
MANAGING RISK RATHER THAN BAD DEBT

By Moreen Singh - *Shealon Business Planning and Coaching*

Traditionally sole proprietors and small businesses do not begin to manage bad debt until it is late into the accounts receivable cycle. When cash flow is healthy, treatment of bad debt slips, when cash flow is tight, energy is focused on collections in order to make ends meet.

It is much easier to be proactive by implementing credit safeguards rather than having to deal with it once it has reached the bad debt stage. Managing bad debt is a costly exercise, usually at a time when most sole proprietors or small business owners have too much work and too few hours. It becomes a double impact to cash flow; hours that should be used for billable work are now going towards recovering monies owed.

Taking a proactive approach means that managing the risk is part of the complete sales cycle, from start to finish.

The cycle begins with ensuring that the right clients are being engaged. The business planning process should identify not only the target market, but also the profile of the ideal client. Evaluate each potential client against the profile; if the client and profile match, you may have a client. If you have a marginal client, be cautioned that engaging them could lead to complications including collection issues. Although this article does not cover target marketing, the emphasis is that proactive risk management starts well before the first client is signed.

The sales cycle should continue with a best practice for credit validation that flags high risks up front. Determine based on this level of risk if the opportunity you are undertaking is worthwhile. Even though we accept credit checks as part of our everyday lives, for some reason we seem reluctant to put our clients through the same process. As a sole proprietor or small business owner, you need to put in place not only the process, but the discipline to validate a client's ability to pay.

HERE IS A SIMPLE THREE STEP PROCESS:

Step One. Contact the potential client's existing suppliers to find out their past payment track record. Past performance is a good measurement of future behaviour. If others find them reliable then they have passed your first gate. If not, then this is the time to evaluate whether or not you really need the business.

Your professional network may also offer insight and information on potential clients. What is their track record with other professionals or organizations? Again, if it is not positive you need to evaluate if you really need their business.

Step Two. Contact the Better Business Bureau to see if the prospective client has any complaints lodged against them. This is free and may offer additional insight to the client's business values. If this check is acceptable move on to step three. If not it is time once again to weigh the value of the client's business against the risk.

Step Three. Go to the experts - Dun and Bradstreet have a service called D&B Small Business Solutions. D&B's business credit reports provide the information you need to check creditworthiness and establish credit terms to help **maximize your cash flow and reduce write-offs**. They provide a variety of services including three credit reports;

Comprehensive Report - Contains in-depth analysis and all key information in a company's D&B file. Ideal for researching a company's background or making decisions about large-dollar transactions or long-term business relationships

Business Information Report - Provides detailed business information and analysis about your customers, prospects and suppliers. Ideal for planning sales calls, conducting company research, or making medium-to-high risk credit decisions

Credit eValuator Report - Provides an at-a-glance summary of a company's creditworthiness and payment history. Ideal for making smaller, lower-risk credit decisions

These reports vary in price depending on the report and/or frequency; they also have package monthly subscriptions. Their website is www.smallbusiness/dnb.ca. Compare the cost of using this service to the revenue potential from the client. When dealing with large corporations, it is not so much bad debt as late payments; these types of reports clearly identify past trends in their vendor payment processes, allowing you to negotiate payment options equitable for both parties.

If you really must take on business that represents a risk, then I recommend either a retainer or pre payment for services. You are not a financial institution and cannot afford to assist with their cash flow issues. Do not start any work until the money has been secured.

Including credit checks in your sales process with potential clients will drastically reduce the cost of managing your accounts payable and reduce your bad debt. The time invested up front in credit checks can flag problems before they begin. *As a small business owner or sole proprietor, it is your business – make sure you have done your due diligence.*

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Moreen Singh came to business consulting and coaching with 25 years experience in business that included many years as a Director, Manager- Business Development, marketing specialist and trainer. She is an experienced entrepreneur who has founded 2 companies, and has evaluated hundreds of start-up companies.

Starting her career in the telecommunications industry, she followed her passion into marketing, management and business development. Moreen's business interests have taken her throughout Canada and the USA and involved her in everything from creating and implementing new divisions for national organizations to negotiating national Alliance partnerships. Her business strengths include her ability to quickly assess businesses weakness and strengths and develop a simple practical approach to resolve specific business issues.