

# BE A FRIEND OR A FOE?

When running a business it is important to balance keeping your customers with ensuring timely payment

By Krista T. Walsh

It is often hard for the small business owner to play the role of the friendly sales agent as well as the adamant credit manager, while keeping the customer.

As we all know, when extending credit, there is no definite way to guarantee payment. But, with a proper credit policy in place, you can decrease receivables and make it less likely for the business owner to turn into the enemy when faced with collecting overdue accounts.

Many business owners are so eager for a sale they neglect documentation such as terms and conditions, or even fail to discuss payment. They do not want to offend the new customer by asking for a method of payment. If it is difficult for a customer to obtain credit, they will take their business elsewhere.

Lack of proper credit policies is the major reason that businesses have overdue accounts. Small businesses are infamously guilty of having a weak or non-existent collection policy. Some businesses have a policy, but use it inconsistently, which yields less than favourable results.

As one of the keys to any successful business, receivables management must be considered when venturing out as an entrepreneur. Unfortunately this key element is often overlooked as attention is pulled in different directions.

Obtaining as much information as possible from the customer when extending credit makes recovery of the account more likely if it becomes past due. In order to successfully manage debt it is customary to ask potential customers for credit references.

In smaller communities it is suggested that you network with fellow companies, thus creating a mutual exchange of information. Most companies are more than willing to share information on past delinquents to help you to learn from their mistakes.

#### What to ask when extending credit

- ◆ Request a credit check.
- ◆ Ask for a civic or street address, as post office boxes can be changed.
- ◆ Ask for a customer's date of birth and social security number. This will help you to trace them in the future.

◆ Inquire about their employment history. How are they going to pay you if they are under or unemployed?

Remember – the customer that has a problem with getting their credit checked is the customer that you do not want.

Every business must develop and maintain a strong credit policy. Each time a customer leaves a business with goods or services, that business has now taken on the role of a bank.

In rural areas, recovering outstanding debt becomes another challenge for the striving business owner. As you endeavour to build your customer base, it is suggested that another employee, not a customer service representative, takes on the daunting task of collections. This delegation will enable the owner to maintain strong relations with the customer while still enforcing recovery of the debt. In most cases this is where the collection professional or third party agency is required.

Credit policies have the utmost importance in successful business management. Businesses that implement sound credit policies gain respect, grow and expand within the economy. **CCRW**

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## DO NOT FORGET RETENTION OF TITLE

It amazes me how we overlook retention of title (ROT) as a collection tool to reduce a debt.

We all moan when awarded the 35p in the £1 when a customer has gone under. Sometimes we even comment on how it is not worth filling in all the forms along the way because what we get (if anything) is a fraction of what is owed.

ROT can be your best friend, and not as scary as you might think. Here is my – not legally binding – guide.

Sit down with a cup of coffee in a quiet zone with your company's terms and conditions and highlight all of the bits associated with your ROT clauses. Hopefully you will have an 'all clause all risk' one, which entitles you to enter

premises and pick up everything that has your company logo on or you can prove you have supplied.

When you hear that a company is in trouble, and if they are in arrears, go and visit. I did this recently and although they would not let me uplift stock – they were selling for cash at 25% of normal price – I was able to ring fence all our stock, box it up and stop them from selling any of it. I listed every single item, sealed the boxes up then photographed them.

If you cannot visit then send a letter to the customer and if you know who their administrators are going to be, them too, reminding them of your ROT clause and the fact that you intend to

implement and they must not sell any more of your stock.

Return to the office and agree with the administrators when you can pick up the stock. Do not be beaten by their "oh well, you must provide barcodes, or you can only have stock that you have on invoices outstanding". Always sound confident, even if after coming off the phone your next call is to your solicitor to confirm what you said is correct.

Raise a credit for all saleable collected stock and offset this against the outstanding balance.

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