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Case Study: Early-Payment Discount

Background

An attorney with the Creditors Rights Group met with the president of a small manufacturing company regarding the company's accounts receivable. For years the company owners concentrated their efforts on manufacturing and sales and devoted little time to the in-house credit and collection practices. Their attention had produced a predictable receivable problem. Customers who used to take advantage of an early-payment discount would not pay for 60 to 90 days. Worse yet, a substantial number of accounts were 120 days past due and were not responding to the company's demands for payment. What, the owners asked, could be done to stem this problem, and what could be done to pursue the delinquent accounts by legal action?

Approach

The first move was to establish a step-by-step guide to manage the company's receivables – contacts with the customer as soon as the invoice is issued, timely issuance of overdue notices and collection letters, and target dates for referring the account for collection.

Result

The owners soon realized the most significant mistake a creditor can make is not knowing enough about the customers. The solution is a well-drafted credit application to provide information regarding the customer, trade and financial references, terms of payment, and asset and income information. It should also state the terms when service or interest charges will be assessed on past due to invoices, a personal guaranty of the account by one or more of the customer's principals, and where appropriate, an agreement for payment of collection costs including reasonable attorneys' fees. It was explained to the owners there are a wide range of legal remedies available but delay in taking action on delinquent accounts substantially reduces the opportunity to collect the account.