

**Sweet Success**
A cookie company found growth capital by asking for payment up front.

RECEIVABLES

# ME WANT CASH UP FRONT
## GETTING CUSTOMERS TO PREPAY

For a small company, getting paid on time can mean the difference between having cash for an expansion and borrowing to pay the bills. But if you're a minor vendor, you may be last on your customers' payment priority list. One solution: getting clients to pay in advance. That's easier said than done, of course, because your customers like holding on to their cash as much as you like seeing them part with it. Nevertheless, clients will prepay if given the right incentives. Following are three stories of business owners who got sick of waiting around for payment and decided to do something about it. —*Hannah Clark*

### 1. The coaxer

**The company:** Geoff & Drew's Incredible Cookies, Boston

**The problem:** In 2004, Geoffrey Auslen and Drew Koven, founders of cookie company Geoff & Drew's, wanted to take on bigger orders. Their company, founded in 2001,

Photographs by Anthony Verde

sells cookies, brownies, and other baked treats in decorative boxes and gift baskets, mainly to corporate customers. The average order had hovered around $2,000, but it was creeping up to $5,000 and some customers were asking for as much as $40,000 worth of goodies. Geoff & Drew's had no outside investors, and only 10 percent of customers paid in advance. If a big customer failed to pay, the company would lose a major chunk of working capital.

**The solution:** Koven, the CEO, started talking to corporate buyers at trade shows to learn what would induce them to pay in advance. Buyers have different trigger points, he learned—some want discounts, but many respond to other incentives. So the company started offering priority shipping, specially designed gift boxes, custom cards, and custom ribbon to those willing to prepay. And yes, the company gives discounts, too. When customers were wary of paying an unknown vendor in advance, Geoff & Drew's offered references. Or, Koven would hop on the phone to talk personally with buyers. "It's really hard to ask people to prepay when they don't know who you are," says Koven.

**The result:** By the end of the year, Koven says, about a third of his customers were paying in advance. Now, more than half prepay. The perks dent profit margins, but having cash on hand has allowed the company to fill orders as large as $100,000.

**The bottom line: Find out what they want, and they'll give you what you want.**

## 2. The problem solver

**The company:** Onestop, Canoga Park, California

**The problem:** Big corporations often take their time paying their bills. But that's nothing compared with the government. Marx Acosta-Rubio, founder and CEO of Onestop, a $12 million office products supplier, has waited five months to get a check. Two years ago, he was serving a county government client that placed orders of more than $500,000 a quarter. Before Onestop could get paid, the client had to get five signatures on a purchase order. Onestop had to borrow money to buy the inventory, then pay interest while waiting for payment. The customer also placed emergency orders throughout the year that needed two signatures apiece. Between February and June, however, while the client's budget for the next year was being established, such orders never got through, so the client kept running out of toner, Onestop's flagship product.



**The solution:** Acosta-Rubio offered to solve the customer's chronic toner shortage. He suggested the client give him a lump sum at the beginning of the year—billed as an emergency order—to cover all of its needs. That way, the customer needed two signatures a year instead of two dozen. Soon Acosta-Rubio realized the system might appeal to other clients. In late 2005, he talked to the COO of a corporate client and suggested he try prepaying every month. When the COO balked, Acosta-Rubio emphasized the time and energy that frequent purchase orders required. The COO agreed to try it, and after about six months, he wrote out a check to cover the rest of the year. He realized that if the company paid in advance, it was easier to stay within budget.

**The result:** Now Acosta-Rubio has convinced almost 50 clients to prepay, partly by persuading them the change will help them stay within their budgets. So far, he says, all of them have ended the year with money left in their accounts.

**The bottom line: There are many ways to cut costs for your customers.**

## 3. The packager

**The company:** Get It In Writing, Boca Raton, Florida

**The problem:** Allison Nazarian was spending too much time on collections and not enough building her business. Last summer, she spent months chasing a client who owed $300. "It's always the smallest accounts that fail to pay," says Nazarian, the copywriting company's founder and president.

**The solution:** She made a policy: Any new client with a project worth $1,000 or less pays in advance. Nazarian also started selling monthly packages of services. "Clients are more amenable to paying up front for something that's called a package," says Nazarian, who now has two employees. "It sounds like a better deal." And it is. For a single article, she usually charges around $500. With the package, it's about $300. She can charge less since her employees do less background research for multiple articles on a topic than they would for just one.

**The result:** Nazarian reduced her receivables by 90 percent, saving several hours a week that she previously spent on collections. "By eliminating something so distracting, we're able to focus on the customer," she says.

**The bottom line: Even a small company can learn a lesson from Costco and sell in bulk.**

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For more on how to get customers to pay in advance, tune in to a podcast with *Inc.* associate editor Hannah Clark at *www.inc.com/keyword/sep07.*