



**MasterCard Working™**  
FOR SMALL BUSINESS

Susan-Says®:

Careless credit policies can create cash concerns.

By: Susan Wilson Solovic, CEO SBTV®.com

Making a sale is great, but getting paid is even better. One of the worst problems a small business faces is late or non-paying customers. Payment on delivery is common for retail firms, but most other small enterprises must extend credit to clients to attract customers. When a customer fails to pay, the business owner is plagued with cash flow problems. As a result, he must choose between trying to collect the delinquent account or writing it off as a bad debt.

When you extend credit to your customers, you are essentially becoming a banker. So you have to think like a banker advises attorney Chris Kelleher. “Banks have forms that you have to fill out; they check your character, your credit, and your collateral. They make you sign all kinds of things before they give you credit. So the best advice I can give to business owners is remember when you extent credit, you’re in the banking business. “

To help prevent collection hassles, the first step is to establish a credit policy. Few entrepreneurs launch their firms with the goal of becoming collection agents and some pre-planning can minimize this unsavory business reality. Your type of business and industry may be the most important factor in what type of terms and account options you offer clients. Start with the standard in your industry and then adjust it to suit your operation. Here are some important processes to consider:

- **Get Solid Credit Application Forms** –Good credit information will give you the opportunity to check the potential risks. Be sure and check references as they may alert you to additional financial issues.
- **Business Procedures Support Collections**-Work orders, contracts, and agreements with customers should list the services and work to be delivered and the terms of payment. A consistent accounts receivables process with signed documentation by the client will go a long way in getting you paid on time and keeping customers happy.

Notwithstanding any provision in any documents available here, you are permitted to download an entire, unchanged copy (including any copyright notice and author attribution) to a computer and make a print copy of internal use.

This material is intended to provide a general overview and does not purport to provide all specific requirements for any person. MasterCard provides this material AS IS for the convenience of its members and cardholders.

- **Use Late Payment Fees**-Create an incentive for clients to pay on time. Often customers can not pay all their debts, but late payment fees increase the chances your invoice will be at the top of their pay list. Late fees can also be a tool that brings potential collection problems to light faster.
- **Follow-Up With Late Customers**-It is important to consistently follow up with late customers. This will give you some idea of whether you will be able to collect the payment or will need to turn it over to a debt collection agency or your attorney. Before you do anything, advise the client they are forcing you to “bring in a third person” to assist in resolving the payment issue.
- **The Longer It Takes To Collect The More Difficult**-The longer the debt is on your books the harder it is to collect so don't be shy. As soon as you see an account is delinquent, touch base with the client to see what the problem might be. It is a good idea to have a ‘dead beat clause’ in your contracts that stipulates clients will pay all legal fees if you are forced to sue them for non-payment. Additionally, mediation or arbitration may get you some of your money faster if the agreement or contract is disputed.
- **Know When To Cut Your Losses**- Don't throw good money after bad. In other words, don't try to keep a customer who will not pay you for the goods and services you have delivered.

Of course, accepting credit cards such as MasterCard dramatically reduces your risk of extending credit to your clients. And keep in mind, these basic steps won't guarantee payment on time, but will help you collect with stubborn payers and spot high-risk clients. Unfortunately, dealing with bad debt is a problem most firms will face at some time. Be prepared.

Notwithstanding any provision in any documents available here, you are permitted to download an entire, unchanged copy (including any copyright notice and author attribution) to a computer and make a print copy of internal use.

This material is intended to provide a general overview and does not purport to provide all specific requirements for any person. MasterCard provides this material AS IS for the convenience of its members and cardholders.