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Crimson Leaves: Managing Customer Credit

If you own and manage a business, then it's highly likely that you extend credit to your customers. And if you extend credit, then you're also in the business of collecting past due payments for services rendered. While chasing cash is no one's idea of a great way to spend an afternoon, putting off the task can put your company at risk. This is one business responsibility that should never be put on the "to do later" list, and yet, most of us do exactly that. We delay, hoping the situation will remedy itself. Mailing a late notice isn't so bad, it's the act of picking up the phone to make that collection call that so many of us choose to avoid.

When time goes by and no explanation is forthcoming as to why a payment is late, we wonder if the customer is having difficulties. We worry they may be dissatisfied with our services, have an issue with the invoice itself, or worse, may have taken their business elsewhere. Most of the time - it's none of the above. The majority of late payments are a direct reflection of the communication and due diligence that we invest in the customer relationship from the very beginning.

Most of us are very comfortable in discussing the value of the services our business provides and why we are better than the competition. We have no problem telling customers, and prospects alike, what differentiates our company from the rest of the marketplace. Well, it's imperative that we also get comfortable with discussing what our fees are, timelines for payment of services rendered and consequences of late payment..

Managing customer credit doesn't have to be the end-of-the-month chore that lurks in the back of our minds until we're forced to deal with it. (And if we're only dealing with it at the end of the month, that's our first mistake.) Customer credit can be managed with skill and foresight. Here are some credit management tools designed to keep businesses out of the red zone.

Investigate: Run a credit report for every new customer. Call the local Chamber of Commerce or Better Business Bureau and inquire if there are claims relating to late or skipped payments against the customer's business. Contact the county Sheriff's office and inquire as to any filed judgments which name the customer. This is public information and fairly simple to acquire.

Clarify expectations: Be crystal clear about your credit terms and what constitutes "late". Are your invoices payable upon receipt? Or are your terms from 30 days of receipt of the invoice? Discuss what interest amounts will be applied to late invoices. Communicate your credit terms to your customer verbally and in writing at the time of the initial engagement.

Reinforce: Ensure that your credit terms are clearly noted on every invoice. Include a thank you for prompt payment.

Make it easy: Have you made it easy for your customers to pay you? Do you accept cash, checks, credit cards and money orders? Prepaid return envelopes are another way of extending a convenience to the payment process. Consider offering discounts for customers who sign up for automatic electronic payments.

Talk about "what if": Let your customers know what to expect if their account becomes "late" based on your verbal and written explanation of your credit terms. Let them know that you will be calling them to discuss late invoices, should the situation occur, and that you will work with them to establish a payment plan if necessary.

Have a plan ready: Be prepared to immediately initiate a payment plan if the customer indicates they are unable to pay an entire invoice. Work with your customer to draft the payment plan on the day your customer tells you they are unable to pay the invoice. The plan should be documented based on the

amount owed, the amount of each payment, interest accrued and the number of payments required for payoff. *The payment plan should then be signed by the customer.*

Call for no reason: Reach out and contact your customers just to say hello. Use open-ended questions. Ask about their interests, ask about their families, ask how things are going. Keep the lines of communication open and easy. If you relate well to your customers during the good times, you will continue to relate well when the situation is less than optimum.

Create a system: Establish a monthly system for collection action. This system does not have to be complicated. The key here is that it takes place each month, without fail. Review A/R reports, note which accounts are late and pick up the phone. One day late should be treated the same as 15 days late. Make the call. Don't delay.

Back it up: Establish secondary and progressive collection strategies for times when a friendly phone call does not produce results. Have several letter templates on file that can be customized for collection purposes. Generate copies of all collection letters, payment plans and request for pay communications and file the documentation in a separate collections file. Most collection systems succeed or fail based on the consistency of the application. Be consistent. Be prepared to contact the customer each week until the delinquent account is brought current.

90 Day Rule: When an invoice remains unpaid after 90 days, and your efforts at collection have remained unsuccessful - turn it over to your attorney for collection. There are times when a communication on law firm stationery is the motivator that finally produces results. It establishes that the situation has now moved into a different arena, and that you are prepared to engage legal counsel in order to collect what is owed to you.

Successfully managing customer credit is strongly linked to our own comfort level in discussing money and financial obligation. Become comfortable in discussing these subjects. Clear communication, consistency and timeliness are the keys to managing this aspect of your business. Raking in those crimson leaves will be easier once you've prepared with the right tools and put a dedicated system in place.

McLean, Koehler, Sparks & Hammond helps owners and business leaders become more successful by providing innovative financial, technology and management solutions for every stage of their organizations' life cycle. MKS&H's organizational consulting division, Tandem Partners, specializes in people strategies that drive business results. For more information on this article or MKS&H, please contact Melissa McDaniel at 301-662-2400 or via email: melissa@mksh.com.

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