



DEBTOR MANAGEMENT

INTRODUCTION

When a business lends money, there is a large risk. There are two potential problems:

1. That the money will come back late, or
2. That the money will never come back at all.

Both can be devastating to a business. Part of this risk can be reduced by adding focus towards managing the debt the business has and the money that it has lent out to others.

STEP BY STEP PROCESS TO RECOVER LATE PAYMENTS

It is essential to realise that if you wish to keep your customers in the long run you have to treat them well - particularly when it comes to getting paid. It's important to remember the principles of remarkable customer service when it comes to collecting payments. These can be summarised as being polite, being positive and being assertive.

Some customers simply forget to pay, while others may be trying to tell you something is wrong with the product or service they received (or in some cases, did not receive). Yet others are simply avoiding paying, or perhaps cannot pay again for a variety of reasons. While these steps are the basics, remember that at any point, if you feel that the customer is in financial difficulty it may be wise to approach someone for legal advice.

Step 1: Research

Before beginning any discussion with a late payer do your research. Find out everything you need to know before you talk to your customer.

- a. Customer's business name and trading name- they may not be the same.
- b. Contact names within the business - make sure they have the ability to make decisions within the business.
- c. History - what has the customer purchased before, including this particular purchase in question? What has the customer's correspondence been in the past, tone of enquiries and responses to discussions?
- d. Terms & conditions - has the customer agreed to any terms & conditions of purchase and payment? What have the terms of the credit been in the past?
- e. Trade references - did you get trade references from other people before allowing credit? What were the comments from these people?
- f. Credit application form - what information was listed in the credit application form?
- g. Current affairs - what information is available in the trade news about this customer? Are they suffering business problems? Are other businesses having trouble getting money from this customer? Use only readily available resources for this check, such as

- h. newspapers, and be sure to check your facts.
- h. Credit checks - did you perform a credit check on the customer before allowing credit? What were the comments on this credit check? How long ago was this check performed?
- i. Address information - check you have the correct address and contact details. Use the phone directory to confirm details if need be.
- j. Reconciliations - check that your own internal information is up-to-date and accurate.

Step 2: First contact

First contact with a late payer should be managed as if it was a follow-up, after-sales service call. Customer service is the primary goal in this communication so make sure you are polite and friendly. This contact can be either in the form of a letter or a phone call.

Should the first method fail, resort to the second as soon as possible. Where possible, do not resort to emails for your primary contact as these can be ignored with greater ease than a physical letter. Always remember that there may be a valid reason for non payment, including the possibility that your own systems have allocated a payment to the wrong person. Never threaten action in your first contact, instead treat this as a reminding service.

Step 3: Subsequent contacts

Be assertive and persistent. Continue the contact calls as much as practical. Attempt to get some sort of commitment from every call – even if that commitment is to be available at a specific date and time for a subsequent call.

Every commitment agreed and then broken will add to the pressure to make payment. Make copious notes throughout every call. No detail may be too small, as they may create a greater whole. Ask for payment in full - it is your right to be paid for your product duly provided.

Stick to the facts, as emotions will only cloud reality. Empathise with your customer and if they are struggling see if you can work out a payment plan of some sort if needed. Remember that this could be a long term customer, so be aware that you may want to treat them well.

Control the conversation and keep it focused on the topic at hand where possible. Make sure that the customer has the correct bank details and contact information for your business – and note that you have done this. Follow up every commitment with a written summary and get your customer to confirm that it is agreed. This summary can be by email if your customer has regular and reliable email.

Step 4: Personal contact

It may be necessary to make a personal contact call. It is a lot more difficult to refuse to pay someone in person than over the phone. It is likewise more embarrassing to the customer, so use this technique with care and ensure to keep it polite and friendly.

Make it a sales or customer service call in nature. Offer to collect payment in person. Call before you arrive to find out if the person you are looking to see is in the office. Perhaps take a small gift or token of appreciation for their business.

Sometimes going the extra mile in customer service can resolve a payment dispute. Likewise it may well give you an opportunity to see whether their business is doing well or poorly.

It may be of value to make your primary contact with the customer a physical contact call instead of a phone call or letter. A simple “I was in the area and wanted to find out how you liked the product” visit could easily lead to “Oh, my accounting person says they haven’t received your cheque yet – can I check you have the correct mailing details?” comment

Step 5: Legal action

Some sort of legal action may become necessary if persistent efforts have failed, or if the customer is deliberately avoiding payment without valid cause. There are various ways of doing this including handing the account over to a debt collection agent.

The Citizen’s Advice Bureau has put together a detailed information sheet “Court Procedures for Debt Recovery and Enforcement” which covers the options available through court intervention. However, if this is the step you wish to take, please remember that at this point you will lose this customer in perpetuity; so make sure your

case is valid and that it is not a trivial value.

SOME TIPS TO CREATING A BETTER CREDIT ENVIRONMENT IN YOUR BUSINESS

1. Stick to your credit limits - if a customer is exceeding it, ask them to pay enough to reduce their debt before they can repurchase.
2. Do not trust a cheque - it is just a piece of paper after all – get it into the bank.
3. Follow up with big debts first - it is likely to be more productive.
4. If a client consistently pays late, stop their discount or increase their price - after all, you are paying interest.
5. Be persistent - contact outstanding debtors daily.
6. Never threaten action unless you are willing and able to follow it through - a hollow threat will sound like one.
7. Have a single contact person within your organisation doing all the calls to the clients and, where possible, a single contact within theirs - preferably someone with decision-making ability.
8. Follow up with regularly slow payers before they are due to pay - sometimes this reminder to pay on time will work.
9. Monitor your accounts regularly - the poor payer today may not be the same as tomorrow.
10. Read the newspapers and watch for closing down sales and similar events of your customers - they may be in business trouble without telling you about it.
11. Train your customers from the beginning. Make sure they know your policies and procedures for payments from the start, even before they need to make their first payment.
12. Check that your accounts are accurate on a regular basis - the easiest way to lose cash is to be hunting it from the wrong people.