

# Credit Management

Most business owners will at some point, find themselves in the position of having to extend credit to customers. Most customers will pay on time and you will probably never get into the credit management process with them. However, a percentage of your customers will not.

When a customer puts off paying your account for 120 days, **you are making a four-month interest-free loan you can ill afford.** Even worse, it becomes an outright grant if you, the vendor, aren't able to collect at all. When customers are squeezing extra weeks and months out of their payables, developing an efficient and effective debt collection system is of utmost importance. This is particularly true during economically slow times when even the steadiest and most reliable customers may be experiencing cash flow problems. This is where credit management and debt collection skills will come into play. Following are some tips to help you manage slow paying customers and collect debts:

## Phase # 1: Prevent collectibles from becoming overdue.

- Review your customer accounts each month to quickly identify those that are occasionally, or even chronically, late.
- When you notice that an account is overdue, make sure the company was billed, the goods went out, and no problems arose when the order arrived.
- Send out invoices the day shipment is made or the services are completed. Many businesses unwittingly create their own cash flow problems by not mailing invoices for a week or two.
- Mail invoices to specific individuals rather than to companies. Poorly-targeted bills can get caught in a mailroom shuffle for days before reaching the right desk.
- Track receivables from the first day invoices go out. Businesses with a large number of clients should be using automated software for their invoices and accounts tracking. If you have only a few clients, track them on a 30,60,90 day basis or on a control sheet.
- Shorten the preliminary credit period from 30 days to 15 days or less. While a 30-day term may be common, it's certainly not mandated. Find out if any of your competitors have reduced their terms to 15 days or C.O.D., or if your prices, delivery dates or some other aspect of your service would make shorter terms acceptable to your customers
- Most customers assume they have 30 days before they need to cut a cheque, which means as many as 45 days may elapse by the time you receive it. You must tell customers if payment is due earlier. Be sure to also consider the

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persuasive power of discounts and -- using the reverse strategy -- interest charges.

- When work is to be customized, ask for a deposit and explain that the balance is C.O.D., or set up terms with half due upon delivery and half 30 days later.
- Avoid falling into the trap of feeling that your customers are friends who can expect unlimited credit. Even if you socialize after hours, in the business relationship your obligation is to provide a quality service or product, and their obligation is to be sure to pay you on time.
- Forty-five days after the invoice date, call and find out why the account hasn't been paid. Use a "customer service" approach: "As your check hasn't arrived, I wanted to make sure nothing was wrong with the order." This accomplishes several things. You'll find out if orders weren't correct, remind customers that accounts are overdue, and let them know you watch receivables very closely.
- Make a "customer service" call to chronically late clients the day their orders go out. "I wanted to let you know your goods have just been shipped. Could we speed up payment by sending the invoice to a particular person?" This prompts faster payment because it ties payment to customer satisfaction at having the order filled promptly.

## Phase # 2: Collect overdue accounts before they are too late.

- Phone calls have proven significantly more effective than letters, particularly if you make a point of calling customers about outstanding invoices within a day or two of their becoming overdue.
- Make phone calls or send out reminders twice a month, rather than every 30 days. Although it costs more, you definitely get a lot more back.
- Blame your accountant, your business manager, or even your mother-in-law, but stop giving credit to debtors who are overdue. Say, for example: "I hate doing this, but our accountant insists that once accounts are overdue by 90 days, all orders have to be C.O.D. As soon as you pay off some of this overdue amount I can give you credit again, but until then my hands are completely tied."
- As accounts age, increase the frequency and urgency of your calls and letters. Press, in the nicest possible way, for payment without any further delay. Most businesses wait twice as long as they should for payment. You should know whether or not you are going to get paid within nine to 12 weeks. Waiting any longer is asking for trouble economically.
- If you cannot persuade a customer to pay, give the account to somebody who can. Collection agency personnel have heard every possible excuse and have

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appropriate responses ready. They are trained to look for assets that may not be obvious, so they can sometimes obtain payment from debtors you believed were unable to pay. Collection agencies are most successful when the account has been overdue weeks rather than months, and the debtor has been treated with courtesy.

## **Phase # 3: Possible legal action**

At this point, speak to a lawyer about your rights and if and how you should proceed with the debt collection process.

## **For More Information**

**Internet:**

<http://www.sba.gov/smallbusinessplanner/start/financestartup/index.html>