Customer Payment Problems: Six Subtle Warning Signs

By Matthew McKenzie

Most small businesses learn to live with a certain amount of commercial credit risk in their lives. Yet it's still a nasty surprise when a trusted customer with an excellent payment history goes belly-up and leaves you holding the bag.

Common Sense: The Best Risk Management Tool

An effective way to manage this risk is to perform a thorough business credit assessment on each new customer before you extend credit, and to continue performing regular customer credit checks on your existing relationships. A customer credit history can provide the insights - and the warning signs - your small business needs to recognize problems before they spiral out of control.

Even so, I think that old-fashioned common sense is still a business owner's most important risk management tool. Pay close attention to the details of your customer relationships, and you'll notice little changes that are easy to overlook. Put enough of these details together, and they just might tip you off to potential credit-risk issues.

Here are some examples of the subtle but important changes I'm talking about:

Senior management shifts. When a company shakes up its top leadership suddenly or unexpectedly, it's time to start asking questions. Sometimes these kinds of changes happen at a healthy company - but more often they're a sign of serious internal problems.

Banking changes. You already know that switching banks is a very big deal for any business. So if a customer or client starts paying you with checks drawn on a different bank, you need to take notice. That's especially true if a customer starts paying with personal checks or credit cards.

New payment patterns. Is a customer that typically pays within a week or two suddenly taking a month or more to pay? Are they paying on an irregular schedule or in lump sums when they weren't before? Even if the new payment pattern meets their contractual obligations, you need to ask why an established customer credit history is suddenly in flux.

A different address or phone number. Businesses move all the time, especially when they're growing fast or opening new locations. But it's important not to assume that a new address is a sign that all is well.
After all, downsizing companies move, too - and that kind of move definitely has implications for a customer's business credit profile.

**Changes in attitude.** What do your sales and support staff notice when they meet with a customer? Do normally cheerful employees suddenly look worried or downbeat? Are familiar faces suddenly missing? Does the customer's office look thrown together and disorganized? Ask your employees what their gut feeling tells them about a customer's financial status, and take their input seriously.

**Unexpected or unusual business disputes.** When an established customer suddenly complains about the quality of your goods or questions your support policies, it's natural to blame yourself (and your team) for the problem. Yet it's also possible that the customer knows they're in financial trouble - and they want to buy time with disputes that allow them to get away with slow payments or missed payments.

None of these trends guarantee that you're headed for trouble with a customer or client. The more of them you encounter, however, the more important it is to look more closely at customer credit data and to make an informed risk-management decision.