Solving the Late Paying Customer Blues

By Caroline Jordan, MBA

Nothing can drive a business down faster than customers who don't pay their bills as agreed. When you sell to customers on credit you are making an agreement with them. You will provide them with goods or services in exchange for their payment within the terms you agree upon. Period.

What I'm seeing more and more of is businesses using their suppliers as banks. Taking 60-90 days or more to pay a bill is becoming more and more common. I've seen some business owners shrug their shoulders and just accept that nothing can be done about it. That's just the way it is.

Naturally, I disagree with that approach. The reason you grant credit is to increase sales. But, the sales you want more of are the sales that pay and don't drag your business kicking and screaming into the Cash Flow Swamp.

So, what's a business owner to do?

Late paying customers can create a serious threat to the survival of your business. Whether you're just starting out or you've been in business for awhile, it's a critical business function to develop a solid plan to get paid.

Here's an example of a solid plan:

You decide your business will not grant credit. You decide to be paid up front before you provide services or products. You get set up to accept credit cards or use Paypal (or both). You communicate in no uncertain terms (nicely but firmly) what your payment terms are. You explain that payment is due before (or at) the time of service or purchase and that you accept cash, checks, money orders, credit cards and Paypal. Period. Then, you stick to it with no exceptions. You make that a condition of doing business. Communicate it firmly and respectfully. Don't waffle or apologize. People who take advantage of others can sense weakness. So can people who always have a tale of hard luck and woe. It's human nature.

Remember, late paying or nonpaying customers are endangering the survival of your business. These are not the customers you want to do business with. You'll have nothing to show for your work but stress and poverty. If you want to do some of your work for people in tough situations, donate your time but do it with the understanding that the majority of your time has to be spent on work that pays.

If you're working on a big project, set the expectations before you start so that a condition of doing the project is incremental payments. A percent before you begin, a percent during the project at specified intervals, and the remainder due on completion. This gives you the option of stopping work if you're not getting paid.

As with all areas of business, the best Defense is a good Offense. Set the standard for how you'll be paid, communicate it, and stick to it.

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