your terms of sale and payment options. Also have set guidelines for how you will handle checks and credit cards.

- **Get it in writing.** Be sure your agreement/contract or memo of understanding states what the payment expectations are and the consequences for non-payment. When you go over the contract with a client or customer, be sure they initial the payment policy section. That way, they can't come back with "you didn't tell me" and this can be used later if the event escalates to small claims...or more.
- **Send a series of reminders.** It can pay to be polite and persistent, calling on a regular basis and always asking nicely.
- **Evaluate the situation, present options.** Take a moment to evaluate the integrity of the client or customer. Experience says to give the client the benefit of the doubt. If the client is overdue by a small margin, give them some time. If time goes by and phone calls don't budge them, send a registered letter. This has the effect of getting your point across in a weighty manner without your having to confront them verbally or in person. After all else fails, let them know that all other avenues have been exhausted and that you are either (1) turning the matter over to your lawyer or a collection agency, or (2) taking them to small claims court. Keep in mind that if you ever want to work with this client again in the future, you will use these collection methods wisely.
- **Be persistent in trying to collect.** Hard luck stories and our natural tendency to rescue others puts us in a quandary as to how to deal with non-payment. When selling a service, we tend to do the work first and bill later, which often leads to problems collecting. It's hard for clients who don't pay to conceptualize what it is you as a service provider are losing when they do not follow through with their end of the deal.
- **Be willing to sue.** You have to be willing to sue, or even threaten suit, to show that you mean business. Often, as small business owners, we're perceived as weak-willed and unwilling to go to the mat for what's ours. Even as a larger business, there are challenges sometimes collecting debts. Until we demand professional attention—whether that's getting paid on time or being given a chance to compete with larger organizations—we're always going to be relegated to second-class status.
- **Know when to quit.** If you can't collect, don't let it get to you. Try to collect if you have the time and ambition to do so, but if not, just write it off to experience. Otherwise, turn it over to a lawyer or collection agency, and move on. Generally speaking, there are always a few customers that will never be collected. By identifying these accounts early, you will save yourself and your company a great deal of time and money. Even though a few may slip by, you'll find that overall the number of slow pay and nonpaying accounts will greatly diminish, and that's a victory in itself.

Secondly, make sure to **invoice promptly** and **send statements regularly**. If you don't have a systematic invoicing and billing system, get one. Make sure your staff or bookkeeper is properly trained in doing this in a timely manner. Also, if you have enough staff, find the one who is the most firm yet courteous, train them in customer service, and have them deal with the delinquent accounts. In effect, they must "sell" your customers on the idea that you expect to be paid. Your collection person or staff needs to be trained not only to bring the account current, but to also maintain good will with them.

This also leads to the fact that you need to **keep accurate** and **timely payment records**, especially if you extend credit. If payments become unusually slow, immediate follow-up is warranted. This not only gives you an early alert to impending payment problems, it also gives you the chance for early intervention if there is an outside influence.

One of the most difficult collection problems is **tracking down a customer** who has "skipped." All businesses need to be aware of a special service offered by the Post Office. Any statement or correspondence sent out from a business or professional office should have the words "Address Service Requested" printed or stamped on the envelope, just below your return address in the top left corner. If the statement or invoice is sent to a customer who has moved without informing you of their new address and the words "Address Service Requested" appear on the envelope, the Post office will research this information and return the envelope to you on a yellow sticker that gives the new address or other updated information. If the customer has placed a "forwarding order" with the Post Office, the Post Office is required to forward the envelope to the customer and give you a form #3547 with the new address and charge you a small fee. This will keep your address files up to date.

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You may need to **use a third party sooner**. If you've systematically pursued your delinquent accounts for 60 to 90 days from the due date (and they still haven't paid), you're being delivered a message by your customer. More than likely, you've requested payment four to six times in the form of phone calls, letters and statements. Statistics show that after 90 days, the effect of in-house collection efforts ears off 80%. That means that the time and financial resources budgeted for collection efforts should be focused within the first 90 days where the bulk of your accounts can and should be collected. From that point on, a third party can motivate a customer to pay in ways you cannot, simply because the demand for payment is coming from someone other than you. Before paying a percentage to a collection agency or using small claims court or attorney, check into using a fixed flat fee collection service.

Sometimes your customers do not pay because they feel you have **made a mistake**. Unfortunately, many customers believe that "the owner/president doesn't need the money." Denying an obvious error only fans the fire of resentment your customer may already feel. If the basis of the non-payment is a dispute over the quality of your product or service, a mutually agreeable settlement between you and the customer should be arrived at promptly. The customer may use a minor dispute to withhold substantial payment. Insist that the undisputed portion get paid immediately, indicating the balance will be negotiated. This will not only help to collect payment, it shows the customer that you are listening to his or her concerns.

In many states, **businesses are governed** by the same collection laws as are collection agencies. You will need to become aware of and follow the collection laws in your state. For example, calling customers at an odd hour or disclosing to a third party that they owe you money are just a couple of the numerous collection practices that can cause serious repercussions. If you're not sure, call your state's department of finance which governs and monitors collection agencies.

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