



## Business Protection Plan

### **WHEN IS IT TIME TO SEND THOSE PAST DUE ACCOUNTS TO COLLECTION?**

**P**ast due accounts have notoriously been a thorn in the side of any business. Less than 30% of past due accounts over 90 days old are collected. For small businesses, properly understanding the avenues of collection are imperative to maintaining a steady cash flow.

Small businesses struggle with past due accounts for at least two reasons. The first is that most small businesses don't know when or how to collect on past due accounts. The second, and perhaps most common, reason is that small businesses don't want to create bad feelings between themselves and their customers that might result in loss of future business.

Accordingly, a business should start addressing delinquent accounts by first implementing a written internal collection policy and procedure. This procedure should include instructions as to when an initial collection letter should be sent. Specifically, between 30 and 45 days after nonpayment of the initial invoice, you should send your customer a "nice" collection letter and follow up with a telephone call.

If the invoice remains unpaid after a period of 45 to 60 days, a "settlement" collection letter should be sent that requests either payment in full, a payment arrangement or a meeting with your customer to determine the reason for the delinquency and establish a payment plan. Be sure to set a deadline by which your customer is required to respond to this letter.

Any invoice that remains unpaid for 60 to 90 days should result in a final collection letter to your customer. This letter should advise your customer that if they fail to respond and enter into a payment plan that your company will explore any and all options to collect the outstanding invoice amount, including litigation.

Finally, if the invoice continues to remain unpaid after 90 days, a determination must be made as to whether the account should be turned over to a collection agency or an attorney. Based on the legal resources available to an attorney, including garnishments, levies and other judicial procedures, you should consider hiring an attorney to assist your business in collecting outstanding accounts in excess of \$500 and a collection agency for any accounts that may be less than \$500.

### **What does this mean for my business?**

By identifying the problems most small businesses face when dealing with past due accounts a business can properly determine whether to send a past due account to collections to help maintain cash flow. If a business follows its written procedures it can attempt to avoid the troublesome process of dealing with past due accounts. Although the suggestions listed above will never guaranty collecting on past due accounts they will help remove the thorn that has been piercing small business since the beginning of time.

To review your Business Protection Plan and to get any other questions you may have answered, contact our office at (763) 389-0178 to schedule a meeting or send us an email by clicking here.



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