

Illawarra Small Business Assistance

HELPFUL HINT – MANAGING ACCOUNTS

RECEIVABLE *“The Cheque's in the Mail”*

Bad debts are a serious drain on business cashflow and viability. Here are some tips to help minimise problems and to manage them if they arise.

Establish a credit policy and stick to it!

Introduce a system that enables you to know when accounts receivable are coming due and track who pays and who doesn't. Extract an ageing report that shows accounts past due by time and amount. Determine how long after due date to take action and identify steps to be taken. Record the policy. Train your staff. Delegate authority and if possible make one person responsible and accountable.

Check references on credit applications.

Obtain credit applications appropriate for your business. Call the referees and ask questions such as...How often were they late? How much? Reasons given for delays? Maximum outstanding at any one time? How much owed now?

Invoice promptly and clearly.

Send the same day as product/service sale. Invoice should clearly state due date and set out what happens if the account becomes delinquent.

Go to the top in need.

If you're getting the run around go direct to your key contact and/or business manager/owner.

Follow-up regularly

if contact is not positive find out when your key contact is in the office and ring regularly every 5 days. Confirm in writing and record on file.

Escalate your contact methods.

Set out your system, methods and styles of contact in your policy manual. The first reminder can be light and even humorous but as the debt gets older the niceties gradually get dropped. But don't threaten without justification and unless you're prepared to take legal action.

Be prepared to act quickly.

The critical factor is to know your customer. Understand their position. If they are struggling, most will be sincere. Demonstrate your confidence and support. If debtor is in real trouble act swiftly and always adjust exposure/credit limits as required.

Be willing to discuss repayment arrangements.

Sometimes a partial payment, weekly/monthly repayments, will be better than none. And, you might have a far better chance of collection over time if the customer can manage the repayment arrangements. Cancel new credit and review when the debt is repaid.

Determine what the problem is.

Is there a problem with product/service quality? If yes, fix it quickly. Appreciate that some who don't pay bills are professional at it! They may also be selective about the truth. Some can just get over-committed but will be genuine given understanding and time.

Don't overstep your bounds.

Be prepared to call the professionals. Bad debt collection requires certain skills and professionals have clout and system knowledge. You don't want to end up highly emotional or angry or to become threatening, it can exacerbate problems.

Remember that debtors have rights. Commonwealth Consumer protection laws require a **Flexible, Fair and Realistic** approach to debt collection.

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