YOUR CFO FOR RENT
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CELEBRATING OUR 22ND YEAR

A Management Update from Your CFO for Rent

Get Late-Paying Customers To Pay Up

By Gene Siciliano

Your business was running pretty smoothly – sales growing, and profits growing, too – and then the credit crunch hit, the "R" word is now official and everything started slowing down almost overnight. Most troubling of all, your customers -- commercial and consumer — have been paying you later and later, as if they are using your money to fill their own personal credit crunch.

Well, they probably are.

Most of us don't realize how dependent we are on credit to run our businesses. Vendor open account credit – the kind you extend to your customers – is by far the largest source of borrowing power in our economy. When you sell your products and services on credit, you are making interest-free loans to your customers, even if you are financing those loans with a bank loan for which you pay interest every month. When collections roll in on time, it all seems to work out nicely; but when collection slows down, you still need to replace goods you've sold, pay your workers (on time), and pay the rent and all the other expenses of running a business. Assuming your bank credit lines are in place and your margins are adequate, you have a bit higher interest expense and you can ride it out with your customers. However, if your credit lines or cash reserves aren't sufficient to cushion you from the sudden change in cash flow, your business could be in big trouble. Besides, most bad debt write-offs come from old balances, not current ones. The older the balance, the higher risk it will never be collected.

> WHEN YOU SELL … ON CREDIT, **you are making interest-free** *loans to your customers*

So, your best bet is to encourage your customers to pay on time. No added interest expense, no hassle with customers, no write-offs, everyone is happy. Well, you are probably thinking, "That was helpful. How do I do that, exactly?" Here are five ideas that can work well for you.

1. Improved credit-granting practices.
On the front end, screen new customers more closely before granting a credit line. Spend a few dollars actually getting a credit report, and a few minutes calling a couple of their credit references to get a sense of the relationship they have with your potential customer. The conversation might go to their payment patterns when the economy slows, which could be different from good times. A comment that "they sometimes struggle to keep current but they always manage to get caught up" could be a red flag these days. Also, be watchful of a prospect who has changed suppliers more than once in the past year, and if you can learn the name of their previous supplier, that's someone you want to talk to.

2. Committed collection effort, all the time.
Make collection follow up a key duty of at least one person in your company. Don't make the mistake of giving the job to your controller to

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handle in her spare time, just because Accounting handles the money. She likely doesn't have any spare time, and besides, accounting personnel are not typically the best in customer communication, especially if the subject is touchy. Assign the job to someone who is a good negotiator, has an amiable but firm phone personality, and who understands this is a key job. Most importantly, do what you say. If you promise something in return for prompt payment, make sure you deliver. If you say you must deny future shipments until an account is brought current, stick to it – every time.

3. Call ahead of time to make sure they're ready to pay.
Have your collection person call the customer's Accounts Payable department a few days before the due date for payment, "as a courtesy" to your customer, just to make sure everything is in order, there were no problems with the paperwork, and the check will be going out on time. This little reminder, when positioned with friendliness and desire to help, can make a friend of the person who actually cuts the check. And if your customers are lacking something they need in order to pay you, this would not be a good time to be condescending at their inefficiency. Your effort to quickly provide it without them having to run it down in their company instead, could put you at the head of the line for payment.

You can be the exception …,
the stand-out in the crowd

4. Discounts for prompt payment.
This is an old technique that worked well years ago, but has fallen into neglect in recent years as business practices evolved. The old '2/10 net 30' was, and still is, a fantastic deal if explained to customers clearly. Consider this: a 2 percent discount for paying 20 days earlier than normal amounts to an annual return of 36 percent; not a bad yield for a customer whose savings account is probably earning 2 percent a year. Even if your customers planned to pay in 45 days, getting them to pay in 15 days instead represents an annual return to them of 24 percent. You can juggle the numbers any way that makes sense in your industry, but the key is getting the customer to understand the value they get from paying promptly. And by the way, if you do business with certain organizations, e.g., local governments, many of them are required by their policies to take advantage of such discounts.

5. The "Preferred Customer" plan.
Want to think out of the box? Consider a special program for "special" customers – free overnight delivery on rush orders, extra discounts, advance notice of price changes, special sales, etc. Promote this as a customer benefit and make it available only under certain conditions, one of which would be consistent payment in accordance with your terms. Don't make sheer order volume a condition if your low-volume customers produce higher margins, as is often the case. A small invoice that gets paid on time is a blessing compared to a large one that takes 90 days to come in. Still, make the conditions list beefy enough that it doesn't look like a poorly disguised collection program. Use it as an opportunity to reward the customers you enjoy doing business with, especially those who pay on time every time.

You can appreciate your customers' dilemma in trying to stretch their cash. But that's not the same as agreeing to be their banker – interest free! You can extend their payment terms, as many companies do at times like these, but in the end you still need to collect your money by a date you can plan on. And you need to avoid alienating your customers in the process. If you do everything you said you would – quality products, competitive price, prompt delivery, etc. – then it's reasonable to expect your customers to do everything they agreed to, including prompt payment.

Still, these days most suppliers will get paid late by most of their customers. Follow the suggestions above and you can be the exception to the norm, the stand-out in the crowd, and certainly a better positioned company when the economy turns around again, as it always does.

Wouldn't that be great?

Your CFO for Rent

__Gene Siciliano__, CMC, CPA, is an author, speaker and financial consultant who works with CEOs and managers to achieve greater financial success in a dramatically changing economy.

As __"Your CFO For Rent"__ and president of Western Management Associates, Siciliano has spent more than 20 years helping his clients build financial strength and shareholder value through applied knowledge and process improvement. His book, __"Finance for Non-Financial Managers,"__ (McGraw-Hill, 2003) is available in bookstores and online. More information and free articles are available at __www.GeneSiciliano.com__.