

## OVERDUE ACCOUNTS

### SUMMARY

**Overdue accounts cost you money. The cost can be either direct, in the form of interest on bank loans required to carry your receivables, or indirect, through discounts missed or interest lost on the funds that you might have invested for additional profit. You should not be in the banking business—collect your accounts receivable on time!**

To minimize the loss on overdue accounts:

- Make a regular review of your accounts receivable, and
- Systematically contact accounts that fail to pay within stated terms.

It is important to indoctrinate your customers to respect your terms of sale. Study the BMA entitled “Terms and Conditions of Sale” for further good advice and procedures. In some cases, a credit check may reveal that a particular company is chronically slow to pay all suppliers but still fundamentally credit-worthy, so an overdue balance must be tolerated if you elect to do business. Nevertheless, you should regularly alert every customer, including the expected slow-pay, of your desire for payment within terms whenever an invoice becomes overdue.

### FIRST REMINDER

In view of the fact that the collection period of accounts receivable is typically 45 days in the manufacturing sector, most customers pay their bills in a reasonably prompt fashion. Consequently, a simple reminder, such as a second invoice clearly marked with the original date and the follow-up mailing date, will usually be sufficient to activate payment from companies that go a few days beyond stated terms. An end-of-the-month statement of invoices due, categorized as “current,” “past due: 31 to 60 days,” “past due: 61 to 90 days,” and “past due: over 90 days” can fill the same function. The first reminder should never appear to be an impatient or threatening message.

Companies in the tooling and machining industry, as a group, collect their accounts receivable somewhat more slowly than most manufacturing companies: approximately 50 days, versus 45 days for the typical manufacturer. The fact

is, however, that one-fourth of all companies in NTMA’s Operating Costs and Executive Compensation Report hold their collection period to 40 days or less. To achieve a shorter collection period requires consistent follow-up of outstanding accounts, as well as prompt invoicing for work completed and efficient processing of funds received.

### REMINDER LETTER SOMETIMES NEEDED

For invoices outstanding beyond 60 days, a follow-up letter is usually sufficient to stimulate payment from most customers. Your letter should be friendly and sales-minded, while calling attention to the fact that, as indicated by the attached copy of the invoice, your work was delivered on a certain date but payment had not yet been received. You may then note that you wanted to mention the status of the account in the event that there had been an oversight. Alternatively, you might say, “If our invoice is in order, we are sure you will want to forward payment to us now.” Or, perhaps you might thank your customer for the order and then state that you would appreciate receiving payment at this time.

There are numerous books containing examples of collection letters, some humorous and some very stern. But, you will probably be much more successful by writing your own letter in your own words rather than follow a canned collection approach. It is generally best to avoid clever sayings or harsh warnings; state your purpose in a business-like manner.

Once you have completed the first draft of your collection letter, put yourself in the position of your customer. Is your letter likely to stimulate payment and promote future sales at the same time? When your letter accomplishes both goals, you should expect positive results. Of course, the same letter can be used, with minor modifications, to solicit payment from other overdue accounts.

## **TELEPHONE COULD BE PREFERABLE**

Some metalworking executives prefer to make personal telephone calls instead of writing letters, while others will not call unless the follow-up letter has failed to produce results. The telephone call should be conducted in the same friendly, sales-minded manner as the follow-up letter described earlier. It should either be directed to a responsible person with whom you have dealt in connection with the work performed or to a high-ranking executive or principal of the company.

## **A VISIT MIGHT DO THE TRICK**

If letters and/or phone calls produce unsatisfactory results, a personal visit to the office of your customer might be necessary. In this situation, make up your mind before you walk in that you are going to get your money. Your reason for making this special effort is clear-but: you have performed the work; your invoice has not been paid within stated terms; you are entitled to your money; and you expect to get it.

Whether or not you wish to continue further work for a particular customer, you should be calm and business-like, but forceful. It is unnecessary and unwise to threaten collection procedures or lawsuits. Your customer will sense your determination and usually decide not to stall you any further. In fact, personal collection efforts sometimes result in establishing positive long-term relationships with certain difficult customers.

## **COLLECTION AGENCY MAY BE THE ONLY ANSWER**

As a last resort, however, it may be necessary to turn your account over to your attorney or to a commercial collection agency. Such collection procedures will involve paying a percentage of any amount collected.

## **EFFICIENT OFFICE PROCEDURES REDUCE PROBLEMS**

To avoid or reduce collection problems, you should make certain your invoice is entirely in order at the time it is sent to your customer. Naturally, your invoice should be carefully checked against the original purchase order and any supplementary documentation.

Be especially careful about design changes. Any design changes should be approved **IN WRITING** by your customer **BEFORE YOU PROCEED** with additional work, so that collection difficulties do not occur at a later date.

**This BMA was prepared by Barry E. Miller, Financial Management Consultant, Reading, PA. The Barry E. Miller Company prepares the Operating Costs and Executive Compensation Report and the Wage and Fringe Benefit Report for NTMA. Mr. Miller serves as a consultant to NTMA members and has appeared as an expert witness on behalf of member companies.**