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Straight Up
Dealing With Deadbeat Customers

Tom Taulli 07.17.06, 6:00 AM ET



More From Tom Taulli

Gini Dietrich thought she was in the media business. That was three years ago, when she launched **Arment Dietrich**, a public relations firm in Chicago. Today, Dietrich's not so sure: "I almost went broke playing bank for clients over the past few years," she says.

Consider the saga of a client she signed on last year (whom she won't name). Thanks to Dietrich's team, the client--which had agreed to pay a \$3,000 monthly retainer--landed multiple television spots and was featured in all the local newspapers and magazines. "It was a fun account to work on," says Dietrich. "We poured our hearts and souls into it."

Fun, that is, until 60 days had passed and the client hadn't paid. Dietrich applied a little pressure, and the client got around to paying in full. Feeling reassured, her team continued to work the account. Ninety days later, the client hadn't paid a penny more. So Dietrich pushed back again. This time, the client said it could only pay \$500 per month. When the matter was still unresolved a month after that, Dietrich retained a collection agency--at which point the client disputed her invoices. The cherry on top: "The case went to court, and the client didn't even show up," she says.

Unfortunately, Dietrich's horror story is all too commonplace. Here's what you can do to ease the hassles of doing business on credit.

Screen For Deadbeats

Of course, there is no failsafe screening system. To be fair, some customers simply fall on hard times.

Still, there are affordable ways to conduct background checks on prospective customers. **Dun & Bradstreet** (nyse: [DNB](#) - news - people), for example, has a database of more than 100 million business records. Starting at \$30, you can get

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reports packed with information on potential customers' financial performance, historical payment trends and credit forecasts, as well as details on suits, liens and other legal judgments.

But just because a customer has a negative D&B credit assessment doesn't mean you should run the other way. Instead, you may want to do business strictly on a cash-on-deposit basis. The same goes for credit customers who bounce their first checks. If you do put credit-paying customers on COD, be sure to notify them in writing, says Michelle Dunn, author of *The Ultimate Credit and Collection Handbook*.

For small amounts, COD arrangements work best, says Eric Caruth, executive vice president of Primary Financial Services, a collection business used by large clients like **Wells Fargo** (nyse: [WFC](#) - news - people), **JPMorgan Chase** (nyse: [JPM](#) - news - people) and **Dell** (nasdaq: [DELL](#) - news - people). On the other hand, "Big projects should [require] a down payment--20% to 50%--with the remainder due when work is completed."

For more information on how to screen for deadbeats, check out " [Small Biz Bum Alert](#)."

Craft A Sound Credit Agreement

Never lend money to customers without first making them fill out a credit application, says Matt Keeperman, vice president of The National Collection Agency. You can find these forms online at [allbusiness.com](#) or [lawdog.com](#); prices range from \$25 to \$99. Here are the necessary elements:

Customer Background: Get the customer's name, date of birth, phone numbers, Social Security number, home and work address, spouse's name, and driver's license number and state of issue.

Credit Terms: These include credit limits, interest charges, discounts for early payment and penalties for late payments.

Default Provisions: If the customer fails to pay, you have the right to take the matter to court or place the account with a collection agency. Clearly stipulate in the agreement that the customer will be responsible for any legal or collection fees.

Credit Check: You may need the customer's consent here (the rules vary from state to state). You may also want to ask for several references.

Personal Guarantee: Such agreements obligate owners or partners to pay on the company's behalf. "This means they cannot hide behind a limited liability company or corporate filing status," says Caruth.

Acknowledgement of Receipt of Goods/Services: Establish in writing that you held up your end of the bargain before barking about late payments. Proof-of-service forms are handy evidence in a payment dispute. Some shipping companies provide a copy of this form, so you'll know specifically who signed it and when.

Secured Interest: Under what's called the Uniform Commercial Code, if the customer fails to pay, you have the right to take back the merchandise. You also have priority over that property if the customer should declare bankruptcy.

Devise A Realistic Payment Plan

At the first sign of trouble, act fast. "Make a personal visit or a phone call," says Dunn, who also runs [Credit-and-collections.com](#), a community Web site for collection professionals.

Be polite, concise and to the point: Identify yourself and your company, the reason for the call and what you want. For example: "Hi, this is Michelle from KTM Auto calling about your balance of \$500 on invoice #1234 dated June 4. I am calling today to take your payment over the phone to clear this balance from your account. Would you like to pay with a check, debit or credit card?"

If the customer balks, try to get a handle on how bad the situation is. If the account has been delinquent for less than 60 days, there could just be a simple billing error. If the

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deadbeat hasn't paid but still returns your calls, try putting together a workable payment plan.

A debt older than 60 days "usually means that the debtor has very little intention to pay," says Caruth. At the 90-day mark, consider calling a collection agency. You'll pay a fee based on the amount collected; commissions range from 25% to 65% of the outstanding amount. (Generally speaking, the older the debt, the higher the fee.) That may sound like a lot, but given the amount of time and expertise it takes to tease cash out of a true deadbeat, it may well be worth it.

For more information on how to collect from deadbeat customers, check out " [When Receivables Grow Moss.](#)"

Tom Taulli advises start-up companies and is also an adjunct professor at University of Southern California, where he teaches corporate finance and corporate law. He has written several books, including The Complete M&A Handbook (Random House) and Tapping into Wireless (McGraw-Hill). He can be reached at tom@taulli.com and has a blog at Taulli.com.

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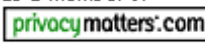
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