

## **Managing debt collection in a small business**

Regardless of the business operation, we all face the dreaded task of running down clients for unpaid goods or services. For many larger organizations, an external debt collection agency may be employed or a separate unit or individual may be assigned to try to recover bad debts before they are written off. Many smaller businesses with limited resources are sometimes forced into cash restraints due to the inability to recover sales income. Unable to have a fully staffed accounting department to oversee accounts receivables, many small businesses have to seek short term financing to cover the costs of their day-to-day operations. This loss of independence and control is sometimes the unfortunate beginning of the end of operations.

So what can a small business do to reduce the occurrences of bad debts?

### **Know your Client**

Your enthusiasm to have your products on the shelves or to set your feet firmly on the ground sometimes tends to put small business operations at risk. This enthusiasm can blind you to the personality of the client, so before anything is done a background check must be performed on the potential client. Since there is no formal system, you must be as discreet as possible when attempting to get more insight into the client company's financial operations. When checking smaller clients, you may be fortunate enough to stumble across someone within their network who is willing to offer some insights into how the potential client manages his business. For bigger businesses that are publicly listed and Government offices this task is fairly simple due to Annual Reports. Having this information in your possession now empowers you to make an informed decision when approaching the client – whether it means receiving the full payment upfront or allowing the client some flexibility in their payment method.

### **Systemize your business practices**

Before entering any agreement with your potential client, a binding contract should be drawn up every time and on every job, regardless of whether it is wholesaling or on consignment. The contract should include details such as the product(s) to be sold, the amount, prices and regulations governing its sale. While this may seem bureaucratic and unnecessary it reflects the old saying of “prevention is better than cure”. More importantly, service oriented businesses which offer intangibles must have a clearly defined contract. Having a lawyer or commissioner of affidavits draft a contract that seeks mutual benefits for both parties is relatively affordable and can be copied from client to client.

### **Incentivize early payment**

Chances are if you client is having difficulty paying you on time, they would be also delaying payments to their other suppliers as they juggle their own bills. In this circumstance, you want to be your client's priority. One of the popular methods used by suppliers is incentivizing early and timely payments – for example, offering free products, fixed deductions, 2-5% discounts on the current bills and even discounts on future orders. You can even go so far as to be competitive by offering better discount rates, prompting your bill to be given preference to the other suppliers.

### **Be proactive**

Bill your clients on time and address non-payment immediately. Calling the customer directly, instead of sending an email or fax will create a sense of urgency. As recommended earlier, one must be precise about the payment deadline and have a defined payment schedule whether it is – 50% now and the other 50% next ten days or month's end. A useful

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tip would be to offer your client a payment option – cash or cheque, for example. Far too many suppliers take for granted this basic principle and it can eventually lead them into a cash flow trap.

### **Join a Business Sector Organization**

Joining a professional business service organization such as one of the local chambers, associations or affiliate programmes allows you to take advantage of collective knowledge. Many of the larger business service organizations may have the expertise to advise you on the action necessary to recover overdue payments. These organizations from time to time offer programmes, sessions and workshops aimed at addressing small business limitations. Another valuable resource that is directly offered is dispute resolution services (mediation, conciliation, arbitration) which are cheaper than going to court and in most cases resolve the pending issue at hand.

These four techniques are not only limited to the management of bad debts. They all fall under the handbook of pragmatic management principles that should be carried out by business owners, whether micro, small, medium or large. In spite of the occurrences of non-paying clients, debt management begins with the business supplier. By utilizing these four basic ideas one would find the task on recovering dues much easier!