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## **Collect your commercial bad debt the easy way... ...and keep the customer**

My Barber is a lucky man. He receives cash, on time, every time he gives service. If you don't have the green stuff, you don't go to see him. No invoices, receivables or collection calls. George is a happy guy and a constant source of humor. I suspect it's got to do with his payment terms. And I bet he'd be upset if you told him, post-trim, that you couldn't pay.

Better yet is to get money up front. Cash on the barrel, before delivery. It avoids the prospect of the customer starting to negotiate new terms following receipt of your goods or services. The Hooker Principle describes this dilemma. That is, the client's perceived monetary value of goods or services tends to decline rapidly after they have been received. In other words, get paid up front, when the desire is there. It's all downhill after that. George wields sharp instruments, and is satisfied with his present arrangements, thank you.

In the real world of B2B, most firms have to extend credit. This is a risky investment in the customer's business. Cash flow, not receivables, is your life-blood. It is frustrating not to get paid as agreed. But if you experience problems with a particular account, it is short sighted to look at the receivable by itself because, handled properly, it represents a future stream of income from a paying, satisfied customer.

Seen rationally, your goal is to maximize the benefit received now, as well as from future business, from all of your accounts, delinquent or otherwise. You have to understand your customers' reasons for non-payment. The vast majority of business people are good, honest individuals like you, and the exception proves the rule. You won't be effective by treating them all as adversaries, or by retaining a proudly aggressive collection agency to threaten and cajole them. It took your sales people precious time and money to win these accounts in the first place. Don't throw out your babies with the bathwater.

Psychological factors come into play when accounts remain unpaid, especially when you deal with smaller firms. It takes little to start a confrontation with defensive people, who may come up with a myriad of internal justifications for not paying as agreed. Unless handled well, the situation will deteriorate. As the immortal Dale Carnegie would say, the best way to win an argument is to avoid it.

Whatever you do, you have to act quickly, as experience shows that the older the receivable, the less likely you are to get paid. Recent Commercial Law League of America data points to an average recovery of little more than seventy-three per cent at three months past due. This plummets to barely ten per cent at twenty-four months. Much of the problem is financial. If you could wave a magic wand and keep them in business, they'd be able to pay their bills.

Standard advice is to refer past-due payables to collectors. But will that really meet your joint goals of account collection and future business retention? The collector is certainly motivated to earn a commission by collecting funds, but has no interest in your future relationship with that customer.

In our experience it makes more sense to find out the reasons for late-payment and then help resolve the problem, than to have a collector use confrontational tactics. If there is a legitimate contractual complaint, you can identify and deal with it directly. But there is more likely to be a financial issue, impacting all of the debtor's creditors. And the best way to resolve this, and facilitate payment to you, is to introduce the firm to a financial crisis management professional, pledged to address its problems and arrange for prioritized commitment to you.

Specific consulting firms will work with you, at no cost to your company, to design a settlement strategy for all of your delinquent receivables, based on your cash needs, expectations and the value of business you do with each firm. Rather than giving an agency up to fifty per cent of the sum they collect, you offer your paying customer an appropriate discount, valid only within a specific time frame. As an added benefit, you are unlikely to lose the account permanently due to unresolved differences or perceived heavy-handedness. Your innovative and non-confrontational approach gives the debtor firm a good reputation to live up to and facilitates timely payment on your revised terms.

This process works with all of your delinquent commercial accounts. It enhances communication and is appreciated by those customers in financial trouble. By doing your due diligence, you identify those who can't pay and need help. And those firms that, for whatever reason refuse to pay, can be earmarked for conventional legal remedies.

Enlist the aid of a good business consultant to set up the process and discreetly contact each ongoing problem account. It is a productive and sensitive way to maximize your recovery. More importantly, it helps strengthen your business by motivating customers to purchase from you well into the future, paying you on time, every time. And what could be better than that?

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