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Improve Your Debt Collection

Bad debts are still causing major problems for businesses. In this article, FPM Partner Teresa Campbell provides some useful tips.

Many business owners find that continual late payments and the ability of large customers to decide to pay as and when they want to can contribute to negative cash flow. It is therefore important to choose the right customers and be selective about the organisations with which you intend to do business. This can be difficult if you are dependent on a few large customers or if your customer base is dwindling, but once your business has reached a manageable level of stability it is a good idea to research all prospective clients. You should obtain credit references on potential customers, avoid doing business with companies with poor credit ratings and ensure that the prospective customer knows your payment terms from the outset.

If you have not already implemented a debt collection policy you need to establish one to ensure that you keep control of debt collection. Develop a set routine as this will prevent the build-up of unsorted, disorganised bad debts.

Typically, all invoices should be raised at the earliest opportunity and they should include a clear statement of the payment terms. Two weeks after invoicing, telephone the customer, thank them for their business and ask if they are satisfied with your work or product. If no payment has been received by the due date, send a reminder and call the customer to inform them that you are initiating collection efforts. Telephone the customer every two or three days. Bad debtors rely on the negligence of their creditors so continual calling will let them know you are aware of the debt and show them that you are willing to take action. If there is a query or payment problem, arrange a new settlement date by telephone. Confirm this date in writing and state clearly that if payment is not made by this date, the matter will be referred to a solicitor. If the debt is still due after this, keep your word and take action.

Involve all of your staff in the invoicing and collections procedure. An aggressive debt-collections manager, backed by a helpful support team is essential for a successful company. Ensure that your sales team and project managers are aware of late-paying customers to establish a widespread and knowledgeable defense against bad debtors. If you have several employees responsible for collecting debts, it can be effective to rotate them for difficult customers. This disorients bad debtors and reminds them that they are dealing not just with one person but an entire company. It will also allow your staff to become more knowledgeable and flexible.

Payment plans become necessary when the customer cannot pay the entire amount due in one installment. To avoid future misunderstanding, commit an agreed plan to paper and ensure that

both parties sign the document. For help with structuring a suitable payment plan, professional advice should be sought.

If the worst comes to the worst, do not hesitate to use a debt collection agency to enforce payment or take legal advice. Not only will this let the customer know that you are serious about the late payment, but it will allow you to spend time more productively on those accounts which are less overdue.

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