



CLICK HERE TO LEARN MORE ABOUT  
HOW THE SHARP MX-SERIES COPIERS  
PROTECTS YOUR DATA



**Forbes**  
com

Ask An Expert

## When Receivables Grow Moss

Brett Nelson, 11.02.05, 6:00 AM ET

*Have burning questions about how to run your small business better? E-mail [askanexpert@forbes.net](mailto:askanexpert@forbes.net) with your query, and we will track down the advice.*

**What are some creative ways to collect on receivables over 30 days old? Is offering a 10% discount advisable?**

Hounding delinquent customers is touchy work. On the one hand, you need the cash flow to fund your daily business operations; on the other, you don't want to seem like an overbearing ogre, especially if you know the debtors personally. Receivables are essentially unsecured loans, so a debtor is indeed what a late payer is.

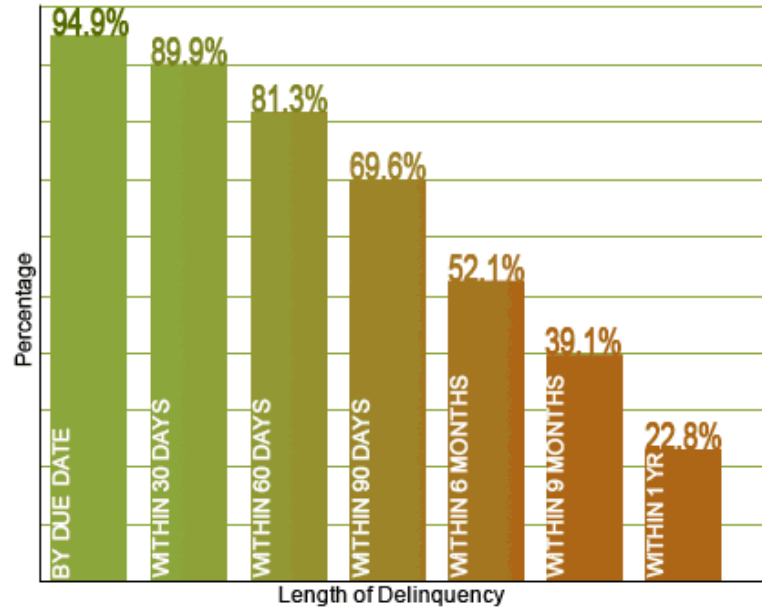
"This is a human game," says Emil Hartleb, executive director of the Commercial Collection Agency Association, which certifies collection agencies. "You might think, 'I know Joe, and I know Harry. They are good guys.' In many cases, that works out. Then again, in many cases, it doesn't."

Take an exploratory approach in the beginning, says Hartleb, former head of **Dun and Bradstreet's** commercial collections unit, which is now owned by Citigroup. There are plenty of reasons for past-due bills: Maybe the proverbial check *is*, in fact, in the mail. Start by sending letters reminding the customer that the account is past due. Letter campaigns are easily automated using rudimentary business software; specifically crafted missives work better than form letters, of course, so balance your resources accordingly. How long before ratcheting up the pursuit? "At the 35-day past-due point, that's the time to get on the telephone," says Hartleb.

If you determine the customer is strapped for ready cash, structure a payment plan. You'll want at least some portion of the money up front, along with a promissory note laying out a timetable for the remaining balance. (You can buy these forms from Staples or Office Depot, or download them off the Web.) The notes should come with an "acceleration clause" specifying that a late installment payment will trigger the entire balance due in full, under penalty of suit. For a fee, your bank will take on the burden of collecting on the note.

If, 45 days after the initial invoice--assuming you've tried letter and phone campaigns--the customer still doesn't respond, "seriously consider placing the account with a collection agency," says Hartleb. It's not entirely self-serving advice: Letting outstanding balances languish for much longer than that 30-day mark is downright dangerous (see accompanying chart). Collection agencies typically charge 22% to 25% of the collected amount as a fee, while a lawyer might nab one-third or more. (Note: The older the receivable, the higher an agency's collection fee.) In that light, 10% discounts may sound tempting, though Hartleb is not a fan. "Discounts reward improper behavior," he says.

### Collectability of Delinquent Commercial Debts At Time Intervals After Due Date



Source: Commercial Collection Agency Association

Hartleb stresses that entrepreneurs are wise to head off collection problems on the front end by employing a clearly established credit policy. That might include everything from demanding that customers sign credit applications (for sample forms, check out the Credit Research Foundation) to adding a cash-conversion element to your own sales force's compensation structure. Better yet, try to vet customers' financial health before doing business with them (see: "[Small Biz Bum Alert](#)").

**Want to track news by this author or about this industry? Forbes Attache makes it easy. [Click here.](#)**