Turning receivables into received: don't let your collections process fall through the cracks - Management Advice - payment terms at Sweet Survival

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Last July, Shirley Frazier's firm made a business development presentation that was highly praised by the client. As president of Paterson, New Jersey-based business consulting firm Sweet Survival, Frazier's $7,500 fee was determined ahead of time, with payment due at the conclusion of the presentation.

But when Frazier approached her client about the payment, she got the runaround. "We were told that the accountant, who was the only person who could write the check, was on vacation," Frazier recalls. She and her four-person staff placed repeated calls to the customer and sent collection letters demanding payment, which arrived four months later.

Since then, Frazier, whose company was founded in 1990 and brings in about $250,000 in annual sales, learned to not only require that a check be ready at time of service, but to also keep a back-up credit card number for the customer on file. At Sweet Survival, standard payment terms are Net 15 (due 15 days within receipt of invoice), and clients are required to provide officers' names and personal information (addresses, phone numbers, etc.), along with the credit card information.

The flow of accounts receivable is the lifeblood of every business, and turning the accounts receivable into cash is critical for reducing working capital requirements. But because many small businesses are run on thin payrolls, the CEO often fills the role of CFO, head of sales, and purchasing manager. "This leaves little time to watch for delinquent accounts receivable or to even go to the bank to make the deposit," says Stephen Leavenworth, senior vice president of business development for CIT Commercial Services' Northeast Region in New York.

To make sure your company doesn't fall into that trap. Leavenworth says the first step is to ensure that it's extending trade credit to the right people or companies, and that they will actually pay you for the service. From there, track the receivable to make sure it doesn't go past due, keep an eye out for chargebacks or discounts to the receivables, and make collection calls on the receivable if something goes wrong.

One of the best ways to avoid long accounts receivable timelines is by doing due diligence on your customers up front. Frances McGuckin, CEO of consulting firm SmallBizPro.com Services in Langley, British Columbia, says few small companies bother to use credit applications because it involves another "time-consuming" chore. "You'd be amazed at the information you will discover when you start talking to trade references," says McGuckin. "A client may have had an excellent credit history until the last few months when payments have slowed down. This is always a warning signal, and credit references will tell you this information."

When you get those trade references on the phone, key questions to ask include: How long has the client been trading with the supplier? How regularly do they purchase from them? On average, what do they spend each month? Do they pay within the stated terms of credit? Are they consistently late or on time? Have purchasing levels noticeably increased or decreased in the last six months? Have payments become noticeably tardy within the last six months?

By combining early due diligence with close attention to aging receivables and using strategies like keeping backup credit card numbers on file, small-business owners can get a handle on their account receivables and keep their bottom lines healthy, even when customers are dealing with their own economic challenges.

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