

How You Set Up The Account Is How You Are Going To Get Paid!

By Tom Michaels

There is an old saying, in the loan business that “how you close the loan, is how you are going to get paid”. With many years of collecting bills, I stand 100% behind that statement.

It is my opinion that an open account for goods or services is really no different than a loan, from a bank, or credit card company. The lending institution gives out money, in return for a promise of prompt payment, as well as interest.

These companies work very hard to establish the credibility of the individuals, or companies they are lending money to. Yes, some are less diligent than others, but overall most do a better job than many credit departments in businesses today.

Often when a client has sought assistance in collecting from a delinquent customer, they send over the invoice and that’s it! Many times the client does not even have the phone number listed on the invoice copy, as they have only sent monthly statements, with stickers or notes.

When asked for additional information, off the credit application, many businesses do not have one at all. Most confess that they are busy selling, or that the marketing department will “come unglued” if they ask too many questions. The motto is usually “get the order out the door, or the service in process, and worry about the payment later.”

Now months later these same businesses face not only the loss of any profits, but the loss of capital dollars, in bad debt expense.

If a collection agency or collection attorney is successful in getting all or part of a company’s money back, they generally charge anywhere from 10% (on very large dollar amounts) to as much as 50% of the amount collected. If a suit is required, a company then has the expense of court costs and witness cost, if required. *Bottom-line is that how you set up the account, will dictate how and when you will get paid.*

If these same entities are unsuccessful you likely have a total loss of profit and capital. Depending on your net profit margin, it can take a great deal of new sales (sometimes tens-of-thousands) to offset a bad debt loss of a few thousand. Don’t allow it to happen to you.

All business transactions have risk, but you can minimize your risk, starting today.

Meet with your department heads, especially the marketing department. Agree on a process to assure that you are protecting the assets, of your company and its employees, as well as maintaining an aggressive sales posture.

Part of the process should include a reasonable credit application; one which at least gets the basics. The basics should include the following:

Core Business Information (*Name, Address, Phone, Years In Business, Primary Contact*)

Owners / Stockholders Information (*Name/s, Addresses for Service, Registered Agent's Name and Address*)

Federal ID # or Owner's Social Security Number

Bank Information (*checking account information*)

Dun & Bradstreet "Duns Number"

At Least Three Business Trade References (*get more obscure vendors, such as janitorial service, office supply company and maintenance company*) These types of vendors often are the first ones to be paid slowly, if times get tough; in a word they are expendable.

Use a service, such as Dun & Bradstreet or Experian, to verify the above information. If cost is a concern, at least call the three vendors. Most will be as honest as they can. Always reciprocate.

Make sure you or your sales department has made your terms of repayment clear. This is where the lion-share of problems comes from. This is where the "close" is most important. You may even wish to have your credit application, or terms of service, signed and returned. Though often tough to get done, it will almost always assure that you are in the driver's seat!

Send out invoices and statements, in a timely manner. This is the second most important process that is often misguided. Timely bills will most generally produce timely receipt of needed cash flow.

Yes, the changes are always tough to get a "buy in" for and often even more difficult to implement, but if you are steadfast in your desire to increase cash flow and reduce the risk of bad debt, you can make it happen.

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