Managing Your Sales Income

I find that many small business owners are frustrated with the fact that in many cases their sales income doesn’t really hit their bank account when the sale is made. Today I will share a discussion that I had recently with a local business owner that had this problem. After looking at their income statement and their cash flow I suggested that they need to consider two basics about managing their sales income.

First, make sure you get paid. When you invoice a customer and require payment within 30, 60, or 90 days, your business is extending credit. You may not feel like you're extending credit (you say after all, I’m just waiting for payment) but from a legal and accounting perspective, you're making an unsecured loan. (A secured loan is one in which the borrower would pledge property as a collateral for the loan.) The problem with unsecured loans is that they are unsecured! The customer doesn't have the money, and in many cases it won't do any good to sue, because there will be nothing to recover. If the customer goes bankrupt, you're out of luck.

Here's a short checklist to ensure getting paid.

- Accept payments via credit or debit cards. Credit and debit cards-have the potential of removing you from the collections business (and they provide additional benefits of flexibility and convenience).
- Check the creditworthiness of new customers. You can get credit research from companies such as Dun & Bradstreet, BusinessCreditUSA, or Equifax.
- Use a credit reference form. A good credit reference form should ask who is in charge of the business, who to contact when problems develop, how much credit the applicant is seeking, other firms with which the applicant has done business on credit, and any other information needed for making your decision.
- Analyze for credit risks. How do you tell whether the customer is a risk? If a customer has one or two minor credit blemishes-perhaps the result of an unexpected growth spurt-that should not necessarily be the basis of denying credit. But watch out for a client or customer with a record of not paying bills.
Get Paid Quickly and Predictably. It can be a challenge to work with financially troubled clients. As I pointed out to this business owner that I was mentoring, making a sale doesn't automatically mean you've received the cash. I reminded them what our local SCORE Chapter Treasurer, John Tuseth says, "It's only cash when you get the money.” That's why pursuing late-paying customers must be one of your business's highest priorities. But most business owners just hate this job.

For this discussion, I will state that late-paying customers usually fall into three general categories:

- Customers who want to pay but, because of real financial problems, can't do it on time.
- Customers who prefer to delay or juggle payments, and
- Customers who will do whatever possible to avoid any payment.

My experience is that for the first two categories, there is hope. You may be able to manage these debts and to convince the debtors to make partial or full payment. This is especially true if you have customer loyalty and your customers sincerely want to support you. As for the last category, you need to recognize this type as quickly as possible and take serious action like turning the account over to a collection agency.

Most professional bill collectors agree that payment problems are solved by effective communication. Getting paid can even be viewed as an element of your marketing plan. If you can work with financially troubled clients, as they make their way through a rough patch, you may end up with devoted customers for life. Get busy and stay at it until you're paid.

According to a survey by the Commercial Collection Agency Association, after only three months, the probability of collecting a delinquent account drops to 73. After six months, it's down to 57. After one year, the chance of ever collecting on a past due account is a dismal 29. Whether times are good or bad, you should always follow up receivables promptly. For example, if you give 30 days, on the 35th day you should be on the phone. That's a rule that doesn't depend on the business environment.

Accept electronic payments. If you are not accepting credit and debit cards, now is the
time to establish an electronic payment account. Accepting credit and debit cards can speed the payment period to 4-5 days (instead of 30-60 days). And in a difficult business environment, an electronic account guarantees payment and reduces the risk of default.

Don't harass creditors. It's rarely a successful strategy and it's sometimes illegal. If a customer asks that you stop calling, then stop calling. If a customer asks you to call at another time, find out the right time to call, and call then. Don't leave more than one phone message a day for a debtor, and never threaten the debtor or leave messages that describe the debtor in a bad light.

Look for creative solutions. If the customer has genuine financial problems, ask what amount they can realistically afford. Consider extending the time for payment if the customer agrees in writing to a new payment schedule.

Write demand letters. Along with phone calls, send a series of letters that escalate in intensity. You can find sample collection letters (sometimes referred to as "demand letters") online. You can also pay a collection agency a fixed fee to write a series of letters on your behalf.

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