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How To: Rein in Accounts Receivable

When collecting gets tough, outside forces may help

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Reporter

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Like many other companies, Springfield-based Corporate Business Systems has seen more customers having difficulty making payments.

"We try to be as sensitive to it as we can, but there has been an increased number of people calling, either wanting to work on different terms or having fallen on hard times," said CBS President Brian Peltier. "We have a lot of good-paying customers, but we also have someone here whose full-time responsibility is making sure we stay on top of collections."

In difficult economic times, revenue crunches can hit from multiple sides - sales are down, expense budgets are shrinking and extra purchases get put off until things improve.

But many companies face the added difficulty of customers and vendors that are unable or unwilling to pay the money they owe for products and services - and bringing that money in can be a challenging process.

The warning signs

According to the Fourth Quarter Credit & Debt Collection Confidence Survey, released in March by accounts receivable industry analyst Kaulkin Ginsberg, 67 percent of agencies say that current consumer perceptions of the economy are making it harder to recover outstanding receivables, and 41 percent reported weak recovery performance in the fourth quarter.

"Average balances 10 or 15 years ago were about \$3,000, but we're seeing the number of \$10,000 balances increase dramatically," said Charlotte Dawley, co-owner of Springfield-based collection agency Hammer Collections. "People are trying to hold on to their money in hard times in order to keep cash flowing."

Those accounts receivable can make all the difference for a company already struggling during a recession - and many companies may be missing the signals that could tip them off to potential collection trouble.

Signs of Collection Challenges

Several signs could indicate that a customer or vendor is having difficulty making payments, according to Charlotte Dawley of Hammer Collections. She notes that credit managers who see a customer falling into these categories should act quickly and appropriately - including, if necessary, holding back products or services until the debt is paid.

- The debtor will not take or return your calls.
- The debtor proposes payment plans but won't sign a promissory note or personal guarantee.
- The debtor is changing banks.
- The debtor refuses to replace a bounced check.
- The client learns the debtor is being sued by other trade creditors.
- Federal or state tax liens have recently been placed on the debtor company.
- The debtor is considering filing for bankruptcy protection.

Receiving Accounts Receivable

Collection industry experts say there are similar steps that any company with unpaid balances can take to recover the money they're owed.

"Slow payment, partial payments, returned merchandise or other efforts to try to reduce what (a customer) owes - any one of those is a red flag," said Tony Lynn, managing partner of Springfield accounting firm Davis Lynn & Moots PC. "Now is the time to really be paying attention, because the other company could be dealing with the same problem of not getting paid, so they may turn around and not pay you."

Planning for payment

Greggory Groves, managing member of Lowther Johnson Attorneys at Law LLC, said that by the time the economy turns south, it's often too late to prevent unpaid balances without bringing in "the big dogs" aka collections agencies, which usually charge a percentage of the amount collected.

"You want to have a policy in place from the very beginning," Groves said. "I sometimes see companies who don't have a policy in place, and ... too many think, 'Well, they're \$3,000 behind so now is the time to collect.' You really want to have policies in place before that time comes."

A collections policy, Groves said, should include regular invoices - preferably monthly - to anyone with an outstanding balance, as well as a policy of following up by phone and in writing with customers whose bills are at least 30 days overdue.

"Everyone is further and further behind, but you can make it very clear to the customer upfront that you expect payment within 30 days or 15 days," Groves said.

Lynn agreed that the process of protecting against potential unpaid accounts should begin when first establishing a relationship with a potential vendor or customer. Companies such as Dun & Bradstreet, offer background checks into companies, and credit checks on companies or even individual owners also can be done.

Companies also can put credit policies in place to help prevent unpaid bills before they accumulate.

For Peltier at Corporate Business Systems, planning means understanding each customer's situation and setting up a payment schedule that offers the best chance of success.

"In schools, their bills have to be approved in a board meeting, and those boards only meet once a month. So we generally are a little more flexible with those accounts than we would be with other accounts," Peltier said. "We try to understand what the client's process is and then build our collection process around that, within reason."

Calling for help

While Peltier noted that it's rare for CBS to enlist outside collections help, sometimes companies reach a point where an overdue account can't be collected through traditional in-house methods - and that's where the collection agencies enter the picture.

"We're a recession-proof business," Dawley said. "When the economy is good we have business, and when the economy is down we have more business."

She said there are some signals that a company won't be able to collect on a past-due account without some outside help. Among the red flags: an account that's past due by more than three times the net term, or a company with high employee turnover, especially in key positions such as controller or financial officer.

"If you get (insufficient funds) checks, those are terrible, as are checks placed on a closed account," Dawley said. "That doesn't need to be combined with another warning sign for you to move beyond your in-house efforts."

Groves said attorneys also can help with the collection process by pursuing legal action against offending customers. He said that written invoices make that process easier, because they serve as an official demand for payment, which Missouri statutes require in order for the collecting company to begin assessing interest on overdue balances. State law allows companies to assess 9 percent on overdue balances beginning at the date the

- Study clients and vendors carefully. Know about every potential customer before beginning a business relationship.

- Have a collections policy in place. Spell out when the customer will be billed, along with when payment is due each month - and when it is late.

- Be consistent. Follow the policy that's in place; it's easier to catch a problem if there's a consistent billing and collection pattern.

- Follow up. If a customer is 30 days late, call them or send a written reminder. Reacting quickly can prevent a bigger problem.

- If all else fails, bring in a collection agency or attorney to handle the problem.

debtor is notified it is past due.

Notifying a business credit reporting agency such as Dun & Bradstreet, also can serve as an effective tool to convince customers to meet their obligations, Lynn added.

Whether efforts to collect stay in-house or get passed to an outside agency, the key to any hope of recovery success is speed.

"If someone has been paying regularly through all the years you've done business with them and now they're running 15 or 30 days behind, that's usually an indication that there's some problem there," Lynn said. "If someone is slow, call them early. Don't wait until they're 120 days past due; a lot of times you may be able to head off an issue."

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