

C Balance Sheet

Institute tight credit controls

By JOHN KANE

Possibly one of the most unpleasant tasks associated with any business is dealing with the delinquent payer. Most of us want to avoid the type of confrontation that can result in bad feelings and loss of future business; on the other hand, no sale — present or future — is worth making unless it can be collected upon.

Of course, the best way to prevent against having to deal with such problems is to institute tight credit controls at every step: a thorough check of customer financial position before authorizing credit, strict adherence to credit limits and prompt billing.

Don't use a form letter: While the basic content of the letter can be standardized — and in fact, should be, so that your credit regulations and objectives are consistently applied — each letter should be an original. A form letter reminding a customer of late payment can indicate to him that the problem is common among your clientele, and that you aren't able, or likely to do much about it. He may assume that if the problem is widespread, he can get "lost in the crowd" for quite a while until you will bother to follow up. The use of a form letter may also imply that your company does not consider the collection of overdue accounts to be a high priority.

Be direct: Avoid the examples given in many business letter-writing guidebooks, of broaching an unpleasant subject with a pleasant introduction. Many people don't read past the first paragraph. While courtesy is certainly a requisite, a too-cheerful introduction can make the addressee think the letter is just another sales pitch or other general correspondence and throw it away.

Don't use humour or sarcasm: Humour is completely out of place, and gives the impression that your demands are not serious; sarcasm serves no purpose except to make your own company look bad.

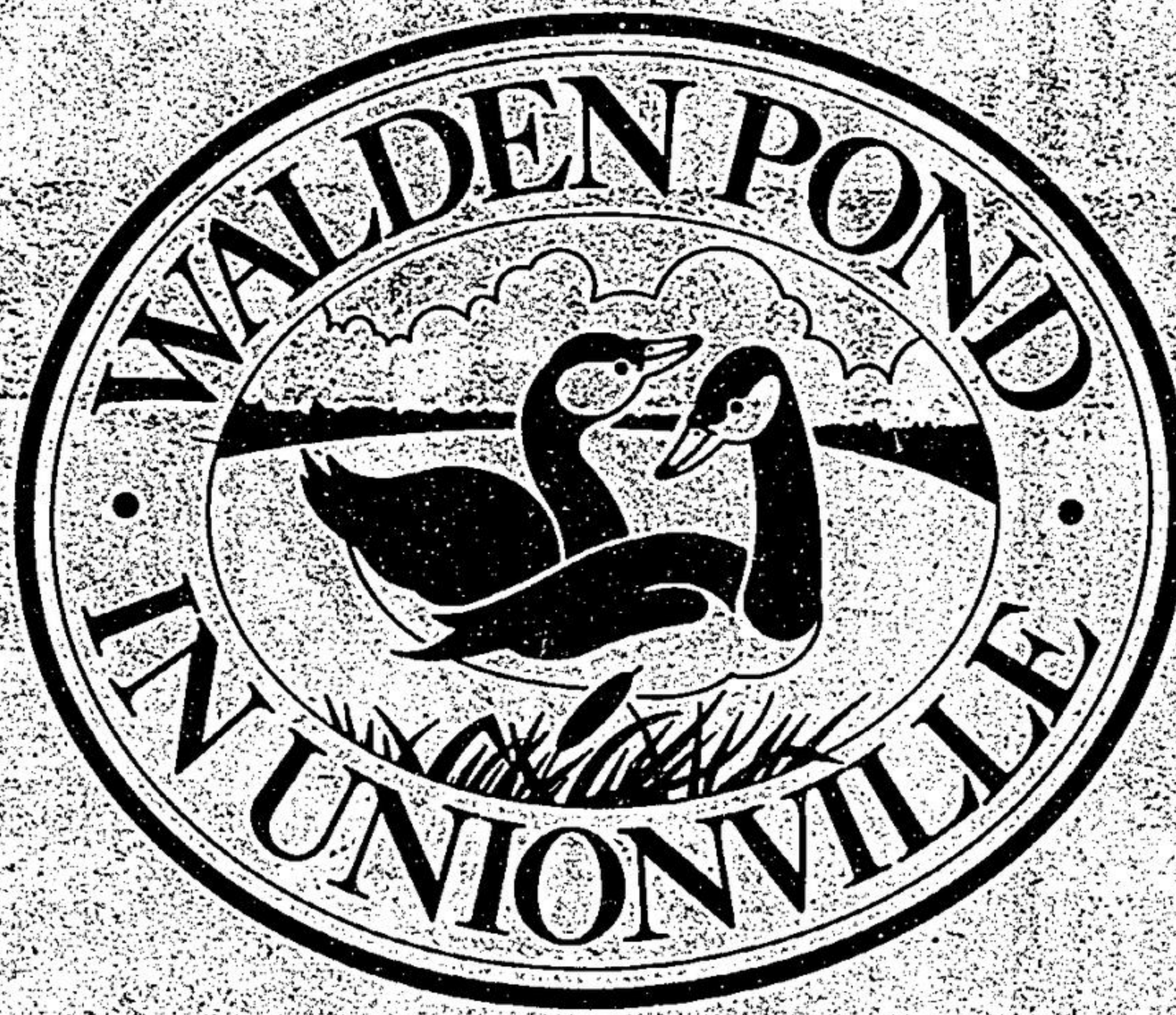
Avoid making concessions: Credit terms are one type of rule that was not made to be broken. Making concessions, such as offering a discount for immediate payment, violates the rules you have set up, and also sets a dangerous precedent that can encourage customers to be late with future payment.

It's likely that your communication with a delinquent payer will also include telephone calls. If so, the same rules regarding content should apply. The owner or the credit manager should make the call, ensure that he or she is speaking to the correct person and provide ample time for the customer to explain why there has been no response, as well as to suggest terms to settlement of the account.

The wise owner-manager, however, doesn't wait until payment is delinquent to initiate communication with a customer. The keystone of your overall collection effort should be close contact with all your customers. If your clients are primarily other businesses, you should find out how each administers accounts payable, (ie. whether there is a payables department, who has responsibility for payment etc.) and keep this information with the customer's records. Once you've familiarized yourself with the customer's system, you will be able to make personal contact, on a regular basis, with the people who have the power to speed up payment. Regular contact with the right person can often do far more to expedite payment than even the best-written letter.

EDITOR'S NOTE: John Kane, C.A. is a resident of Markham and a partner in the Toronto office of Thorne, Riddell, Chartered Accountants.

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