

Sajen legal – Handy hints on how to avoid bad debts

- perform a thorough credit check on a potential customer before offering credit, include a thorough reference check;
- set customer credit limits. Only advance the amount of credit that you, and your customer, can safely afford;
- have clear and concise terms of trade, and stick to them;
- do not deliver goods or services until payment has cleared. At the very least obtain a deposit and some form of security for the balance;
- deliver invoices on completion of your services or on a regular date (e.g. monthly);
- provide all, and as many, payment options and information on invoices as you can. This helps remove excuses;
- keep regular contact with your customers, give them every opportunity to raise any issues so that they're not raised when it comes to the crunch;
- if appropriate, register and conduct property searches on the Personal Property Security Register so you can be sure to recover goods that haven't been paid for;
- ensure all your staff are aware of your terms and conditions, invoicing and debt recovery procedures. A policies and procedures manual can and should form part of your firm induction process to avoid confusion. Even the best terms and conditions are of little use if not implemented by staff properly;
- it is not uncommon for there to be a conflict between sales staff and accounts receivable. Being rewarded bonuses for sales can encourage sales staff to 'bend the rules'. Make sure bonuses are payable on collection, not invoice to avoid this issue; and
- follow our recommended Debt Recovery Process below.



Recommended Debt Recovery Process

Follow this process to give you the best chance at ensuring your customers pay on time.

Step 1 Terms and Conditions

Solid terms and conditions for the supply of your goods and services are fundamental. If the basis upon which you do business with your customers is recorded in writing you are less likely to fall into dispute. And in the rare circumstances a dispute does arise, the terms governing the agreement are much easier to enforce if in writing due to the removal of any scope for ambiguity.

Step 2 Initial Reminder

Once an invoice is unpaid past its due date as set out in your terms and conditions phone the customer with a courtesy reminder. It's not unusual that the customer has forgotten or mislaid the invoice, paid the invoice into an incorrect account or the like. Polite initial contact will serve to eliminate any such issues early on. Remind your customer of the terms if necessary and send a follow up email confirming the content of the discussion which contains a copy of the invoice, payment options, banking details and contact information to facilitate easier payment and remove later excuses.

Step 3 Overdue Reminder

If your customer continues to fail to make payment, despite the first reminder and any subsequent commitment, or there has been no contact despite your efforts send another letter reminding the customer of your agreed terms, containing the above information and request payment by a certain date.

Step 5 Letter of Demand

All other efforts having failed, including last ditch efforts to talk in person to the customer, a letter of demand is the next step. Bear in mind that this course should be only done as a last resort, as it is likely to damage your relationship with the customer. Of course, customers who don't pay without good reason are no customers at all.

Step 6 Legal Action

If your letter of demand falls on deaf ears, legal action may be warranted. You can proceed through the Small Claims Tribunal yourself or seek legal advice for action through the Courts. Either way, having followed the above process you should have given yourself the best chances of recovery.