

## Profit Builder - How to Take the Bite Out of Collecting on Your Overdue Accounts

Most small businesses greet the collections process in the same manner they would greet a venomous snake in their kitchen. No one wants to deal with it until their life is at stake—or in this case their business. But at some point you have to deal with it. With some preparation and a little courage, you can charm the snake right out of your business.

You wouldn't wait to get the snake out of the kitchen until after it had bitten someone in your family. You can't afford to do that with your collection policy either. Too many businesses ignore the initial past-due accounts and before they know it, there is a big problem that requires a lot of time and money to fix.

The first step is to face your angst. There are two common fears when it comes to debt collecting: 1) Disorganization that prevents good record keeping of who owes what and when 2) Most people do not like pressuring people for money.

To begin organizing, you have to see this process as cyclical. Here are some critical questions that will lay out your plan for your collection cycle:

### How Will I Keep Track Of Overdue Accounts?

There are a number of bookkeeping software programs on the market that will help you keep track of customers (each with different terms) buying on credit throughout the month. The programs generate what is called an accounts receivable aging report. Accounts receivable just means money owed to you in exchange for a product or service. You can also create a report by hand but the time spent on keeping re-

cords of this magnitude may be a liability to your business when software programs are cheap and user-friendly.

### When Should I Begin Collecting On Overdue Accounts?

One day, one week or one month after the account is due? When figuring out a procedure, take some time to consider these factors:

### What Is Your Relationship With This Customer?

It's unlikely that you will want to set out collecting on an account a day after it's due if it is a family member or an extremely good customer who has an otherwise good history of paying the account.

### How Much Money Is Due?

If the balance is large and you're depending on it to pay your own bills, you may very well decide to collect after a very short period of time. If it's a smaller balance, it may be worthwhile to wait a bit.

### How Often Should I Review My Accounts?

This is a time to exercise some flexibility. You may want to review some accounts that are 30 days overdue on the 35th day and some on the 40th day. Doing this will prevent having 40 files one day and none the next. This is also a task that can be handed to a team member to do.

### How Do I Verify That The Accounts On My Report Are Still Overdue?

You will need to coordinate your account

files with the record-keeping system, tracking sales and recording payments—whether it is a ledger or a software program.

Now that you have tackled your organization, it's time to wrestle with the manners in which you collect the money due to you. Consider these questions:

- n Which accounts do you want to pursue collecting personally?
- n Are there accounts that would be best collected by a collection agency?
- n Which accounts should your attorney pursue?
- n Do you have so many accounts that it would be worthwhile to hire a full-time collections specialist?
- n Do you know enough about the law to avoid violating the laws that protect consumers?
- n How will you communicate with your clients who owe money and how often?

## Solutions At A Glance...

In summary, this article deals with these issues:

- ☐ How Will I Keep Track Of Overdue Accounts?
- ☐ When Should I Begin Collecting On Overdue Accounts?
- ☐ What Is Your Relationship With This Customer?
- ☐ How Much Money Is Due?
- ☐ How Often Should I Review My Accounts?
- ☐ How Do I Verify That The Accounts On My Report Are Still