

## The sooner you ask...



Any transaction that involves giving credit must also involve the taking of a certain amount of risk. The risk is impossible to eliminate but it can be greatly reduced by the introduction of a credit management policy and a systematic collection cycle. Whilst employing such methods flexibility must exist to allow for the exceptions that will occur from time to time. Consideration to a number of points must be exercised when forming a policy, particularly in relation to debtors who have historically good payment records. Other factors involve assessing future sales potentials, settlement terms being offered by your close competitors and any special considerations that exist in your particular industry.

A policy must be created, if not already in existence, for administrative staff to follow in order that your risks are reduced to a minimum. Formulating a policy that meets your requirements should present you with no great difficulty. Apart from decreasing the element of risk you take in offering credit facilities, a clearly defined policy will, in addition, increase the profitability of your company. All accounts exceeding the specified period of credit you allow at present, involve you in employing more capital than might otherwise be necessary, irrespective of it being additional capital of your own or facilities provided by your bankers, the resultant loss of income from the former or interest charges paid on the latter reduce the overall percentage return you will have envisaged.

Consequently, time is therefore another important factor relating to policy decision. In addition to the erosion of profitability, time plays an even more crucial role in companies not controlling their credit situation, for the older debts become the more difficult they are to recover. By analysing the time sequence you operate at present between actual sales, invoice date and statement periods, a proportion of the related problems can be resolved. By implementing a basic policy, if one does not exist already, you will reduce the risks you take and improve the overall profitability of your company.

[www.payontime.co.uk/collect/collect\\_cash.html](http://www.payontime.co.uk/collect/collect_cash.html)

Other basic points to consider in formulating your policy are:-

- That your terms of payment are clearly defined and understood by both your administrative staff and your customers.
- That every customer has a limit of credit based upon his historical record and your knowledge and experience of him.
- That these levels of credit are not exceeded without your authority.
- That further goods or services are not provided without your authority for clients whose accounts are overdue.
- That information regarding aged debtors is analysed on a regular basis.

Once the policy decisions have been formulated, ensure that administrative staff completely understand your objectives. It will, after all, be their responsibility to put them into practice and create the desired effect.

The sooner you ask the sooner you get paid is a philosophy that epitomises the objects of credit collection but over-simplifies the effort required to achieve the desired result. A lot of companies still request settlement of accounts too slowly, but it must

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also be stated that asking too early and too frequently can also have adverse effects on the success of a collection system. For general business use the following sequence might prove adequate but it must be emphasised that it is intended only as a guide and is based on 30 day net settlement terms.

### Collection Sequence.

#### 1. Invoice.

Prepare and send the day the goods are delivered or the service provided is completed. At the latest, it must be originated within 24 hours.

#### 2. Statement.

To be received by the debtor no later than five days following the end of the month of the invoice and should of course detail all invoices that have arisen during that period.

Maximum days allowed: 35

#### 3. First Reminder.

It can either take the form of a polite letter or a telephone call and should be implemented no later than ten days following the statement date.

Maximum days allowed: 45 Account 15 days overdue.

#### 4. Second Reminder.

It is recommended that this reminder take the form of a letter, pointing out to your debtor that the policy of your company should settlement not be received within the specified period, is to pass future demands for payment to your appointed agents. The timing of this action should occur no later than ten days after your last reminder. You may also consider it prudent at this stage to telephone your debtor to confirm the arrival of your letter and agree with him a settlement date.

Maximum days allowed: 55 Account 25 days overdue.

At this point it may also be useful to consider a number of other alternatives available to you dependent on the circumstances and the value of the debt outstanding. If your debtor's business is within a reasonable distance, a personal visit by yourself or someone else with the authority to demand payment could enable arrangements to be made for the payment of the present debt and ensure that future payments are received on time. Should your debtor have difficulty in honouring his commitments, then during such a visit, negotiations could take place which, in the short term, could alleviate their temporary embarrassment while ensuring that regular payments against purchases are made for the goods or services provided by you. It must be understood however, that such arrangements should only be considered where there is no question of insolvency.

A further possibility to explore, if the location of your debtor's business is not within a reasonable distance, is to instruct the sales representative responsible for the particular account to investigate the reasons for non-payment. You may also wish to consider the introduction of withholding future supplies or operating a cash with order or cash on delivery situation. All three would be considered by many people to be extreme but it is your money at risk- the debtor has merely borrowed it. He must be prepared to repay it as agreed and the actions you choose to operate against him must be such as to give you a greater chance of rescuing your funds

[www.payontime.co.uk/collect/collect\\_cash1.html#coverage](http://www.payontime.co.uk/collect/collect_cash1.html#coverage)

### Telephone Contact.

In addition to or in place of one of the letters it may be more expedient to consider telephoning. On contacting your debtor, establish the name and rank of the person from whom you are requesting payment and ensure that they have the necessary authority to finalise your overdue account. Record all these details along with the statements they make and all arrangements concerning the completion of your account. It is opportune at this stage to confirm other details which you may require should they not meet their verbal commitments to you and make it necessary for you to take further action.

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If you are dealing with a limited company, confirm the location of its registered office and acquire if possible the names of any directors or executive officers. By addressing the documents that you or your agents may have to send at a later date to them personally, you may find you receive a speedier reply to your requests. Should it be a business operating under a trading name, establish the names of the principals involved. The majority of this information can be gained from the company's telephone receptionist prior to any conversations you may have with a person in authority.

Unfortunately, it is much easier for your debtors to make excuses or make promises that they have no intention of honouring when they are approached on the telephone. Any promises or declarations made by the debtor on the telephone concerning the validity of the debt are not admissible as evidence in a court of law. However, when used in conjunction with other chasing activities, it contributes to motivating your debtors to settle their accounts.

Whoever in your company is selected to make the telephone collection calls must be an individual who is able to communicate at all levels of management. They must use diplomacy and tact in dealing with the debtor and their criteria must be:-

- To get the debtor to confirm the debt and the fact that it is overdue.
- To establish that there is no reason for delaying payment.
- To get them to confirm that the debt will be settled by an agreed date.

Should they have reasonable grounds for delaying payments they must be thoroughly investigated before any further action is commenced.

To achieve the best results aim to discuss your problem with the most senior executives and in the smaller companies go direct to the Managing Director. Always try to personalise the discussions, for if your debtor is given the impression that he is one of many then his natural instinct will be to partially or totally disregard any payment commitments he may have made. It is not necessary in any credit collection sequence to verbally attack a debtor he will respond more quickly to suggestion. The important thing is to leave him in no doubt that his promises will not be forgotten and that any future action contemplated to recover the debt will indeed be taken.

Your debtors will now have been allowed a maximum of 55 days to settle their accounts from the date of the preparation of the invoice. All remaining actions via either a collection agency or solicitor must now be completed within the next 30 days.

### Pre Litigation Protocols.

Many reasons have been suggested to substantiate the benefits of employing pre litigation protocols. The resultant speedier settlements achieved are as a direct result of the formality of such intervention and the spelling out, in precise terms, the consequences to the debtor should he fail to respond. With the introduction of such protocols into the collection sequence, the majority of debtors realise that the creditor is totally serious in his demands for immediate payment. The debtors who have previously ignored requests for payment start to consider the consequences.

The responses achieved by such intervention fall into four main categories:

1. Immediate payment. (On average 80% or more of debtors)
2. Justification for non payment. (This must be thoroughly investigated)
3. Negotiation for payment to be made in full by a specified date or Instalment payments requested.
4. Negative response.

This fourth category should only relate to an extremely small percentage of your debtors and can be attributed to a number of conditions, the most serious being, of course, the possible prospect of his insolvency. They may, on the other hand, not have received the communication or be a person who eventually expects you to take the ultimate action for the recovery of the debt. In many instances the situation arises from the debt being allowed to continue for such a length of time that the debtor's attitude is one of complacency regarding the account. The attitude can only be eradicated by the introduction and operation of a firm policy. Time, as we have already discussed, is a vital factor.

All the sequences will now have been completed within a 90 day period. A reminder system operated over a longer period, particularly if 30 day net terms apply, only condones longer credit terms being taken by debtors. The benefits produced by such a time sequence are numerous. All overdue accounts will receive timely and constant attention. Any problems

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concerning non-payment will be revealed much earlier, thus giving you the opportunity of taking the necessary corrective action more efficiently.

A basic payment pattern of your debtors will emerge which can be analysed to counteract any weak section in the timing of the sequences. Your debtors will become aware, over a shorter period, that you require prompt payments and that you have an organised method of collecting such accounts which allows very little latitude on their part for resisting your requests.

*[www.hmcourts-service.gov.uk/cms/index.htm](http://www.hmcourts-service.gov.uk/cms/index.htm)*

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