

## Small Business -- Enterprise

### Easing the Collection Of Overdue Payments

#### Lapses and Delays Rise, Making a Plan a Must; Don't Be the Bad Cop

BY JEFF BAILEY

YOU GOT THE sale, shipped the goods, and now all you have to do is wait to get paid. And wait. And wait.

In this tough economy, slow-pays and no-pays are on the rise, as both consumers and businesses delay paying bills to conserve cash. For smaller companies, operating with a thin cushion of working capital, being stiffed by a few customers can cause a cash crisis.

What's more, many firms that came of age during the go-go 1990s, when most customers were flush with cash, are for the first time facing the problem of collecting past-due accounts receivable.

Law firm Berry, Appelman & Leiden LLP, of San Francisco, saw its immigration practice boom during the 1990s as technology firms sought hard-to-find talent from overseas. The technology bust, however, brought much of that work to a halt, and some clients were going bankrupt.

"It was kind of rough," says Robert Pacheco, director of finance for the 20-lawyer firm. About 35% of billings were seriously delinquent two years ago.

The firm hired a collections coordinator, LaVonne Maliga, formalized what had been an informal and ineffective process, and saw its problem receivables decline to 5%. Cash flow is up. "Nobody likes to get stiffed," Mr. Maliga says.

So, some tips:

Know your customer. Is the business or person you're selling to solvent? Do they pay their bills on time? You can ask around or try buying credit information on customers from such firms as D&B ([www.dnb.com](http://www.dnb.com)). Either way, don't be embarrassed to ask a new customer about his bill-paying process and habits. Chances are, he asks his customers the same questions.

The bigger the customer, the bigger the risk. Many entrepreneurs are so

happy to make a sale to a big company that they're too shy to bring up payment terms. Or they assume a big company will promptly pay its bills. But some big firms view dragging out payment, particularly to vulnerable little suppliers, as "creative cash management," says Jeff Cronrod, president of Fidelity Information Corp., a Los Angeles firm that does a variety of customer evaluation and collection work for real-estate owners and other firms.

"They do it because they can. And because big guys are in [financial] trouble, too. People just don't know it," says Mr. Cronrod.

With each customer, it's a good idea to ask yourself: if I get stiffed, how much will it hurt? And then protect yourself accordingly.

Communicate. Is your sales staff, which probably knows a lot about the customers, including any financial problems, talking to your collections staff? And is your company talking to customers about unpaid bills? A rule of thumb: The longer a bill goes unpaid, the more likely it is you'll never see the money. So, as Mr. Cronrod says, "don't wait." Start calling or writing as soon as a bill is past due.

Have a system, and follow it. Your firm should have a set schedule for escalating collection efforts. At Vision Improvement Technologies LLC, a Fairfield, Iowa, firm that markets a \$279 videotaped guide to eye exercises via an 800 number advertised on television and radio, customers have 30 days to try the video out and either start paying or send it back.

Ten percent don't do either, and they immediately get a phone call, says Gary Korf, chief financial officer. Half of those then pay or return the tapes. The other half get a letter or are turned over to a collection agency. Just having the system in place, Mr. Korf says, hastens collections.

Formalize agreements. A written agreement to pay helps bring your invoice to the top of the customer's stack. Rob Hammond learned bill collection as a fraternity officer in college. Sometimes a fifth of his brothers were in arrears. And the fraternity had no written agreement. Parents often didn't see the bill as a priority.

"All they see is the 'Animal House' end of it," Mr. Hammond says. Slow-pays could be barred from keggers and other events, but "that was about all that was being done."

Today, Mr. Hammond is 28 years old and chief executive of Greek Bill Inc., Redondo Beach, Calif., which handles billings of \$7 million a year for about 100 fraternity chapters. His clients use formal agreements. And when bills are past due, both student and parents get collection notices.

It's hard to be your own heavy. The fraternities hire Greek Bill because it's easier for an outside firm to dispassionately demand payment than it is for a house mate. And when Greek Bill meets substantial resistance, it, too, steps aside, passing the obligation along to a collection agency.

Mr. Hammond prefers fee-based collection firms, rather than those that work on a contingency. A year ago he hired one of Mr. Cronrod's firms, Old-Debts.com, a unit of Fidelity Information, which allows Greek Bill to type debtor information via the Internet and send out increasingly stern collection letters for a flat fee.

"We get more attention than you would," says Mr. Cronrod. Old-Debts.com collects on average 34% of the amounts owed, and that rises to 50% if the client is willing to pay to report the nonpaying customer to credit bureaus.

Be nice. Whether you try to collect yourself or hire someone to do it, professionals say getting angry doesn't help. And threats can get you into trouble.