9 ways to improve collections, speed pay-ups

Making a sale is worthless if you never receive payment. Many companies make the fatal mistake in their collection process of either letting debtors off too easily or turning them off for good.

As a result, more small businesses use professional agencies to pursue overdue payments. Our advice: Save your money and take these steps before resorting to a bill collector:

1. Provide payment incentives in contracts, including discounts for customers who pay early and penalties for those who pay late.

2. Follow up snail mail with e-mail. Studies show that e-mail messages yield a good response, even from debtors who don't return phone calls.

3. Look into bill-collection technologies, such as software that makes automated reminder calls to overdue customers, plus services that send late-payment notices via e-mail.

Watch out for debtors who use "payment timing optimizing" to find out the difference between your stated credit terms and your real terms. Translation: They want to know how late they can pay without being labeled a credit risk.

4. Keep collection letters short and professional. Avoid the clutter of too much print so the important data stand out. Enclose a stamped, self-addressed envelope. Letters that sound personal work better; handwritten notes work best. Use a P.S. to present your strongest points.

5. Keep communications fact-oriented. Surprise, disappointment and irritation are all inappropriate. It's equally ineffective to take an apologetic tone. The customer promised to pay by a certain date, so simply ask for payment. Make each letter increasingly forceful, but avoid "toothless" threats.

6. Focus on how it will affect them. Collection letter recipients pay more attention to letters that involve their point of view. Play up the impact of nonpayment on their credit history and business relationships. Call customers who owe money before you fill their next order.

7. Keep credit standards tight, even for friends and good customers. This year, 42 percent of credit and collection managers tightened credit.

8. Use your best employee to make the call. Ask employees with the most collection experience and skill to handle the largest overdue accounts.

9. Keep the customer sold on your company, even if you're turning down his or her request for additional credit. Before stating your refusal, justify your reason from the reader's point of view. When possible, end with a counterproposal.
Past-due accounts: Suggested schedule for collection action

5 days overdue: Send invoice stamped "Past Due."

15 days overdue: Send first letter requesting immediate payment.

30 days overdue: Send second letter demanding payment.

40 days overdue: Follow up letter with phone call—or make personal visit to customer—to find out why payment is late. Agree on a time when a payment will be made, or negotiate installments.

45 days overdue: If the above steps don't work, send third letter demanding payment on a seriously delinquent account.

55 days overdue: Follow up letter with phone call stating that customers must pay by a certain date. Emphasize serious consequences of further delay. If necessary, offer alternative payment terms.

60 days overdue: Continue efforts to work with customer to settle account.

75 days overdue: If all efforts fail, write fourth and final letter informing customer that you will take action to collect by a specific date.

90 days overdue: Follow through on action described in the letter.