

Ask SCORE

WHEN IT COMES TO COLLECTIONS, NEVER ASSUME

Business relationships are usually straightforward. You provide a product or service, and the customer pays you for it in a timely manner. But every small business owner will likely have to deal with tardy or missed payments. Don't ignore them or assume the customer will eventually follow through. Money owed to your business — known as receivables — cuts into your profits and complicates your cash flow.

A good collections strategy can help prevent slow payments before they become a problem and ensure that income from aged invoices isn't lost forever.

Your aim is to create a step-by-step collections process that starts by making smart credit-granting decisions. And make no mistake: granting credit is exactly what your business is doing whenever you deliver a product or service without first collecting payment.

Customers are more likely to pay quickly if your invoice arrives in a timely fashion and is clear and simple. It should state explicitly, in itemized fashion, what it covers. Make it look clean and professional and include your company logo. Cute designs may only get in the way.

Design it like a real invoice, not just a piece of paper with "amount due" typed in and be sure it is clear how the check should be made out and where it should be sent.

Including a return envelope can help. Also include a phone number and contact name for questions. Small business accounting programs such as QuickBooks can easily create your invoices.

Mail your invoices quickly and send a reminder immediately if payment is not received by the stated due date. On long-term projects, consider progress billings.

If you do need to press for collections, don't use threats or emotional appeals. Phone calls are more effective than letters or emails, according to collections experts, so contact your customer directly and/or the business's accounting department. Be polite, yet firm in asking for immediate and full payment. If a letter is necessary, it should be personalized and sent by registered mail so that you can verify its receipt should legal action be necessary.

Collections are just one critical financial issue your small business can face. For expert help and advice, contact SCORE "Counselors to America's Small Business." SCORE is a nonprofit organization of more than 10,500 volunteer business counselors who provide free, confidential business counseling and training workshops to small business owners. Call 610.327.2673 for the Pottstown SCORE office or visit online at www.pottstown.score.org.



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