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Getting Your Due

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Cajole your customers into paying their tardy invoices without taking them to court.

by Martha Visser
Web exclusive

Over the holidays, you did, and you did, and you did for them. Now it's February and your customers don't write, they don't call. Some of them haven't even paid you. To make matters worse, all you read about in the papers these days are troubled companies laying off workers or articles about closing up shop altogether. No one would blame you for thinking, "Now, I'll never get my money." Calm down. Chances are that you will recover all your outstanding receivables, provided you take the right approach.

Your first step should be to remind yourself that just because somebody is late paying his bills doesn't necessarily mean that he's not going to be able to make good in the end or that he's going under. "Assuming the worst is a core response that becomes a self-fulfilling prophecy," says Paul Stoltz, PhD. author of Adversity Quotient@Work (William Morrow, $26.), who is also CEO of Peak Learning, Inc., a consulting firm in San Luis Obispo, Calif.

So, get a grip, and put all that energy you're wasting worrying into collecting your overdue invoices. Here are a few steps to follow to make sure your outstanding accounts are paid in full.

Investigate. Many customers don't pay bills because they've forgotten about them or lost the invoices. Find out the reason before making any assumptions. Elizabeth Mallory, a collections agent for Heritage Financial Recovery Services in Saddle River, N.J., recommends that you start by telephoning the accounts payable department. Once you've determined the cause of the company's lateness in paying you, ask when the check will be mailed. "You always want to try to collect payment yourself first," Mallory says. "You want to feel out the situation; find out what's going on."

If you haven't received payment within a week, Mallory advises that you give your customer a second call. Wait another 15 days and if you still don't have the check, you're going to have to figure out your next course of action. If you want preserve a business relationship with this customer, then pull rank and ask to speak to the CEO. That way you'll get a better idea of why payments are late and hopefully hammer out a reasonable solution for everyone. "If they're forthcoming and say, 'We've had a cash flow problem here,' then you want to work out a payment program," she says.

Negotiate. Now comes the messy part when you have to give and take. Rather than receiving payment in full right away, you could work out a schedule where a small amount is paid each month until the account is settled. "Good faith goes a long way," Mallory says. "Someone who is willing to pay $100 on a $2,000 debt tells you yes, they may be having problems, but they're acknowledging the bill and are willing to make arrangements."

If, on the other hand, you suspect the company looks like it will fail, then you'll have to take another tack. You'll have to accept the fact that you either won't be paid in full or will have to accept goods or services in lieu of money. For example, if a company is going out of business and liquidating its assets, it could turn over its computer equipment and office furniture to pay off its bills. "Bartering is always an option between small businesses," Mallory says. "If there's some mutual compatibility there, maybe they might be able to give something instead of cash."

When one of your customers is obviously in financial straits, Stoltz recommends what he terms the "LEAD" negotiation method. (LEAD standing for listen, establish accountability, analyze the evidence, and do something.) "The

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way I might do it is to say, 'Given this disaster you're dealing with, what would be one thing you could do to improve your situation?'" he says. "The person's response will often be, 'I'd at least try to pay off some of these bills.' So, what happens is that the person moves within a matter of minutes from utter despair to being highly motivated to take at least one specific, immediate action to help better his situation."

Delegate. If you aren't concerned about preserving a cordial business rapport with your deadbeat customer, then you can take a harder line. Instead of calling your client week after week trying to cajole him into paying you, you can take deliberate specific legal steps. If your client promised that you'd have the check by a certain date and you haven't received anything, send then a demand notice. It's simply a letter stating that if the outstanding bill is not paid within 15 days of the letter's posting, you will, in fact, turn the account over to a collections agency that will take legal action if necessary.

Before hiring a collection agency, do some homework to make sure it is reputable. Contact the Commercial Collection Agency Association (CCAA) of the Commercial Law League of America, a group in Cedar Grove, N.J., that represents bankruptcy lawyers and collection agencies that work with businesses. CCAA's membership requirements are tougher than most state regulations. Also, call the American Collections Association, in Minneapolis, Minn. The ACA's code of ethics requires its members to meet state regulatory requirements. "It also gives you a grievance process," says Robbie Thompson, says director of Creditors International, an ACA division that deals with corporation's internal collection departments. "If somebody has a problem, he can complain about a particular agency, and we investigate that."

Most collection agencies work on a contingency basis. Fees usually range from 20% to 25% of the amount recovered. "All you have to do is give information about the services sold, and that's all the collection agency needs to get started," Mallory says. "If it doesn't get collected, we don't get paid."

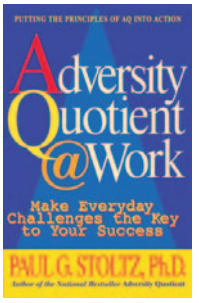
When deciding which collection agency to use, don't be swayed by lower fees. Generally, they run anywhere between 20% to 25%. CCAA recommends that you find out what the agency's so-called "net back" is. That's the average net amount a collection company returns to its customers. Often a firm that charges a higher fee will collect a higher percentage of outstanding debts. So, even if you pay more, you'll more than make up for it in the amount of money you recover.

The faster you collect on your overdue bills, the better chance you have of recovering your money. After three months, according to CCAA, the chance of collecting drops to 73%, going to 50% after six months and just 29% after one year.

So don't despair. There are numerous ways you can try to recover overdue bills. But, of course, the best method is to work with more responsible and financial stable clients. If you do that, you can save yourself a lot of unnecessary headaches.

Robert Dunn contributed to this story.

Paul Stoltz, Ph. D.
is also the author of
Adversity Quotient: Turning Obstacles into Opportunities
(John Wiley & Sons, 1997)



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