



The Little Black Dress and Cash Flow

Debt Collection Systems

more money for shoes

Debt Collection Systems

Chasing a customer for money that they owe is one of the least pleasant tasks that a business owner can do, which is often why they avoid it completely. Not a great strategy! By having systems in place, it can turn a feared task into a series of steps that can be performed either by you or someone else that you nominate (eg a book-keeper or even a family member if you are very small). Following is an example of a debt collection system that you can adopt and use in your business.

1. Adopt clear credit policies from the start

This simply means that you have a policy for lending people money, which is essentially what you are doing when you are offering customers time to pay. This might involve a credit check, obtaining personal guarantees from directors and letting customers know what the process is if they are late with payment (such as interest, fines and sending the debt for debt collection)

2. An organised record-keeping process

This might sound like a strange step in a debt collection process but making sure your invoices are all made from the same accounting program and ensuring the terms of payment are clear on each customer's database will make your life easier if you need to collect a debt. You may also want to have a method of sending statements regularly (such as emailing them weekly) to ensure customers are aware of the outstanding payment

3. Contact the customer to find out why they haven't paid

Depending on the size of your business and the number of your customers, you may want to contact your customer to find out why they haven't paid. This is especially crucial where you value relationships with your customers as there may be reasons that you may be happy to take into account such as illness, financial difficulties or the invoice not being received

4. Determine your next step

This will depend on your relationship with your customer. You may move straight to the next step or you may offer delayed payment terms or you may set them up on a repayment arrangement.

5. Letter of demand

By now you've sent statements, you've made phone calls and still nothing. There are sites online with Letter of Demand templates so that you can send yourself but often a letter of demand sent from a solicitor, on their letterhead, will be enough to spur the debtor into paying. You can use your regular solicitor or there are online collection sites that you can pay to send this on your behalf

6. Credit agencies and the legal route

There are a few options now. You can send your debt to a collection agency to see how they go. Collection agencies such as EC Credit Control will generally take a percentage of your debt as fee with only a small amount up-front if they can't collect. Alternatively you can proceed through legal channels which both credit agencies or your solicitor can advise you on.