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Business Support



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Ways to Make Sure You Get Paid

At some point, every small business owner has worried about whether or not he or she would get paid. Whether it's the couple of customers with overdue accounts or the customer who seems to be reluctant to pay for the job completed, collecting money can be one of the most trying aspects of running a small business. Here are some ways to make sure you get paid for your goods and services.

Setting Proactive Policies Are the Key to Help Getting Paid

Determine your payment policy

- Determine upfront the types of payments that your business will accept. Cash, debit and credit cards are solid terms of payment. Accepting credit cards is the least risky of the credit options because most of the risk is on the credit card company, however, fees are involved.
- Accepting personal cheques has some risk and you need to have terms around them. If you give your accountant a cheque when you pick up your tax return, your accountant has extended credit to you because the work was finished before you paid for it. Any time you don't collect full payment from your customer in cash up front, you've extended credit.

Create a credit policy

- Determine if you are the type of business that has to offer credit to your customers. If the benefits of offering credit, such as increased sales, outweigh the costs of offering it, such as the risks and costs of nonpayment, you should offer it. If not, you shouldn't.
- Also, if the norm in your industry is to provide credit, you may have no choice but to offer it. An angle you should consider is whether you can gain an advantage over your competition by offering credit where the industry custom is not to.
- Overall, in deciding on a credit policy, you should be guided by the following principle: if you can ask for cash up front and your customers are willing to give it to you, that should be your policy. Extend credit only if business conditions demand it.
- Establish your credit policy including terms and criteria to help assess a customer's ability to pay (like conducting credit checks and references). Then document your credit policy and customer terms and ensure that all relevant employees understand them.
- How Much Credit to Offer? A good rule of thumb is to start with a small amount of credit and make your customers earn their way to higher limits.

Take partial payment in advance

- Worried that you won't get paid for a service that you can't take back? If it's sensible in terms of the price of the goods or services, ask for a deposit up front. This is an increasingly common business practice for higher-ticket items and services.
- For example, you might charge a percentage of the bill as a deposit before you start work on a project with the remainder due upon completion. Or break the bill into thirds, asking for a third before work starts, a third halfway through the project and a third upon completion.

Invoice promptly

- Customer invoices should be prepared and sent immediately upon delivery of your goods or services or as soon as possible. Not doing so can make your business look indifferent to getting paid and slow down your cash flow.
- Make sure invoices are correct and addressed to the right person in the right department.

State payment terms visibly and clearly

- Rather than giving them invoices that say vague things such as "Payable upon receipt", make sure your invoices state specific payment terms, such as "Payable within 30 days" or "Due Date: _____".

Unfortunately, even when you use all of these proactive policies and procedures, you can still have some overdue accounts. When being pro-active doesn't work, you do need a collection strategy.

Establish a follow up procedure for customers who miss payments

- The more quickly you follow up on a missed payment, the better your chance of getting paid. So set up a system for flagging late payments and a standard procedure for contacting customers when their payment is late.
- Usually, such a procedure starts out with a phone call or email to "touch base" with the customer as sometimes they have just forgotten or missed seeing the bill. If that isn't the case and payment still isn't received, the process then moves through a series of collection communications expressing increasing concern. If there is no response to these communications, you are left with choosing between writing off the bill as a bad debt or turning the account over to a collections agency.
- D & B Canada has some good credit advice and sample collection letter language that you can use at: <http://www.dnb.ca/resource/groundwork.html>

The best ways to ensure you get paid is to put proactive policies and procedures in place to cut down on the number of delinquent accounts your business has to deal with. Implementing the practices stated above should help towards ensuring that you get paid.

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