

Tips for Collecting on your Invoices

Trish Thomas, Akamai Consulting

Many business owners struggle to collect on their outstanding invoices. Customers tend to pay slowly, minimize the threat of action and focus first on bills that may result in the phone or electricity being turned off. So if you have nothing to leverage and no ongoing service to discontinue, how do you get people to pay?

Collections aren't fun – there is no doubt about it. And since most small businesses today have personal relationships with customers that they have worked hard to acquire, heavy-handed collection techniques can feel vicious or counter-productive. On the flip side, the lack of steady collection activity can lead to mad scrambles for capital and hard feelings toward lax customers. This article is intended to show you a better way to get the money that is owed to you... to help you build an organized collection system that you can feel good about.

Any collections system should be an orderly process that moves progressively through layers of increasing intensity and urgency and consequences. The levels of motivation to pay should play out as follows:

1. Incentives to pay early.
2. A reminder notice before the due date.
3. Friendly, sporadic communications referencing the past due balance.
4. Polite but firm reminders that are frequent and urgent and add penalties.
5. A 'final' notice.
6. Referral to an attorney or collection agency.

Let's look at each motivation level individually and explore what the process would look like.

Motivation to pay early. It's not widely known, but many mid-size and large companies (and even some small businesses) have a policy that requires bills to be paid at discounted rates if they are offered. That means that if you have an invoice that is due in 30 days, but you clearly offer 2% off the total for payments remitted within 10 days – the accounting staff may be *required to take the offer* and pay early! Even some individual consumers will be enticed by a small reduction in their bill and pay ahead of schedule with a motivating discount.

A reminder notice. Most companies don't send a friendly reminder notice 5-10 days before a bill is due, but that simple step can really reduce the number of overdue invoices you deal with. It reminds customers of the reasons that they should pay before the due date passes while they still have time to act. The bottom line is that everyone is busy and cash-strapped, so keeping your bill in the forefront of people's mind in a polite, helpful way can mean that you get your money before another guy gets his.

Friendly, sporadic communications. Once an invoice has gone beyond its due date, you should start by assuming the best about your customer – times are tight, they got busy, your bill got mislaid, etc... Your early past due notifications via telephone or mail should take the approach of friendly reminders or simple balance statements, and they should offer the customer one last chance to avoid a late fee (i.e. "Your bill is now 5 days past due. If you remit payment by the 15th of the month we will waive our normal late fee of \$25 as a thank you.") This phase of the process should stay light, non-threatening and continue to offer positive incentives to pay up.

Polite, but firm reminders with increasing frequency. If you've made 3-6 contacts over 30-60 days and the customer still has not paid their bill or explained why, it's time to step up the urgency of your communications. This is the stage in which you make repetitive phone calls and send more frequent notices. Late fees and interest should be applied to any balances due and you should state that charges will continue to accrue until the bill is paid. You may also let the customer know that credit will not be granted on any other purchases and that you will consider requiring up-front payment in the future. In spite of the more heavy tone, I urge you to avoid accusatory language and demonstrate openness, even while being firm in your demand for payment. This is the stage at which you might make an offer of payment terms if you are open to that type of arrangement. (i.e. "If you remit 1/3 of your balance this month, we will accept 1/3 next month and 1/3 in June.")

Encourage your customers to call and discuss payment options with you in person, and state that you are sympathetic to difficult situations and want to help resolve the balance fairly. Most people have a very negative view of the collection process and assume that there is no room to bargain or delay payment. No one likes drowning in guilt or being made to feel like an irresponsible person, so be sure that you don't project those negative emotions onto your customers. If you demonstrate your willingness to talk, they may at least call and give you a true picture of what is going on - and that will translate into better knowledge of your own financial picture.

Send a 'final notice.' Every business reaches a point where they really need to get paid or stop dealing with a past due invoice in-house. This is the time to send a final notice letter. You should state in no uncertain terms that while you value your customer and want to work with them to resolve their debt, you simply cannot allow the bill to remain on your books any longer. For most businesses this timeframe is between 90 and 180 days. It's often a good idea to send a final notice via FedEx, UPS or Priority Mail just to lend some credibility to the letter and track receipt of the message.

Two things are important about final notices... First, a final notice should really be *final*. Some companies start sending out rude and threatening letters at the 30 day mark and they really don't mean it. Your final notices won't have teeth if you keep them coming for months on end with no tangible action. Second, you should clearly state that the customer still has time to pay (give a short deadline) and tell them exactly what will happen if they don't. (This could be sending their balance to a collection agency or hiring an attorney.)

Having a systemized approach will make collections much less painful for everyone involved - your customers, your staff, and you. Set up a schedule of activities for your team and assign someone to handle each collections task. Give them telephone scripts, templates of various collection letters and a detailed time table of when to perform each activity.

The benefits of a formal collections system are many, including improved cash flow, realistic expectations about receivables, better customer relationships, happier staff members and, of course, higher profits!