DO YOU KNOW THE 13 SIGNS THAT A CUSTOMER MAY NOT PAY YOU?

If you own a business, you might have been surprised when a customer tells you they will be paying late. Or they told you that they will not pay you at all. You should not be surprised but you should always be prepared.

If you review the history of the customer relationship, there was a red flag to warn you that the customer was a payment risk. In fact, you probably had more than one warning but did not recognize the signs.

WARNING SIGNS

What was the warning sign you missed? It could have been any number of things. The following 13 items are things to watch out for to avoid a bad debt expense:

- Threat of a dispute.
- Excuses about cash flow problems.
- Frequent changing of addresses.
- Emotional hostility or indifference.
- Unusually large product purchases.
- Payment with post-dated checks.
- Responsible party is unavailable.
- Will not share financial information.
- Unauthorized returns of product.
- Does not answer collection calls.
- Slow or new pattern of selective payments.
- Erratic pattern of payment.
- Does not honor, or complains about, agreed-upon payment terms.

Knowing and understanding the warning signs is important, but you also need to understand why a customer pays late so you can manage your receivables accordingly. Delinquent payments result from either a systems problem or financial problems.

System problems can be the fault of either the buyer or the seller. This includes such things as missing paperwork, accounting errors, and disputes. If you find the system problems are yours, fix them at once. If you do not, you will lose customers and must deal with costly reconciliations.

Need additional information? Have questions?

Visit our online resources library at: www.emergent-partners.com/resources

Emergent Partners is a management consulting firm specializing in helping companies define and execute operational and financial excellence, devise effective strategies, and align those strategies with actions enabling them to take advantages of opportunities in their markets.

EMERGENT PARTNERS, LLC
2800 Post Oak Boulevard, Suite 4100
Houston, TX 77056
(346) 444-6134
info@emergent-partners.com
www.emergent-partners.com

DEBTOR TYPES

Financial problems mean your customer is unable to pay. Customers with financial problems fall into one of three categories or types:

Temporary or Permanent

If a customer is late, then it is very simple. Either they can pay you (a temporary problem) or they cannot (a permanent problem).

A temporary problem means the customer can pay you soon and has a reasonable explanation for not paying you on time. Do not write off this customer. Instead, arrange a payment schedule. It is better to get your money in installments than to risk losing future sales to an otherwise good customer.

If your customer cannot pay in the near term, then you have a permanent problem. Move quickly to cut off your customer's credit. Try to limit your losses by asking for returns or having the customer sign a promissory note to cover the amount due.

Slow Payers

These companies have the ability to pay, but always pay late.
If your customer is a large company, paying late may mean they have financial problems, but it could also be how they manage cash, knowing there is nothing you can do to force them to pay on time.

If your customer is a small company, its management is probably disorganized or indifferent about paying bills on time. They have a lack of urgency to pay.

The best strategy is to call early and often to ensure everything is in order and learn when payment will be received. Be a friendly squeaky wheel!

Need additional information? Have questions?
Visit our online resources library at: www.emergent-partners.com/resources

Emergent Partners is a management consulting firm specializing in helping companies define and execute operational and financial excellence, devise effective strategies, and align those strategies with actions enabling them to take advantages of opportunities in their markets.

EMERGENT PARTNERS, LLC
2800 Post Oak Boulevard, Suite 4100
Houston, TX 77056
(346) 444-6134
info@emergent-partners.com
www.emergent-partners.com

DO YOU KNOW THE 13 SIGNS THAT A CUSTOMER MAY NOT PAY YOU?

Avoiders

These debtors do not intend to pay.

They are uncooperative, lie to you about payment dates, and do not honor payment schedules.

The best strategy is to identify these debtors early and cut off their credit as soon as possible. Consider transferring such accounts to a collection agency.

As a business owner, it is critical to the overall financial health of your company to know the warning signs and know your customers. Keeping abreast of these two things will keep your bad debt expense low or help ensure you avoid it altogether.

Need additional information? Have questions?

Visit our online resources library at: www.emergent-partners.com/resources

Emergent Partners is a management consulting firm specializing in helping companies define and execute operational and financial excellence, devise effective strategies, and align those strategies with actions enabling them to take advantages of opportunities in their markets.

EMERGENT PARTNERS, LLC
2800 Post Oak Boulevard, Suite 4100
Houston, TX 77056
(346) 444-6134
info@emergent-partners.com
www.emergent-partners.com