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Financial Finesse Series
Get Paid on Time

It is a rare woman who relishes the thought of asking for money. Why is that? Why is it that even when we put our heart and soul into delivering a quality product or service, we can still feel dread at the thought of handing over an invoice or calling up a customer to request payment due.

Selena Lohan, owner of Mimic Baby Sign Language in Vancouver, understands the reluctance. After teaching sign-language classes for about a year, Lohan recognized that she could do much more. She and her husband Max used their experience with sign language, acting, writing and parenting to develop both a teaching program and the first Canadian Edutainment DVD on Baby Sign Language. Now in stores across Canada and in the United States, their *Mimic Me* DVDs encourage early communication and closer family bonds - helping parents, including those in Hollywood, to communicate with their infants and toddlers before they can speak.

"I give clients 30 days to pay," says Serena, "and then call them myself with a gentle reminder. In the past I've had hesitancy to call; it takes a lot of deep breaths before I make that call. There is something American about not being hung up about asking for money and something Canadian about being shy when it comes to money. It's interesting how money and communication are linked."

Often, it comes down to expectations. We *expect* that once we've negotiated a deal, even with no formal contract in place, the purchaser is on board for payment. We *expect* that once we've fulfilled our end of the bargain, our buyer will do the same. We *expect* that people are honourable and that the business world runs along tickity-boo according to certain standards.

Generally speaking, our expectations are not unfounded. But the marketplace is full of all kinds of companies, run by all kinds of people. Each one has its own personality, complete with unique operating challenges and processes and policies around buying and paying for goods and services. In finance, as in marketing and sales, it's important to put yourself in your customers' shoes. If you want to collect, make payment easy.

"In general people want to pay their bills, and they will pay their bills," says Kelly Acheson of Adventure Engine Inc. in Rossland. Acting as an on-line marketplace for adventure travel, Adventure Engine Inc. is an aggregator and distributor of adventure travel trips and tours to some big-time clients.

"People want to be invoiced on time and they want to receive monthly credit statements. My number one recommendation is to send out invoices and statements on time, every month. I found that my receivables were too high because I never asked to be paid. My invoices were going out whenever I had time to get to them. I was terrible that way, but now I'm much better and 90 per cent of my clients pay on time because I send them their invoice on time."

Clearly, good communication is key. While your company is without a doubt your own priority, it is usually just one of many suppliers your customers do business with. To facilitate payment, you've got to make sure they know what they owe you and when it's due.

Of course, not all businesses sell on credit. In retail, for example, goods and payment often change hands at the time of sale. For many, though, the provision of credit is a fact of life and one that we are not always totally at ease with. It's a little scary turning over a big order to a customer with no cheque in hand – and rightly so. From the seller's standpoint, credit sales are like short-term loans, and you wouldn't lend money to just anyone, would you? That's where a credit policy comes into play.

A credit policy is more than just a list of payment terms and conditions. It starts further back than that, with deciding just who you are willing to grant credit to. Many businesses develop a screening process whereby potential customers must apply for credit, providing evidence of their ability to pay, such as:
- length of time in business;
- credit references from [at least three] other suppliers;
- banking information such as a cancelled cheque;
- written acceptance of payment terms and penalties for late payment.

Interestingly enough, sometimes just the presence of a credit screening process is enough to send a message to your customers that you are a professional organization and expect to be treated as such. It's good to remember that while you're hemming and hawing over whether you can work up the nerve to ask for such confidential information. Think back to the last don't-pay-'til-2009 credit application *you* filled out. Don't think for a moment that any big, successful company out there doesn't have exactly those same policies in place.

Once you have a screening process in place, it's time to consider payment terms. These can be a little tricky and the temptation is often to copy what you've maybe seen before:
- 2/10 net 30, where buyers can pay within 30 days of invoice, but will receive a 2% discount if they pay in 10; or
- 3/7 EOM where buyers receive a discount of 3% if payment is made within 7 days after the end of the month of invoice.

It might cross your mind, too, to offer quantity discounts, frequent-buyer discounts and the like. And, of course, there are late-payment fees which can be either flat fees or apercentage of the amount owing.

The thing to keep in mind when developing your credit terms is this: Will they do what they are intended to do? Will they be meaningful to your customers and bring payment in on a timely basis? If, for example, the dollar amount on most of your customer invoices is small, a 2% discount or late payment fee is not likely to mean much and, in the case of the latter, you would have to be processing an awful lot of them to make the administration of such charges worthwhile. On the other hand, termination of credit privileges could prove a much bigger and less cumbersome stick to wave.

Take it from Tricia Grobell who runs Alberni Fitness in Port Alberni. "I have monthly payments directly from accounts," says Tricia, "and when there's a faulty account, I give them a call and remind them. I rarely have to go collect. Clients usually come to us and let us know if their payment didn't go through or if there was a problem with their account."

"I usually give clients the benefit of the doubt and give them the chance to pay, however we will charge clients a $10 fee if it comes back due. If a client's payment comes back three times in a row, I cancel their membership. My time to go after them is not worth it. Look at it from a small-town perspective: if you harass a client for a $30 payment month after month, they'll go out and say, 'Oh Alberni Fitness is harassing me.'"

As with anything you do in business, your credit and collection practices have to work for you and for your clientele. If your policies are clear; if they make sense from both a financial and a marketing standpoint; and if you apply them consistently, your collections problems will be minimal. Application, of course, is critical. Make sure it is someone's job within your company to systematically get invoices out, monitor payment and follow-up on delinquent accounts. If you're on your own, of course, that means you.

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