Run Out Of Money & You Are Out Of Business

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by Abe WalkingBear Sanchez, B2B Credit Expert, A/R Management Group

"I've got all the money I'll ever need, if I die by four o'clock." - Henny Youngman

Working capital (WC) is the money you need to pay for day to day operations, and a business with negative WC will not survive. WC is the funds that are or will be available to you in excess of liabilities that are due or will come due. It's the difference between you sleeping well at night or not. The sources of WC:

1. **Investment:** funds from outside the business such as your own resources, money from family, friends and investors
2. **Trade Credit:** time to add value to products or services purchased and to make sales to your own customers before you need to pay your suppliers/vendors
3. **Loans:** short or long term debt resulting from the sale of A/R (short term money due from customers), a bank line of credit that allows you to borrow funds for short-term needs and longer fixed term loans
4. **Accounts Receivable:** short term money due from your customers on the purchase of goods and or services. ***With 95% or more of all B2B Sales being made based on payment at a later date, the A/R is very often one of your largest assets and the greatest source of WC. Additionally, if properly carried out, A/R Management directly contributes to the most profitable sales: future sales to existing customers.***

Prior to the *Great Rescission* of 2008, which according to Raghuram Rajan *http://www.esquire.com/blogs/politics/2008-recession-causes-060810* had it's root cause in the ever widening income inequality, a survey of over 8,000 companies across industry lines found that on average, 25% of A/R were 1 day plus beyond their due date. The same survey found that less than 1% of A/R were ever written off as a bad debt loss. Today, while it may take some business customers longer to pay, the bad debt % has not increased appreciably with the exception of those industries that were hit the hardest by the rescession, like construction.

The vast majority of your past due business customers are not at risk of failing to pay.

A/R Management is not about journal entries or accounting formulas and it is not *collections - the enforcement of payment* - yet most business owners and managers still think of past due A/R Management as a relationship between *creditor and debtor* with the *debtor* being the beholding party. Use of DSO and bad debt % performance measurements reinforce the old antagonistic *collections* approach to dealing with past due customers.

If not *collections* , what?

The Art of Completing the Sale

A better and more profitable approach to past due A/R management is *The Completion of The Sale* which is a relationship between *seller and customer* with the *seller* being the beholding party.

Every past due invoice will be 1 of 3 types, and by using a *4-Step Sales Approach*, the type of each past due invoice can be identified and then - and only then - dealt with appropriately.

4-Step Sales Approach

1) **Contact the decision maker:** In sales, the decision maker is the person who can say yes. In *The Completion of The Sale* the decision maker is the person who can tell you when payment will be made and *even more important*, the decision maker is the person who can tell you *why* payment was not made when due. However, sometimes you have to go through someone else to get to the decision maker. For example, you are talking with an A/P manager and he tells you that the CFO tells him when to release payments. The CFO is the decision maker but you don't want to start going around the A/P Manager and ruffle his feathers.

An edge when contacting someone about payment on a past due account is the establishment and maintenance of a positive relationship with the person you contact. If in a prior conversation you learned that Mary the A/P manager at a customer's business likes to fish you might ask how the fish are running before using the *most powerful opening line* regarding the past due invoices. You can look up an article on fishing, print it out and snail mail it to Mary.

Everything else being equal, people buy from someone they like. Everything else being equal, who do you think gets paid first?

The *most powerful opening line* once you have established a relationship: "By the way Mary, our records show invoice number so and so dated so and so for blank dollars as still open, can you help me please?" Then listen for the why. Never, never say to a past due customer, "you rascal you're past due again".

2) **Determine customer need or desire:** Ever notice how customers tend to be self-focused on their perceived needs or desires when making a purchase? Good sales people ask questions and then they shut up and listen to the customer: they are looking for the customer's *hot button*. In *The Completion of The Sale*, we have used the *most powerful opening line* and then we listen for the reason *why* payment has not been made. Sometimes you may have to ask follow-up questions to get a clear understanding as to reason for non-payment.

3) Make a presentation that addresses the customer's perceived needs or desire, push the hot button, and then and only then does a good Sales Person **point out the other benefits of their product or service:** In *The Completion of The Sale* a specific presentation is made based on *why* payment has not been made.

4) **Close and follow-up:** The understanding is repeated and a follow-up action/date established. I've been told by sales professionals that follow-up is 90% of a sale. In *The Completion of The Sale*, you also repeat the understanding and establish a follow-up date. Follow-up. Follow-up. Follow-up.

Post Sales Follow-Up

There may be times when you want to contact a credit customer before the due date.

1) **First invoice to new customer:** Prior to the due date, for example you sold on N-30 terms and you contact the customer at 15 days from the invoice date. The payment is not yet due so the reason you make contact is to introduce yourself to the decision maker, to learn about how the customer does things, and to ensure that there are no problems with the invoice that would cause a delay in payment or additional costs for either party.

2) **Large Dollar Invoices:** You may also want to contact credit customers on invoices over a certain set amount prior to the invoice being due. The call is to make sure everything is OK with larger invoices before - and not after - they are due.

Working Capital is the lifeblood of your business and you want an ample supply coming in or you risk a slow painful death. Accounts Receivables is not only the greatest current source of Working Capital, but also of future Working Capital that results from additional future sales to existing customers. Paying credit customers are customers that will buy again and again.

Questions for you to ponder:

What are my goals in A/R Management? Performance Measurement must reflect the goals.

Do I have the right person for *The Completion of The Sale*? It needs to be someone with the ability to communicate and to build relationships.

Abe WalkingBear Sanchez is the developer of the copyrighted Profit System of B2B Credit Sales Management. *An international speaker and trainer, he is the endorsed consultant for PEI and STAFDA. You can learn about his business - A/R Management Group - by visiting* www.armg-usa.com. *You can reach him at* Abe@armg-usa.com, *or by phone at 719-276-0595.*

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