

New year means coping with list of overdue bills

Collecting put-off payments means walking delicate line, advisers say

By Shankar P.

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A New Jersey firm with \$6 million in annual revenue is nursing accounts receivable of nearly \$120,000 from just one customer — and half that total is more than 60 days past due. That customer had a generous payment schedule to begin with, but further delays hurt its supplier, said **Ray Miller**, a partner at **B2B CFO Partners**, an on-demand provider of financial management services in Mount Olive.

Miller is dealing with a situation that gets played out at almost every other firm at this time of the year, when businesses have put off as many payments as they could in December and are coping with a long list of pending bills in January.

Collecting receivables without hurting relationships with key customers is critical, Miller said. His New Jersey client is now walking that delicate line with reasonable success, getting a portion of old invoices paid down along with new bills, but stopping short of asking for cash on delivery — which would signal a higher level of alert.

Stephen Kolavitch, senior vice president at **Skylands Community Bank**, in Somerville, said, “People are trying to conserve cash, dress up their balance sheets.” And many people take vacations in December or have to file reports, and so “other things take precedence over paying bills,” he said.

Morris Bauer, a partner in the bankruptcy restructuring department at **Norris, McLaughlin & Marcus**, said there is “a heightened level of concern” now because of increasing bankruptcy filings by large companies in Delaware and the southern district of New York.

Bauer predicted that trend would extend to small and midsize companies. “The smallest of companies — those that do less than \$10 million — will have an even bigger problem,” Bauer said. “A lot of banks do not want to be funding a company that has revenue of \$10 million or less.”

Bauer said he sees a lot of small businesses getting “out of formula” with their banks, meaning they have taken more credit than permitted by norms of 80 percent of eligible accounts receivable or 50 percent of inventory.

Kolavitch said “communication is definitely the key,” and encouraged businesses to form relationships with their bankers. “If we don’t know what someone is up against, it’s tough to help them,” he said. “For existing customers, we can allow interest-only payments, provide bridge loans or stretch out payments.”

An unmanaged problem can create a chain effect, Bauer said: The liquidity crisis small firms may face with uncollected receivables can worsen, because in the current environment, they can’t get bank financing to tide over short-term cash-flow problems. They then default on their existing loan, and things get even worse when they can’t find a replacement lender.

To be sure, business owners can try to recover from such setbacks by downsizing — but often, they fail to do so, Bauer said.

“A family business that makes \$50,000 a year finds a way to spend \$50,000, but when it makes

\$100,000 or \$150,000, it finds a way to spend that, too," he said. But the opposite journey is difficult: "They have forgotten what it takes to live on \$50,000."

Maximizing cash flow

- Set cash collection goals for the staff, and have employees provide a detailed report of the cash they expect to collect from specific customers.
- Keep bankers and creditors updated on your business when it faces difficulties.
- Remember what it took to operate on a smaller budget in years past, in case lean times return.
- Manage relationships delicately with delinquent, but important, customers. Avoid getting aggressive with lower-level clerks.

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