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## WAYS TO GET YOUR CUSTOMERS TO PAY UP.

by Kristen Hampshire

**H**ow many of us put off making those collections calls to check up on invoices way past due? Let's face it: Money is an uncomfortable topic of discussion—and it's especially difficult to ask for payment if you're the owner-operator and sole contact for sales, production and payment.

But the longer you allow accounts receivables to lag, the less likely you are to collect. And in today's economic environment, you can essentially tack an additional 15 days, says Mark Rowland, vice president and team leader, business banking, U.S. Bank. He's seeing 30-day cycles extend to 45 days, 60-day cycles push to 75 days, and so on. "One of the biggest dangers to the cash flow of a small business is the slow collection of accounts receivable," Rowland says.

You've heard it before: Cash is king. Clients who don't pay are essentially using you as a bank. "[Unpaid invoices] are basically extensions of unsecured credit to clients," Rowland says.

Ultimately, you decide payment terms and how to enforce them. For longtime clients who are showing activity on past-due invoices—paying a percentage, or at least communicating why the payment is late—you might consider extending more leeway. But for customers who ignore your calls about their 120-day late account, a more aggressive approach is necessary.

"The No. 1 key is communication," Rowland says. Also, you need a plan. Here are some pointers to help you make those tough collections calls and get paid.



## “DON'T TRY TO BE A PROFESSIONAL COLLECTOR. TURN THOSE ACCOUNTS OVER TO THE PROFESSIONALS.”

— JOHN DOUCETTE, ANYTIME COLLECT

**1 Establish expectations.** When you set up a system for collections, invoices are less likely to collect dust. Set terms, get them on paper, ask clients to sign off that they understand the payment policy, and then enforce it by staying organized. Rowland suggests using a spreadsheet to track accounts receivables. Stay on top of aging accounts and ensure that clients receive invoices.

John Doucette, product specialist for Anytime Collect, an E2B software program, says a typical accounts receivables response from a large company is, “The invoice didn’t have a P.O. number on it.” So be sure you also understand clients’ payment policies and procedures before submitting invoices.

Timely follow-up will show clients that you are organized and will not allow paperwork (ahem, invoices) to slip through the cracks. “If the agreed-upon terms are 30 days, once that 31st day comes, you should be on the phone inquiring if there are any problems relative to prompt payment,” Rowland says.

**2 Time-out for triage.** There is always a reason a client doesn’t pay. It’s your job, if possible, to find that out. Generally, clients fall into a few categories. The first is a client who has “issues.” “In some cases, the client is perfectly able to pay you and will once some internal issue gets resolved,” Doucette says. This is generally a promising situation for collecting.

The second is a struggling customer who genuinely does not have the funds. For this client, consider working out a plan. Doucette suggests asking for a portion of the invoice and regular payments. “Be flexible,” he says. “In some cases, it’s OK to offer to settle for less than the full amount. Say, ‘If you pay me \$XX today, we’ll call it even.’ Use those types of techniques to motivate

people to pay you.” At a certain point, some payment is better than none.

The third customer is perfectly capable of paying you but has no intention of doing so. Maybe you were a one-time vendor for this client, or perhaps the client sees you as someone who can be put off indefinitely. “That is where you need to apply the pressure and turn the account over to a professional,” Doucette says, noting that it’s better to let the collections agency be the bad guy—and the sooner, the better. After 120 days, you’re less likely to get paid.

**3 Sneak in a sale.** Don’t allow an invoice to go beyond your set terms, generally 30 days, without contacting the client. If you follow up immediately, you can turn the collections call into a sales opportunity, says William Kesman, president, Credit Services Plus. The conversation might go something like this: “Is there anything you need? How is your product working out for you? We want to make sure you received this invoice.”

“It’s more customer-service driven versus contacting clients 90 days later and asking when you’ll get paid—that will put the customer on defense,” Kesman says.

**4 Ask questions.** Demanding payment is uncomfortable and will provoke defensive reactions from clients who owe money. Instead, ask for the payment. Doucette recommends this approach: Your payment for invoice #1234 was due on January 20 and we have not received your check. Did you receive the invoice? Are there any problems with the product or service we sold you? When is it scheduled for payment? “Make a note of the conversation and watch for a check on the scheduled payment date,” Doucette adds.

**5 Play the empathy card.** “Look, we’re both business owners...” Doucette says. When talking to accounts receivables personnel in a large firm, tweak that a bit and say, “We’re all in business.” Find a way to level with your client so he or she does not feel threatened by the call.

Also, mix up your method of communication: make some phone calls; send letters; dispatch emails. “Try different modes and eventually you’ll find one that works,” Doucette says.

**6 Pass the buck.** When an account seems uncollectable, it’s time to turn it over to a professional who can focus on getting you paid. Don’t wait too long. “The older invoices get, the less likely you are to collect,” Kesman says, noting that a larger balance puts more money “at risk.” Also, recovery rates on accounts that are deemed high risk are about 40 percent, Kesman says.

The good news: payments on accounts sent to collections are improving, according to Kesman. “I think businesses are starting to see better numbers and collectability is better now than it has been in the last couple of years,” he says.

In fact, compared to last year, Kesman says his firm has received 25 to 30 percent more “placements” from businesses looking to collect. “A lot of debtors are paying once [their account] gets to an agency,” he says.

The benefit of hiring a third party to collect on past-due accounts is that the collection professional has no emotional tie to your clients. “They have no skin in the game,” Rowland says. “They don’t have the issue of losing that customer, so they are usually very direct, very professional and very methodical in how they collect money.”

The price of hiring a pro is generally a cut of the collected receivables, ranging from 20 percent to 50 percent, depending on the program, Rowland says. Before hiring a collection agency, consider asking for referrals from your attorney, accountant, banker or other professional partners.

Sometimes, the best way to handle clients who are not paying is to not deal with them at all. “Don’t try to be a professional collector,” Doucette says. “Turn those accounts over to the professionals.” ●