

Small Business Development Center at Volunteer State Community College



A public service program of the Division of Continuing Education & Economic Development

August's Newsletter Topic: The Dreaded "C" Word: COLLECTIONS

In this recent economy, customer budgets have been stretched. As many of you may have discovered, the last person to get paid may be you, the business owner. Although it may be understandable from the customer's point of view, you are in this slowing economy as well, and the people you owe money to (insurance, rent, loan, payroll) will not care that you have not received all of your money. According to the Commercial Collection Agency Association, the probability of collecting on a bill drops to 70% after 90 days. And it plummets to 23% after a year.

So what is the best way to handle slowing payments? Do you kick and scream for your money? Should you just bury your head in the sand and hope that it all works out in the end? How about a happy medium? Let's take a look at some proven collection methods. I'll warn you there are no silver bullets or magic pills, just good old fashioned proven processes.

- **Create payment guidelines and get it in writing** – This will create clear expectations of prompt payment. Make sure that the payment guidelines are on your order form, brochure and/or Web site. Also make sure they clearly spell out your terms of sale and payment options. Do not use generic terms, such as "due on receipt" and then not follow through. This will set the wrong example. If you say due on receipt, and the customer doesn't pay immediately, then penalize them for late payment.
- **Review Accounts Receivable reports frequently** – Assuming that you have an accounting system in place, you should have an Accounts Receivable report that you can review at least on a weekly basis. This report will tell you what customers are 30, 60, and 90 days late. If you make this analysis a recurring task, just like processing payroll or any other weekly task, you will make it a habit of being informed about collection issues.
- **Send a series of reminders** – As soon as the payment date is missed, you need to have a system in place that reminds the customer. Using letters, emails, or phone calls will work. You can use software, such as QuickBooks®, to assist you in setting up reminders and even for processing collection letters. Also if you have a late payment charge policy, you need to enforce it each time.
- **Be consistent with your collections process** – One of the toughest things about staying on top of the collections process is getting too comfortable with the status quo of a tight cash flow. Sometimes you may think it is easier to put the pressure on yourself, your business, and even your family than it is to listen to hard luck stories or to chase deadbeats. But the simple truth is that your business and your stress level will be in much better shape if you are willing to make the tough decisions.
- **What to do if all else fails** – Many of you know that you will not always win in the collections process and there has to be some type of resolution. You may have to sacrifice at least 50% of the debt to collect anything at all. This may mean that, at some point, you may have to be willing to sue or send the debt to collections. Either option may be costly, but if the debt is significant enough it may well be worth it. Sometimes you may just need to know when enough is enough, and give up on the debt and chalk it up as a lesson learned. I would suggest that should always be your last option

If you have any questions on what is legal and what is not legal you can always review this link to make sure that you are following federal guidelines:

<http://www.ftc.gov/bcp/edu/pubs/consumer/credit/cre27.pdf>

July Small Business Workshops

Sign up for any of these workshops online at www.tsbdc.org.

[How to Start a Small Business](#) ★

Tuesday, August 12, 2008 4:00 PM to 6:00 PM, Fee: Free

[The Marketing Process for Small Businesses](#) ★

Tuesday, August 26, 2008 2:00 PM to 5:00 PM, Fee: \$20

Small Business Tip of the Month:

Consider using automatic drafts or credit card transactions

Instead of carrying an accounts receivable, you may want to consider using automatic drafts from the customer's bank account or use automatic credit card transactions. You can set up payments on a certain date or on a recurring basis. You will incur some costs to get this set up and may even incur costs each time the transaction occurs, however, it could well worth it in the long run.

Let's take a day care for example. If you have a few customers who are consistently late, you could have serious cash flow issues. The insurance, lease, and payroll won't wait for these delinquent customers to pay you and you feel like the bad guy each time you have to remind your customer that Little Johnny's care isn't free. If you set up an automatic draft out of the customer's account for each Monday, you could solve that collections issue. You can make it mandatory for all new customers and slowly implement it for your existing customer base.

Remember the TSBDC offers the following:

- **Free** and confidential one-on-one counseling for existing and start up small businesses. Whether the counseling is in the area of marketing, operations, management, or any other business service, the TSBDC consultant provides guidance every step of the way. *By appointment, please.*
- Training seminars on a wide array of topics for small business owners.
- Assistance with various funding proposals including SBA loans.
- Referral to professional services and agencies.

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