

Covering Credit Bulletin

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This Month's Topics:

- **Collection Tips and Tricks**
- **Questions and Answers**
- **Commonly Confused Words**
- **Website of the Month**
- **Free White Papers**
- **Free Subscriptions**

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Collection Tips and Tricks

Here are another dozen collection tips:

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Questions and Answers

Question: Is calling a customer and leaving a voice mails with their Accounts Payable department in regards to an outstanding invoices on a hourly bases of every business day consider harassment ?

Answer: I think this action crosses the line and would not be appropriate?

Q. Here is a follow up question: What do you suggest when the customer is ignoring everything we do?

A. I think this is the key question. The answer is that it depends. If I knew the customer was still in business, I would have more options so I would ask the salesperson to stop in and speak with the buyer and ask for an explanation for the fact that A/P is no longer returning calls. Depending on a variety of factors including how much is owed, how far past due the account has become, and whether you have any form of security I might consider placing the account for collection, visiting the customer myself, referring the matter to an attorney or even considering forcing the debtor into an involuntary bankruptcy.

Q. A customer told me that he will pay us when he can, what he can, as soon as he can. This represents our first and only large sale to this customer. The customer owes over \$100,000 and has so far made two payments of \$5,000. What do you think?

A. In my experience, accepting this type of commitment, if commitment is even the right word, is a serious mistake. What you need is a specific payment commitment to clear the past due balance. And \$5,000 against a past due balance of more than \$100,000 is not likely to be acceptable to anyone in your company. Let's be realistic. Your customer seems to be using your company for a kind of short term loan to fund the company through the cash flow crisis.

Q. I have a customer that we have done business with for 15 years or so, who has fallen into really tough financial times. We know because we have actually received copies of their financial statements from their accountant. So far, our company owners have refused legal action against them, but from the financials I can see that the customer is seriously overextended. I also have heard that they are not even able to pay salaries. The squeaky wheel approach isn't working anymore. Now that we are aware of their financial situation, we require on any current jobs half the money in advance and the remainder on delivery. The problem is that this is not helping us reduce the balance due. Is it time for a write off?

A. Before answering, I would like to make three comments. First, please remember that COD is a form of open account terms since you do not get paid until and unless the check clears. Another comment is that I would encourage you to make sure that senior management approves all of your actions with respect to this debtor. The third comment is, and I hope you will agree, that the owners of your company are betting their money and they have every right to do so. In response to your question, it may not be time for a write off but it is certainly time to make sure that your bad debt reserve is adequate in case you need to write off the past due balance. In response to your comment about current payments not addressing the past due balance, please consider proposing to your company's owners that you change the arrangement and 100 percent of any new jobs in advance plus 50 percent of value to be paid by the debtor against the past due balance.

Q. We have a customer who has potential to be a huge account, but has made some poor financial decisions that severely limited the company's cash flow. Any action on my part to limit risk such as filing liens, holding orders, or adding a finance charge has resulted in threats of losing this account. I feel bullied, but the company is one of our best customers and represents as much as 20 percent of our receivables at any given time. What do you suggest?

A. There is an old story that goes like this: If you owe me \$1,000 and cannot pay me you are in big trouble, but if you owe me \$100,000 and cannot pay then I am in big trouble. This is not your best customer, even if it is your largest customer. You mentioned that the company has or had cash flow problems. This customer may be your biggest problem. Obviously, you do not want to take any action that would risk losing this business to a competitor without the advice and consent of your manager. Sometimes, there are no simple answers. This is one of those times.

Q. Navigating through your website, I found that you provide several interesting seminars in the field of Credit Management. However, I did not find a schedule of available programs and locations. I am interested in more information, and I am located in California.

A. I work with and for several NACM Affiliates and do webinars in all three U.S. time zones. In your time zone, CMA California would be your best choice. You do not need to be a member to attend their programs. Please visit this website: <http://www.creditservices.org/> and look at Educational Events.

Q. I heard about this at an industry credit group. Do you think it is a good idea to require a copy of a resolution of the Board of Directors of a corporation before accepting an inter-corporate or cross corporate guaranty?

A. Yes. I would encourage you to ask your attorney if they think this is a requirement

before extending credit on the strength of cross corporate guaranty.
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Readers Comments

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