How to Collect from Anyone (Even Enron)

Thirty ways to get paid within 30 days.

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Not a day goes by that Bob Fisher doesn't thank his lucky stars for Nettie Morrison. But this past March 21 he was particularly grateful that she worked for him.

That was the day that Foresight, Fisher's 50-employee software company in Dublin, Ohio, received a $1,635 check from Enron. The very Enron that, 109 days earlier, had filed for bankruptcy. Yet the check, which fully covered Enron's renewal of a one-year licensing contract with Foresight, came to Morrison, the company's accounts-receivable specialist, as though it were business as usual.

How did she manage to wrest payment from Enron when so many others couldn't? Preventive diligence. Enron had been a Foresight customer since 1997. Beginning almost a year ago, when the news of Enron's accounting irregularities first broke, Morrison spoke to her Houston contacts almost weekly -- even though the contract didn't expire until February 2002. Using her internal connections, she worked her way to the Enron employee with the power to pay up. By starting early, maintaining good relationships, and remaining persistent, Morrison got her payment.

If you've been a player in the small-business arena this year, you know that getting paid at all, let alone on time, has become a tough assignment -- even if your customers aren't going bankrupt. Consider what happened to Rolf Albers. One of his big customers had the audacity to "declare a no-payment period," he says. "For the 25-day period between May 15 and June 8 they were simply not going to cut any checks."

Albers isn't alone. Of the small-business owners who responded to a recent Inc.com survey about collections, 61% said getting paid was more difficult this year than it was last year. We can't rectify the economic environment, but we can help on the collection front. Thanks to the assistance of such collection veterans as Morrison, Albers, and others (see "The Collectors," below), we've assembled the following list of 30 collection tips. Can we guarantee you'll always get paid within 30 days? We wish we could. But follow these road-tested rules, and you're bound to see some real improvement.

Start With Some Smart Invoicing

1. You do the math.
Foresight's invoices contain the following phrase: "If paid by September 30, your cost is x; if paid after September 30, your cost is y (invoice amount plus interest)." Morrison found that specifying what the amount of interest would be -- as opposed to merely stating that 1.5% of the charges would be appended every month -- made a huge difference in how quickly customers paid up.

2. Stay consistent.
"The language on the invoice should match the language on the contract the customer signed," says Tracy Wald, chief financial officer at consultancy Leonhardt Fitch. That way there's no excuse for customers to claim confusion over precisely what they are being billed for. That is especially important if you sell an unquantifiable service like branding, as Wald does.

3. Work off milestones, not months.
Avoid billing at monthly intervals if you can. After all, you're not the phone company. It's far better, says Wald, to tie your billing milestones to tangible deliverables. For example: At some point during a project, you and your team give a major presentation to a client. Don't wait until the end of the month to bill for it. Instead, use the presentation date as a milestone in your billing cycle. Which relates to ...

4. Stagger your billing.
Don't mail your invoices on a set schedule. When possible, try sending them out so that customers get them a day or two after receiving your product or accepting your service. That makes your job a whole lot easier when following up with collection phone calls. If you've followed tip #2, your customers will have the perfectly worded invoice in their hands when your service or product is still fresh in their minds.

5. Don't let last be least.
The hardest check to collect is often the last one, since that's when the job is complete and your negotiating power is reduced. So Richard Larkin, CEO of staffing company Larkin Enterprises, is careful about when he mails out his final invoice. He plans for it to arrive while his workers are still at a job site. If his customers take too long to pay, Larkin has the option of pulling his workers off the job before they complete it.

Practice Applying Pressure

6. Know your customer's stress points.
If you can't directly pressure your customer, then pressure your customer's stress points. Larkin does that in extreme cases by calling for work stoppages. Many of his customers are general contractors who have been hired by large utility companies to build or overhaul a power plant. He knows that if the general contractor isn't paying him, then he can threaten to cut off the contractor's supply of employees. The utility then gets upset at the general contractor, because without Larkin's employees, the contractor usually fails to meet the utility's deadlines. And Larkin also knows that contractors can rarely afford to alienate their large customers.

7. Take legal action.
If things get really bad -- if a customer breaks a promise about making an ultralate payment, for example -- then Larkin places what's called a "mechanic's lien" on the utility's property. That's when the utility (again) gets angry at the general contractor. "It tends to cause a rift between them," says Larkin, who adds that for both parties the prospect of a mechanic's lien is dreadful. "Just the threat of it usually accomplishes the mission," he notes. According to Bob Edinger, contract manager at Larkin Enterprises, the cost to file a mechanic's lien is minimal.

8. Revoke privileges.
Rolf Albers of Albers Manufacturing Co. has been in business for 23 years. One thing still baffles him: "If I went to Sears today and wanted to buy a refrigerator, they would make me pay today, in one form or another," he says. "But a small manufacturer with no track record can call me, wanting $1,000 worth of equipment, and they think they can wait 90 days to pay. It's a stupid system, but that's the way it is." So Albers does his best to prevent his customers from taking advantage of "the system." If a customer gets too far behind in payments, Albers immediately converts that customer to COD status going forward. Unless it's one of his big customers. In that case, "they pay when they feel like it," he says.

9. Just drop by.
If you don't receive a scheduled payment, you might call your customer and ask, "Where's the check?" Whereupon your customer might say: "It's right here. It's going out in today's mail." To which, all our experts agree, you should always, always reply: "Don't bother sending it. I'm going to be in the neighborhood today. I'll pick it up." That simple tactic might be the most effective collections procedure out there. Larkin says he once

visited his biggest customer, an international energy goliath, and came away with a $3.8-million check. Albers recalls walking out of a customer's office with a check "in the $10,000 range." Richard Kadet, a veteran CFO who works for the Brenner Group, also recommends making collection visits, especially for large invoices. And it doesn't always have to be the CEO or CFO who makes the visit. "For out-of-the-way customers, your salesperson in that territory can personally go for it," he says.

Make Your Visit Count

10. Enlist your allies.
Visiting a customer to collect a check may seem like trying to snatch a hostage from enemy territory. It needn't be that way, especially if one of the customer's employees is satisfied with your work. Tracy Wald usually has a good relationship with his clients' project managers. When Wald is looking to collect, he and the project manager will sometimes visit the accounting department together, with Wald playing the role of "bad cop" and the project manager playing the role of "helpless victim." "I'll bring the project manager down to accounting," says Wald. "Then I'll get him to say, 'It's not that I don't trust you. But Tracy says work will have to stop if he doesn't get a purchase order.' "

11. Always bring backup.
When you visit a customer, make sure that you come armed with specific documentation to support what the customer owes you. The last thing you want on a collection visit is a dispute over the amount of the bill. You also don't want to hear customers say that they either lost or never received the invoice that you had sent. Cullen G. Williams, CFO of Larkin Enterprises, heard those and other excuses the first few times that he visited his company's largest customer. But each time he had backup on hand -- time sheets signed by the customer's managers, which showed that Larkin employees had worked a certain number of hours on specific projects.

12. Remain calm.
"You have to be dispassionate about it," Williams advises. "Don't raise your voice, and don't make it personal. Be very bland. Use simple, nonthreatening sentences." Williams speaks from experience. His first visits to one customer came on the heels of some heated interactions between CEO Larkin and some of the customer's employees. Larkin, as co-owner of the company, understandably had both a personal and a professional stake in the large collection and was unable to remain dispassionate about the collecting process. So when Williams took over the task, his job was to diffuse "the harsh past" and make it clear that he'd do "whatever was reasonable to comply with the customer's requests," which meant, in this case, supplying backup documentation "10 times" over, he adds.

Use Phone Etiquette

13. Show some sympathy.
Just as you refrain from getting mad in face-to-face encounters, it doesn't pay to lose your cool on the phone, either. But how can you remain calm when some faceless administrator is giving you the runaround? Nettie Morrison of Foresight -- an administrator herself -- has mastered the art of phone empathy. "I say to them, 'I know they're not paying you to chase around invoices,' or something to that effect," she says. Showing that you understand where people are coming from helps to mollify them and possibly even win them over as an ally.

14. Call before the due date.
Remember when fax machines were first used and it was common to call just to confirm whether someone had received your fax? When it comes to invoices, no matter how they were sent, the same protocol still applies. It's best to make the call before the invoice's due date -- not only to confirm its receipt but also to ensure that the customer's accounts-payable department has all the supporting documentation it needs to cut the check.

15. Get a commitment.
When you've got someone on the phone, always try to get a specific date by which you'll get paid. That is a good rule to follow, both during an initial call for a missed payment and in response to a previously broken customer commitment. Answers like "soon" or "next week" aren't acceptable. If the customer is dodgy about dates, calmly mention what you plan to do if you don't get paid on time. What should you say? You can refer to "the

authorities." You can mention the idea of halting work on a project. And you can use statements like "You expect us to ship on time, so we expect you to pay on time," says the Brenner Group's Kadet. "Use that statement often," he adds. However, when you say things like that, be sure to maintain an even tone. And remember, your customer signed a contract. Don't be afraid to refer to it. Constantly. "You must create an expectation within their A/P department that you will call and insist on payment within the contract terms," says Kadet.

16. Keep a journal.
Take detailed notes of every collection conversation you have. Record the date of the conversation; whom you spoke to; the specific commitment the person made to you; and finally, what you ever-so-calmly threatened to do if the commitment was not met. Then, after the actual phone discussion, E-mail your notes of the conversation to your customer contact. That will (a) serve as yet another reminder that you are determined to get paid and (b) create an additional record of the conversation in your (and your customer's) E-mail accounts.

17. Follow up wisely.
If a customer reneges on a commitment to pay, you'll need to consider whether you should follow up on your threat. Keep in mind that your goal is to get paid as soon as possible. Sometimes giving a customer a second chance is the most effective thing to do. Before you follow up on your threat, ask if the customer is in any way dissatisfied with the services you've rendered. "I bring that up, especially when I know they're thrilled," says Tracy Wald. If your customer claims to be happy with your services, then you'll have another reason to act surprised when you ask -- for the second time -- why you haven't yet been paid. Perhaps the administrator that you're dealing with is new to the job; perhaps your contact person just came back from vacation. Regardless, you'll have to make one of two choices: get a second commitment from your customer, or take the action you initially threatened to take.

18. Let the punishment fit the crime.
If you decide to follow up on your threat, remember to be as professional as possible with your contact. Don't act as though you're out for retribution. Instead, remind your contact of the commitment he or she made and subsequently didn't keep. Explain that you're not trying to get anyone in trouble -- you're simply trying to get paid. One "punishment" many of our veteran collectors suggested was to E-mail your contact and "cc" his or her superior. The message would only restate the nature of the broken commitment. Here is another instance where it helps to have phone documentation. The E-mail message should also say something about what you will do if the bill remains unpaid. Allude to work stoppages and -- if you're working your way up the company hierarchy -- to other employees at the company whom you might need to "cc" on future E-mail messages.

19. Use guilt, not anger.
To achieve your aim -- getting paid -- it's important to get the name of all the people you've talked to, especially if they've made a commitment. "Once you get that commitment, whoever you talk to will feel guilty when you call back," says Wald. "They've made you a promise, and I've found that they'll do what they can because they don't want to be thought of as someone with no integrity. It could be the owner, a clerk, anyone." What's the proper way to react if your contact lies to you? With disappointment rather than anger. "It's just a sigh, mostly," says Wald. "Then I say, 'I told my boss you guys were going to pay, and now I'm going to look like an idiot.' And after saying something like that, rather than being pissed off at them, I ask for their help."

20. Avoid the owner.
One of Wald's axioms about collections is: "I normally choose not to collect from people who are spending their own money." He's found that entrepreneurs are less likely to pay up promptly because it's their own dough they're parting with. Rather, he prefers to have collection discussions with someone other than the business owner.

21. Never give up.
If you have no choice but to deal with the owner, then you have to make like a salesperson. Do everything in your power to get past the receptionist just to get the boss's ear. First, make sure that you talk to an actual person, as opposed to leaving messages. "I will talk to anyone," says Wald. "I start to really talk at length and explain my problem to the clerk or receptionist. Then, when I've finished the explanation, I just ask them (after learning their name) if, when they see a certain person, they could simply explain how important it is to me that they call me back." Of course, business owners receive calls all the time and expect to be screened from anything that's not at

the top of their agenda. In some cases, you may have no choice but to wait on hold. Wald says he once waited on hold for four hours just to reach someone. "I had the phone on hands-free so I could still type and go about my business," he says.

22. Don't wait for a reason to call.
Foresight's Nettie Morrison monitors the business press. She does that not only to stay alert about potential mergers (and bankruptcies) among her company's customer base but also to have an excuse to pick up the phone and chat up a client. For example: A client might be in the news because it is debuting a new product or having a strong earnings quarter. Morrison calls to congratulate the customer and winds up shooting the breeze, and as a result she develops better relationships with her customer contacts.

Come to Terms

23. Work with difficult customers.
Your company has its own procedures for billing, but they should be secondary to those of your customers, insists Kadet. If your customer, as a rule, does not pay vendors in less than 60 days, then prepare to accept that -- don't start harassing the customer just because your terms are net 30. Similarly, be a perfectionist when it comes to following customers' instructions. Is the shipping address different from the billing address? Should you enclose a separate "shipping invoice" document with your regular invoice? Does the customer have unusual rules such as enforcing its "do not ship after" dates? You must comply -- if you want to keep the customers. After all, if you don't go along with their system, you're virtually guaranteeing a nonpayment.

24. Learn to improvise.
You like to get paid within 30 days, but your customer expects to pay within 60 days. Does your cash flow have to suffer? Larkin Enterprises' Cullen Williams suggests altering your pricing structure. Perhaps you ask for an initial deposit. Maybe you make your first bill larger than it normally would be. Or perhaps you offer the customer a discount for paying in 30 days. The important thing is that you learn to match your expectations with your customer's needs -- without crippling your own business.

25. Don't hesitate to negotiate.
Your company needs cash. Your customer does too. Is there a middle ground where you can meet? Negotiating a payment schedule is one idea. It doesn't have to be anything fancy. You can ask a late-paying customer to commit to giving you half now and the rest next week. Seeking a smaller amount might make it easier for an accounts-payable employee to cut you a check. And partial payment today is always better than no payment tomorrow.

26. Ask for the oldest first.
Another test-driven tip from Tracy Wald: If a customer owes you for more than one invoice, you should start by looking to collect on only the oldest invoice. "Asking for all of them at once can seem too insurmountable," he says. And the collecting "tends to get easier once you've gotten the oldest one." Plus, he adds, by asking for payment on only the oldest invoice, you are subtly currying goodwill with the customer, who'll appreciate your leniency in not demanding the entire debt.

Protect Yourself

27. Think like a landlord.
Maybe you are so eager for business that you will welcome any customer. At the same time, a prospective customer may strike you as the type that may prove to be an unreliable payer. One thing you can do, simple as it sounds, is request a deposit before beginning your work. How much you request is up to you -- there are no rules here. It's simply a case of striking a balance between pleasing customers and maintaining your cash flow.

28. Think like a retailer.
Last year, for the first time since he's been in business, Rolf Albers began accepting credit-card payments. That may seem unremarkable, but Albers's customers are not consumers -- they're corporations like Lucent Technologies, Emerson Electric, and other makers of telecommunications and electronics equipment. So Albers, accustomed to receiving corporate checks, never thought he needed to accept credit cards. But he noticed that the

following scenario happened a lot: A customer's employee would be in the field wiring up business phones and would suddenly discover that he needed a part. The installer would call Albers directly -- as opposed to going through his own company for the part -- which would allow him to complete the job on the same day and not disappoint his customer. The installer would typically say something like, "Just bill it to my company." And Albers, wanting to please his own customers, would comply. But that led to all sorts of collection disputes and problems. Typically, installers would forget to tell their companies that they'd needed the extra part. So now Albers accepts credit cards from the installers and contractors who work for his large customers. That way, the installer or contractor can still get a part immediately, but now it's the installer or contractor who is facing the cash crunch. Albers gets paid right away, albeit minus the credit-card merchant fees.

29. Follow the money.
You're in payment discussions with a CEO. You're thinking that you've finally knifed through the red tape and made your way to the person who has the authority to pay you. Don't be fooled. Sometimes even CEOs have little choice about where their company's money goes. Some CEOs, for example, face dire financial consequences if they don't periodically pay down their credit line. Other CEOs don't even call the shots -- they might be indentured to a group of equity investors with a majority share of the company. That scenario is especially common if you deal with high-tech start-ups. In either situation, include the company's powerful financial entities in your collection efforts. For instance, let's say that the contact person at your customer's company breaks a promise to you. When you follow up with that person by E-mail, "cc" not only the contact's supervisor or CEO but also the company's banker or investors. If taking that step seems severe, then don't do it -- but you can certainly threaten to do it at a later date if the customer continues to break its commitments.

30. Be enterprising and relentless.
We'll conclude with another tale from Tracy Wald's adventures in collecting. Wald has actually gone so far as to look up home numbers in the phone book and contact delinquent payers at home. He says he's called at "ridiculous hours" of the day. "Those are measures of last resort," he warns. "But it's not unreasonable to expect to be paid if you met their commitments."

Ilan Mochari is a staff writer at *Inc*.

The Collectors

Emotional intelligence. Communications savvy. Tenacity. A touch of ruthlessness, coupled with compassion. All are required traits for anyone who is negotiating a successful collection process. The members of our panel of veteran collectors have all those traits and then some.

Nettie Morrison has been an accounts-receivable specialist for Foresight for 5 years. Foresight is a 50-employee software developer based in Dublin, Ohio.

Rolf Albers has been at the helm of Albers Manufacturing Co., a $12-million electronics-manufacturing company in O'Fallon, Mo., for 23 years.

Tracy Wald is CFO of Leonhardt Fitch, a $10-million branding consultancy in Seattle. He's held that position for 10 years.

Richard Larkin is CEO of Larkin Enterprises Inc., a $70-million staffing and construction company in Bangor, Maine. Larkin collected his own receivables for 7 years before turning the job over to his CFO.

Cullen G. Williams has been the CFO of Larkin Enterprises Inc. for the past year. He has had more than 10 years of experience doing collections.

Rich Kadet is a management consultant at the Brenner Group Inc., a CFO-for-hire company in the San Francisco

Bay area. He has worked in the financial field for 24 years.

And Before You Even Begin

You might think that some companies have all the luck -- those that deal with healthy, cash-rich customers like Microsoft, for example. Surely it's no trouble to get those customers to pay up.

Think again. And listen to an important piece of advice from Tracy Wald, who has counted Microsoft as a client for the past 15 years, the last 10 during his tenure as chief financial officer with Leonhardt Fitch.

The good news is that Microsoft is not only rich but also well organized. Leonhardt Fitch enters its invoices directly into Microsoft's computer system through a secure Web server. The system routes the invoice by E-mail to whichever manager in Redmond has approval authority. A manager signs off on the invoice, and Leonhardt Fitch gets paid on time. "Their system does everything electronically," says Wald. "It always pays at least one day before the bill is due."

And the bad news? Simple as the process sounds, it can get started only if Wald has secured a purchase order for each project. But getting a P.O. isn't always easy. Wald recommends using the same diligence you would in pursuing an overdue bill: Call proactively, record the conversation, and exact a commitment from whomever you talk to about when you can expect to receive your P.O. If you don't receive a P.O. on that date, call to follow up.

Why is getting a P.O. so tough? Wald attributes it to Microsoft's entrepreneurial culture, which gives project managers tons of tasks to complete, so accounting procedures are low priority. "Giving out P.O. numbers isn't really an important part of their job," says Wald. "So you have to impress upon them that, no matter what, you're not going to go away."

Please E-mail your comments to **editors@inc.com**.

Check out "Collection Slip-Ups" to discover what *not* to do when collecting from clients.
