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So, your customer can't (or won't) pay a bill ...

No business owner wants to be holding the bag when a customer can't or won't pay a bill. Unfortunately, many companies end up doing just that based on the incorrect notion that it's easier to take a financial hit than to collect an unpaid debt.

The truth is that a little planning will eliminate many accounts receivable problems. Similarly, collecting unpaid debts can be easier than expected if the right procedures are followed.

Avoiding unpaid write-offs begins at the moment an account is created, and requires diligence until the account is closed. The first step is to require a credit application from each and every customer that requests an extension of credit.

Standard credit applications require customers to disclose their banking and vendor relationships. These applications must also state the rate at which past due balances will accrue interest, and, if the customer is a corporation or similar entity, should require an officer of the customer to personally guarantee all balances due.

Companies should have procedures in place that determine how accounts will be opened and what steps must be taken to establish a line of credit. Most businesses

that successfully manage their collections functions do not allow anyone in the sales department to approve credit applications. Someone who is not paid a commission for customer sales is the best choice for approving extensions of credit.

Once the relationship is established with the customer, it is imperative that procedures are in place to bill the customer fairly and in a timely manner. Many companies fail to bill their customers timely; sometimes waiting as long as three to six months after the delivery of services or goods to send the bill. Needless to say, the customer may not even remember the transaction, and likely will be slow to pay.

Accurate records must be maintained regarding the goods and services provided to the customer and a copy of these records should be provided to the customer when the goods or services are delivered.

It is essential to maintain accurate records of the debts that are owed. Included in this process is not only the preparation of the initial invoice, but also a monthly statement detailing the customer's account. These statements should be sent around the same time each month – a key ingredient in improving a company's collections efforts.

The maintenance of accurate records generally requires the use of business accounting software, which should be selected by the company's accountant. This software will allow a business to pre-

pare monthly reports on aged accounts receivable. This report is essential to managing collections. All customers are different and some will consistently pay by the time their account is 30 days old, others at 45 days and others at 60 days.

Historical records should be maintained for each customer in order to chronicle their payment habits. Accounts receivable aging reports are especially useful in determining whether a specific customer is lagging behind their usual payment cycle. The aging report should be used to classify those customers whose accounts are "delinquent."

After identifying a customer that is not performing satisfactorily, a company must determine the most effective approach for collecting the unpaid bill. Those selling products in highly competitive environments tend to be too mindful of the fact that the delinquent customer may bolt for a competitor. Many customers will take a mile if given an inch, and businesses should be ever mindful of extending further credit to customers that are either over their credit limit or in delinquent status.

Once an account is in delinquent status, it is imperative that the customer is notified in writing and that the sales to the customer are placed on hold. This method is intended to force the customer to make arrangements to bring the account current.

If the customer ceases doing business with a company during a collections dispute, then a red flag should be raised that

it is time to act quickly. Because the account already is delinquent, there is no further reason to attempt to cajole the customer to bring the account current.

The next step should be a demand for payment made in writing with a promise that the matter will be turned over to a collections attorney if no action is taken within 15 days.

If nothing happens by the deadline, then it's time to consult a collections attorney. Choosing to wait longer only diminishes the likelihood that a debt will be collected. If the customer is liquidating, then other creditors are likely to swoop in and claim assets that otherwise might be available. Similarly, if there is a limited fund to pay creditors, then the most aggressive creditors normally go to the front of the line. That leaves no room for delay.

Collections law, like family law or patent law, is unique and has unique requirements.

The process of collecting accounts receivable requires a diligent approach throughout the life of the account. It may seem like a lot of work on the front end, but the rewards are great for businesses that properly manage their credit and collections functions.

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