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The Cost Of Procrastination Don't Let Your Delinquent Receivables Turn Into Write-Offs!

Do you ever feel like your customer thinks you are a bank? Robbing Peter to pay Paul does not feel very good when you are Peter. The fact is, unless you have deep pockets or have a significant working capital line of credit, carrying someone's debt past the agreed upon terms can really put a strain on your company.

Slow pays are usually a symptom of your customer's mismanagement. Too much patience only allows him to put off the changes that he needs to make his company a successful one. You are not doing him any favors by ignoring the issue. The longer you wait, the more likely his business will be unable to pay you and he could even go out of business or file for bankruptcy, which will leave you with little or no recourse—and a bad debt write-off.

Furthermore, delinquent receivables can squeeze your cash flow and jeopardize your own financial health and ability to stay in business. So how much does that slow paying customer really cost you? First, let's look at how your chance of collecting your money deteriorates over time.

How much does the value of the dollar shrink over time?

According to a survey taken by members of the Commercial Collection Agency of America, the following table shows what you can expect by not taking action early in the collection process.

Current Amount:	\$1.00—100%
Three Months Overdue	\$0.73—73%
Six Months Overdue	\$0.50—50%
One Year Overdue	\$0.25—25%

Clearly, based on these results, it makes sense to take action early before too much time has passed and, when you are not making progress, to get a professional collector involved to improve your chances of collecting.

Consider the two main reasons why the probability of collecting your money decreases over time. The first reason for the dramatic decrease is the rate in which businesses fail.

The second reason for the decrease is how companies handle their internal credit and collection procedures. Most companies do not adequately protect themselves upfront when they approve the transaction, are not consistent in their collection efforts and do not resolve disputed items quickly or sufficiently, which leads to upset customers who refuse to pay their bills.

One way you can reduce your losses is to improve your credit and collection procedures. It starts with having a credit and collection policy that answers questions such as: what qualifications does your customer need to meet in order to purchase on credit? Who will make collection calls and when? How frequently will you invoice? What will your payment terms be and will you offer a discount? A credit and collection policy can be designed to protect you without turning away customers and encourage your customers to pay within your terms. It will also increase your staff's production because you will be providing them with a clear plan to address your delinquent accounts.

How much revenue does it take to replace your loss from a bad debt?

Not only do your chances of collecting your money decrease over time, but chasing after past-due invoices costs you money, time and valuable resources. Have you ever thought about how much in additional sales you need to make to recover the lost money from a bad debt? Consider the following:

Net Profit	Amount Of Bad Debt Written Off			
Margin	\$500	\$1,000	\$5,000	\$10,000
2%	\$25,000	\$50,000	\$250,000	\$500,000
5%	\$10,000	\$20,000	\$100,000	\$200,000
10%	\$ 5,000	\$10,000	\$ 50,000	\$100,000
15%	\$ 3,333	\$ 6,667	\$ 33,333	\$ 66,667
	SALES		REQUIRED	

And this does not take into consideration the extra time (labor costs), lost opportunities and increased stress levels that a bad debt can cause.

Although you cannot control the outcome of someone else's business, you can control who you sell to and how you try to collect from them. Putting in sound credit and collection policies and getting a professional third-party collection firm or attorney involved if your internal efforts fail is a good business practice and will help keep you from becoming one of those businesses that fail because you do not have the cash flow to continue operations.

Beacon Recovery Systems is a local collection firm that specializes in commercial collections and judgment recovery. Request a FREE copy of the Booklet "18 Proven Tips and Strategies to Boost Collections and Increase Your Cash Flow" by contacting them at Info@BeaconRecoverySystems.com.