

Managing collections by starting off on the right foot

Fixing cash flow problems means collecting better, not just selling better.

BY PHIL SASSO

Q I like selling, but I hate collecting. And I must be doing something wrong, because I always seem to have more month left at the end of the money. Can you talk about collections?
— *Cashless in California*

A Being a mobile tool distributor may look like a sales business, but it's really a collections business. How much you make in sales is meaningless if you aren't managing collections on those sales properly and keeping your cash flow up.

Selling as a tool dealer is partly about selling your customer on making their full payment on time, every time. Of course, occasionally a customer will have a bad week. But if you've got your collections system down pat, that will be the exception more than the rule.

Starting Off On The Right Foot

Because you're dealing with a verbal contract, it's paramount that everyone understands the rules of the game upfront, says Cornwell Tools Training Manager, Mike Boyhan. So, when you start working with a new

customer you want to be sure they understand how you operate. It doesn't matter how they're used to working with other dealers, you want to "train" them to follow your system.

Imagine you're setting up an account for a new customer. According to Boyhan, the conversation should go something like this:

You: I appreciate your business and I look forward to working for you for a long time.

Joe: Me too.

You: Here's the way my truck account works: we're agreeing to a set payment amount each week. If for some reason something happens and you have to miss a payment, I understand. But we need to make it up as soon as you can. I'll do my best to be a great tool guy if you'll do your best to pay me what you owe every week. Agreed?

Joe: Agreed.

You: And If for any reason you fall behind too far, I've got to get my tools back. Understood?

Joe: Understood.

It reads a little more like a lecture here. Feel free to reword it to fit your personality and perhaps soften it up a little. But don't make it too soft. The point is you need to look them in the eye and make sure they understand what they're committing to upfront, according to Boyhan.

I also feel it's important that the customer know this is your money you're putting on the street. It's not money from some faceless corporation

or a donation from a philanthropist. It's your cash and you're just trying to make a living just like he is.

Try to do this with every new customer from now on. It will make collections a little easier.

Getting Back On The Right Foot

You may already do this, but chances are you have some customers that didn't get "the speech" when they opened their account. Or some customers may have forgotten it, or some didn't listen very well when you did give it. You're not alone.

"IF A CUSTOMER SKIPS A PAYMENT, IT'S IMPORTANT TO GET THEM BACK ON TRACK THE NEXT WEEK."

You don't need to start over with everyone. Chances are most of your customers understand and follow the rules. It just may be a good idea to clarify the basic groundwork with the customers that have a pattern of payment issues:

"When we set up the account the understanding was simple — I'm selling you tools with time payment and you're agreeing to pay a set amount on-time every week. If you fall behind, you need to catch up. If you can't catch up, I'll need my tools back"

If a customer skips a payment, it's important to get them back on track the next week, says Boyhan. The lon-



Phil Sasso is president of Sasso Marketing Inc. (www.sassomarketing.com), a technical marketing agency specializing in tools and equipment. Subscribe to his free marketing tips at philsasso.com/blog.

ger he's behind the harder it will be to catch up. Consider explaining it this way:

"I know your dog died last week and you had to skip your payment to pay to bury him. I'm sorry about that." I'd say, pausing for effect. "But we need to make up that payment. Can you pay the whole missed payment today? [No.] OK then let's split it up over a few weeks. How much more can you pay each week?"

It may be that your customer owes you a missed \$20 payment and has four more payments to go. So, if he pays an extra \$5 a week for the next four weeks to catch up, that can work, says Boyhan. The problem becomes when you let them stretch beyond those four weeks.

When you let too many customers do this you'll end up with cash flow problems.

Losing Your Footing

A related collections problem is what Boyhan refers to as "time payment erosion."

You need to re-negotiate the contract every time you sell a customer with a balance more tools.

Say a customer with a \$25 weekly payment and three weeks left buys a new \$100 screwdriver set. He can't just go on paying \$25 or he's stretching your turn to eight weeks. You need to

work to get him to \$200 outstanding over, say five weeks, so now he owes \$40 a week – or more if he offers to pay more.

money back on that tool by week five.

The best dealers get their first payment the first day they sell a tool. You're basically saying to your customer: "You've got the tool today, you make your first payment today."

This makes the best use of your money, says Boyhan. In fact, if you can make this work, you can sell tools by rarely putting any of your own money out there.

Here's how: Say you sell a \$100 wrench with a 40-percent margin. If you collect day-one on a five-day turn, you get \$20 a week for five weeks.

At the end of the third week, your customer has paid the \$60 you owe your supplier. If you have 15-day terms, your customer has financed the purchase with no cash out of your pocket and you can pay your supplier. Then, the next two weeks you just collect your profit.

As you can see, if you watch your step and don't get tripped up,

collections isn't as hard as it seems. It's all about setting rules up front and holding your customers to those rules.

Next time, I'll talk more about collections, especially how to get a customer back on track who has fallen seriously behind and what to do once you've given up hope. ■



If you don't re-negotiate you could end up with a cash flow crisis. Over time, a five-week turn can become a 10-week turn and you will find it hard to meet your tool payments.

Cornwell preaches a five-week turn, says Boyhan. That means, if you sell a tool today, you should negotiate to collect all of your