A Financial Checklist for the Small Business (Part 3)

This is the third column in a series where I challenge the small business owner to take a look at their financial practices and procedures. These are based on the results of numerous business success research endeavors which conclude that how the business owner handles its finances on a day to day basis is at the core of whether that business will fail or succeed. One source for example, I have found the twice yearly published journal of the Small Business Institute (SRI) to be a good resource of scholarly, practical research articles and cases in the fields of small business management, entrepreneurship, and field based learning.

So, Mr Business Owner, today, let’s consider your “Credit Policy”. Providing credit to customers can often increase sales volume. But if the business does not have a written credit policy or does not follow it exactly, the business may lose more money on bad debts than the additional sales brought in. Written credit policies often speed debt collections, especially when discounts can be made for early payments. Several of the research studies showed a marked improvement in cash flow after credit policies were implemented. Here are today’s checklist questions:

✔ Does the company age the billing system monthly? Monthly aging of the bills due keeps the owner in touch with who the best customers are. Last year's excellent customer can be today's problem customer.

✔ Does the company assess a late payment fee from customers? Late payments can jeopardize the business-customer relationship, because the customer is not aware of how poor payment habits affect the business. Providing discounts for early payments is an effective way to encourage customers to pay on time. This will improve cash flow and even build customer loyalty.

✔ Does the company write off bad debts? Not writing off bad debts gives a false sense of net worth and can threaten the financial performance of the business. This also lets the owner know which customers are poor credit risks.

✔ Does the company have good collection policies? Many small business owners detest debt collections. A good collection policy simplifies collections and is an effective deterrent to late payments and bad debts. Timely and effective debt collection is essential for positive cash flow and increases profits because it diminishes the need for short-term operating loans.

✔ Does the company have a series of increasingly pointed letters to collect from late customers? The customer who is truly a collection problem will not be influenced by discounts or good collection policies alone. These customers probably have cash flow problems or other financial problems of their own. Late notices and overdue statements with increasingly demanding language will be required. Often letters from a lawyer can be helpful. As a last resort, it may be wise to turn them over to a collection agency.

✔ Does the company have VISA, MasterCard or other credit card systems? Credit card systems provide timely cash turnaround and put the financing burden directly on the customer. The...
worry and headaches alleviated by using a credit card system more than justify the small fee credit card companies charge. Such a system also simplifies bookkeeping and billing and lowers operating costs in these areas.

☑ Does the company emphasizes cash discounts? Cash discounts encourage customers to pay now rather than use credit. Informing customers that paying by cash saves them money improves cash flow and decreases collection costs.

To learn more about the financial management of a small business, contact America’s free and confidential source of small business mentoring and coaching, "Counselors to America’s Small Businesses."

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