

## How to Collect Money You are Owed

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It is no secret that cash flow is vital to any business, and the key to cash flow is to timely collect money that is owed to the business. Selling a product or providing a service is of no benefit to the business if it does not get paid for the same. Cash flow can be severely impacted by slow or no pay customers as the business still has to pay its vendors for the products it is selling and has to pay its employees for the services they are providing. That can put a business in a deficit until it receives payment from its customer.

Here are some tips that you should consider implementing, if you have not already, to help you collect the money that you are owed:

- Only provide credit to credit worthy customers, and keep the credit amount low until the customer has built a history of paying for your products and services. Many businesses get into trouble because they are too lenient in giving credit to customers who then are slow or no pays.
- Consider having all customers that don't pay cash fill out a credit application. That credit application should list credit reference (banks, other vendors) and you should check with those to make sure the customer is a good credit risk.
- The credit application should also set forth the customers understanding of the payment terms (such as Net 30), agreement to interest on all past due amounts (such as \_\_\_% annual interest), agreement to pay all costs of collection if collection becomes necessary, and agreement to jurisdiction of any collection action.
- Have written agreements with the customer. Handshake deals can be simple, but when a dispute arises, they can be hard to prove. You want written agreements that contain all the terms (what products or services are being purchased, what the price is for the same, and what the payment terms are). This should be done through a contract, but should at least be done through purchase orders with detailed terms and conditions.
- Like the credit application, the agreement or invoice should also provide for interest, collection costs and jurisdiction.
- Don't let a customer get too far behind. As soon as they start getting behind, you need to be proactive. That could initially be written reminders that a debt is past due, escalating to phone call reminders, to shutting off credit until they get current. If those don't work, you may want to have an attorney write them a letter threatening collection actions. Customers often move those bills to the top of their stack. But you need to make sure the attorney does so in a gentle way, so you don't lose the customer, unless it is a customer that you don't mind losing.

These are just some tips. If you need assistance implementing any of the above, or want to discuss these or other tips to collect money owed to your business, feel free to contact Scott Leah.