

More Effective Collections

By Sherryl Dever

Here are a few tips to help you tune up your collections techniques.

Be proactive. The best way to handle overdue accounts is make sure they don't become delinquent in the first place. To prevent an account from becoming a problem, it's important to know your clients. Are they trustworthy? Do long-standing clients have an established credit limit with your company? Do new clients have a current credit application on file?

Establish a written credit policy. Outline how a client can establish credit with your company and inform all of your employees about the policy. Make sure your credit policies are followed explicitly. Don't trade the desire for sales for good business practice. Prepare written procedures for use by your staff on collections.

Always check credit and references for new customers, and establish a policy for collecting overdue invoices. Determine a due date and print it prominently on your statements and invoices.

Publish financial terms and educate clients. Include financial terms and conditions of payment in your new client package and on all statements and invoices. Verbally present your terms as part of your new client orientation presentation.

Print credit terms and policy on invoices. Send statements and institute finance charges. If a client is more than 60 days delinquent, send statements more than once each month.

Invoice early. Invoices should be processed within a day of shipment or timed to arrive the day after the customer receives your products or services. Every lost billing day is a day's loss of collection, interest on your money and on your cash flow.

Make payment easy. Ask if the customer will accept emailed invoices or pay by direct deposit. One percent to 3 percent cash discount can be enough enticement for your customer to pay early. On the invoice, include the amount of discount as well as the date the check must be received in your office for the discount to apply.

Track and report your activities. Keep detailed notes of your attempts to collect all debts. Keep a card file by date and alphabetical order; use a contact history database to track dates, promises and follow-up; or keep a spread sheet including your customers' or clients' names and corresponding date intervals at 30, 60, 90 120 with room for contact notes.

Resolve disputes quickly. Ascertain the exact nature of the client's payment problem and explore possible solutions. Don't get hung up on minutia. Try to reach a solution that will satisfy the client's concern, minimize the amount you credit them, collect your money and save a valued client.

Be as reasonable as possible. If the amount due is sizable and the client wants to make payments, get a formal, interest-bearing note signed. If there's a credit problem, let them

know and try to work out alternate means of paying.

Be cordial and firm. If an invoice is overdue, call frequently and ask for at least partial payments. Pick up the check from your client and take it to their bank and cash it. If the client is stonewalling you, give them notice and turn it over for collection.

Sample Ageing Collections Schedule

Design your own collections schedule using this calendar to get started:

Collect signed agreement with clearly defined payment terms and conditions, net 10, 15 or 30 days due.

30 days: Send a statement.

35 days: Make a call to the decision maker to confirm receipt of your statement. Request a promise to pay.

60 days: Send a pre-collections letter.

90 days: Send collections letter with 10-day notice to file small claims action.

100 days: File a small claims action.

120 days: Judgment affirmed in small claims.

125 days: Turn over account to a collections agency.

150 days: Write it off if not collected.

Some Good Measures to Take at Each Time Interval

- Place signed agreement in client record.
- Your front office reviews payment terms upon welcoming clients at the start of new projects.
- Present or mail first invoice or statement.
- Mail the first statement.
- Call regarding the collection arrangements or adjustments in the original promise.
- Place a note in the tickler file for deadline dates and missed dates to send to collections.
- Send first collection letter, enclose a copy of the statement or invoice.
- Make a follow-up call the day after you think the letter has arrived.
- Send a second letter, enclose a copy of the statement or invoice and the previous letter.
- Make a follow-up call the day after you think the second letter has arrived.
- Send a third letter requesting final demand for payment.
- Make a follow-up call the day after you think the third letter has arrived.
- If the client's check hasn't arrived after your third letter, turn to small claims or civil court.

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