

# The Cost of Deadbeat Clients

Published: Thursday, 12 Jan 2012 | 10:54 AM ET

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Special to CNBC.com



Cathy Alinovi, a veterinarian and owner of Hoofstock Vet Service in rural Pine Village, Ind., advises her clients to tend their animals' health needs as soon as the problem arises. When it comes to collecting fees, she follows that same advice.

"The paperwork of any client who owes me more than \$100 gets sent to my lawyer who deals with collections all day every day," said Alinovi. "Because I like to keep my fees reasonable, sometimes \$100 can be a large part or even the entirety of a bill."

On her invoices and receipts she may add a "reasonable attorney fee," as well as filing fees associated with going to court. "We add interest to the fees owed by the delinquent client, too," said Alinovi, who pays her lawyer one-third of what he collects. "He goes after every overdue amount, no matter how small."

Alinovi believes her prompt no-nonsense way of addressing laggard fee payments is plain old-fashioned horse sense. And with the economy still sputtering, small businesses are getting more creative not only about how to increase revenues but also about retrieving money owed them.

## Key Points

For some companies, one-third of assets is tied up in accounts receivable.

Go after unpaid accounts within the first month

Financial information company Sageworks found that, based on data from the past two years, several industries have more than one-third of their assets tied up in accounts receivable.

And **Intuit's** [INTU 57.80 ▲ 0.02 \(+0.03%\)](#) 

2009 "Get Paid Survey" found that every month 22 million of this country's very small businesses — with few or no employees — wait for about \$1,500 in overdue payments, for a collective total of \$33 billion of arrears. Not surprisingly, Intuit's study notes that 42 percent of these business owners say they lose sleep wondering if they'll ever see that money.

If they do want to see that money, the best strategy, say experts, is to go after it in a timely fashion.

"The main reasons small business owners do not call late-paying clients right away is they lack internal staff to take on those tasks, and they're afraid of offending their customers," said Geri A. Gregor, a CPA and consulting partner at Grassi & Co. in Jericho, N.Y., where she works with many small business owners.

Just do the math to see what these delays will cost you.

Most payment terms are 30 days from receipt of invoice. So, if a company waits 90 days or longer to inquire about slow payments, it could be five months before any money is forthcoming. In the meantime, business owners have their own bills to pay, and if they have to borrow, or pay interest because they don't have cash on hand, the costs add up quickly.

Gregor advises companies to start the collection process internally, even if it means informally assigning the task to a team member, and let them know you won't let the matter drop.

The ways in which business owners get deadbeat clients to pay up varies. Some prefer the straightforward approach, while others shame them into paying.

"My first strategy is to appeal to the client's emotions," said Ted Scofield, a lawyer who, with his wife Christi, owns Icebreaker Entertainment, a consumer-product design company in New York. He began using this tack two years ago, when an \$8,000 fee didn't arrive on time. "We had been counting on that money to pay bills," said Scofield. After he got no response from an email, Scofield called the company's CEO. "I told him we're a true mom-and-pop shop and that, without the money, we would struggle."

The client, very apologetic, paid up in one shot. Scofield has used this approach successfully many times since. "It works," he said. "When clients realize the money they owe you is not just a drop in the bucket, they empathize."

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"[My bookkeeper] bought a bunch of postcards and wrote: 'We Wish we were here, but can't afford it because you haven't paid your bill.'"

Cliff Stepp  
Owner, SteppUp Consulting

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Some companies take a cheekier approach. Cliff Stepp, owner of SteppUp Consulting, a branding and marketing company in Arroyo Grande, Calif., learned from his bookkeeper that sending out overdue reminders in sealed envelopes was too subtle.

"She bought a bunch of vacation post cards, and on the message side wrote: 'We wish we were here, but can't afford it because you haven't paid your bill,'" said Stepp. "Her rationale was that the message on the card was public, and that employees might see it.

After the third post card, one company that owed us \$1,400 paid up in full. That was three years ago and we've had a couple of occasions to use that strategy again."

But there comes a time when many business owners decide they need outside help. "The process of collecting is time-consuming and not my core competency, so I decided to turn the job over to a professional," said Robert Baker, a self-employed technical copywriter who owns Copy To Go, in Hillsborough, N.J.

Baker enlisted the services of Greenflag Profit Recovery, which is owned by Transworld Corp. "They use a 'staged system,' starting with a nice note, then a stronger note and then a harsher note, which I've found does not alienate customers," he said, adding he pays the company a flat two-year service fee of \$600.

Although no one wants to offend clients, Gregor, the CPA, suggests that entrepreneurs who want to stay in business need to get over this outdated notion. "You may fear hurting the feelings of those who owe you money, but you don't need them for new business," she said. "That's because they haven't paid you for old business."