

Manage Your Debtors

Put in place a well functioning system for managing debtors. Ensure that those who owe your business money pay on time. The money is better in your account than it is in theirs.

1. We have included a sample debtor management process in this Guide that you might find useful to implement in your organisation. We have included some sample credit control letter templates for you to adapt and use when chasing people and firms that owe you money.
2. Make your payment terms clear to all your customers at the outset. Where you offer credit terms, ensure wherever possible that they have the means to settle the debt before you complete the sale. Some companies pay to undertake credit checks on their potential clients – but this can be expensive. In most cases, the best that you will be able to achieve is to reduce the risk of a bad debt.
3. Ensure that jobs you are commissioned to undertake have some form of purchase letter or a purchase order number (especially when you are dealing with large bureaucratic organisations where it may be difficult getting paid). This can be useful for a number of reasons:
 - (a) It is good to include these in your records from a governance perspective where you can demonstrate the client's commitment to purchase;
 - (b) It ensures that every client has put in writing their intention to buy from you, and you have something to quote in the event of a dispute later.
4. Put in place a system where information about aged debtors is produced on a regular basis.
5. Make contact with aged debtors as soon as possible after the debt falls due. Start with a gentle reminder that the account is overdue. This can either be done in writing (letter or email) or more effectively by telephoning them. Remain in reasonably close contact with debtors, chasing payment regularly until it arrives.
6. Develop a set of template letters that you can send to aged debtors. Start with a gentle reminder that the account is overdue, and progressively make the language tougher, leading ultimately to a threat to take the debtor to court if the account is not settled. As a rule, use these

letters only when you have been unable to get payment having first tried the personal approach. We have included some sample letter templates in this Guide.

7. Think about your position, and what you might do if the client is unable to settle the debt. You might wish to agree an alternative schedule of payments. Alternatively, you might decide to seek payment through legal means. Only go down the legal route as a last resort.
8. Determine whether you wish to continue to trade with aged debtors, or continual offenders. At what point will you withdraw additional services to them?

Debtor Management Process

This is a sample process that can be adapted for use in your organisation. We have included an overview of the whole process and a number of template letters and forms.

At the Point of Purchase

The following process is designed for those business transactions that are subject to invoicing arrangements, rather than those for which you receive immediate payment.

1. Ensure that you have in place a system for managing the way your clients purchase from you. Attach to each job a 'job number', and ensure that your clients give you either a letter of commission, or a purchase order number. Record the relevant number on your accounts system.
2. At the time you complete the job, or whenever is agreed with the client, issue an appropriate invoice. It is good business to ensure that you issue the invoice as soon as possible when the job is done.
3. Ensure that the invoice is sent to the client, either alongside the goods (upon delivery), or as soon as possible afterwards. If it is appropriate to send electronic copies of invoices, do so – they can be sent to the client quickly. If

necessary, send an additional hard copy in the post. Remember that electronic invoicing is cost effective, in that it is fast, saves printing and posting. Make sure that you quote job numbers and/or purchase order numbers on the invoice. In the absence of these, refer the invoice to the appropriate person who commissioned the work.

4. Send regular account statements to your clients where it is appropriate to do so that set out the amount of money they have paid and whether there are invoices outstanding.

Aged Debtors

Aged debtors are those clients who have not paid you in time. Make certain that you specify your payment terms on your invoices. For most businesses, payment terms are 30 days from the date of invoice. An aged debtor is typically someone whose account is still outstanding at this point. The following process should kick-in at the point an account becomes overdue.

It is good practice to manage your aged debtors at least on a weekly basis. Get into the habit of setting aside a certain number of days in each week that you dedicate to chasing aged debtors. Remember that the money is better in your account than your clients.

1. Produce a statement of aged debtors report at least on a monthly basis. This report should clearly state the name of the clients, job numbers, amount overdue, number of days overdue at the time the report was produced. Highlight on the report, those clients whose accounts are outside their payment terms.
2. For each client outside their payment terms, create a file record. This should be updated by any member of your organisation who has contact with the client in reference to the outstanding amount. Record on the file any telephone calls made or received, to whom you spoke, and the outcome. Record dates and times of calls. The cover sheet should include a checklist for the whole debt management process, so that you can check off each action before you proceed to the next.
3. Identify someone from your organisation, either from your

accounts team, or from the department that carried out the work, to make initial contact with the client to ask for payment. Initially, make telephone contact with the client, specifying the payment terms and asking for clarification from them when the payment will be made.

4. Where payment has not been received after seven days of the phone reminder, send a first reminder letter to the client. A sample (Letter 1) is included in this document, below. You should aim to send this as soon as possible.
5. Where payment has not been received within seven days of Letter 1 being sent, immediately send a follow-up (Letter 2, below).
6. If payment has still not been received after four days of Letter 2 being sent, make telephone contact with the client to establish whether and when payment is to be made. Clearly remind the client that they are in breach of their contract with your company and that they are in danger of legal action being taken against them.
7. If payment has not been received after seven days of Letter 2 being sent, suspend all further work for the client. Ensure that all relevant departments are aware of the situation. Make telephone contact with the client to advise them of the situation. Confirm the situation with the client in writing as soon as possible.
8. If the account is still unsettled after a further seven days, then a final letter – Letter 3 – should be sent. This letter should be signed by a director of the company, and should advise the client that the account will be referred either to a debt collection agency, or to the courts (whichever is appropriate).
9. If the client remains in debt, and seeks to engage your services, you need to decide the terms and conditions of accepting the work. This decision should be made by a director or other senior officer. You may decide not to accept further work until the account has been settled. In addition, you may decide to review the payment terms afforded to clients that repeatedly default on payments.
10. You must follow through on any proposed sanctions that you make to aged debtors. For example, if you advise

them that you will engage a debt collection agency, then you must do so. Similarly, if you decide to take action through the county courts, then you must do so. Remember to advise clients that any additional costs associated with recovering the debt will be added to the amount outstanding.

Example letters that you can adapt for your own business are included in the next section, overleaf. We have put our logo at the top of the letter, and have inserted [Letter 1](#), [2](#) or [3](#) in the Reference Number part. Insert your own logo, and the reference number should relate to your client, invoice/account number, etc. Set up a system that works for you. For example, Ref No 1234/1, might refer to client number 1234, and the /1 refers to this being Letter 1. Similarly 1234/2 might refer to this being Letter 2, etc.

We have also included a sample file cover sheet that you can insert into your account file.



[Phone Number]
[Fax Number]
[Email Address]

[Date]
Ref: **Letter 1**

[Name]
[Company Name]
[Address 1]
[Address 2]
[Address 3]
[Post Code]

Dear [Salutation] [Surname]

Re: Outstanding Account: £[Amount]

We note from our records that your account with us is currently in arrears by the above amount. We would remind you that our payment terms, as outlined in our terms and conditions of business, are thirty days.

We would appreciate your prompt action to bring your account back into balance within seven days of the date of this letter. If you are unable to pay us, please make contact with us as soon as possible, so that we can discuss alternative arrangements.

We look forward to hearing from you.

Yours sincerely,

[Name]
[Position in Company]



[Phone Number]
[Fax Number]
[Email Address]

[Date]
Ref: **Letter 2**

[Name]
[Company Name]
[Address 1]
[Address 2]
[Address 3]
[Post Code]

Dear [Salutation] [Surname]

**Re: Outstanding Account: £[Amount]
DEFAULT NOTICE**

I write, further to our letter to you on [insert date] in relation to the above amount, which remains outstanding. It is currently [insert number of days] overdue. I remind you that our terms of trade are thirty days from the date of invoice.

Whilst we will always try to assist our clients who might be experiencing difficulties paying, we can only do this with your help. If you cannot pay your bill, please contact me as soon as possible so that we can discuss an alternative payment plan.

If you do not make contact with me, I will assume that you have simply overlooked our account, and that you will promptly bring it into balance in line with our terms. If, however, we have not received settlement, or heard from you, within the next seven days, I regret to inform you that we will have no alternative but to cease further work on your account until payment is made.

Yours sincerely,

[Name]
[Position in Company]



[Phone Number]
[Fax Number]
[Email Address]

[Date]
Ref: **Letter 3**

[Name]
[Company Name]
[Address 1]
[Address 2]
[Address 3]
[Post Code]

Dear [Salutation] [Surname]

**Re: Outstanding Account: £[Amount]
DEFAULT NOTICE**

I refer to the two previous letters that we have sent you in reference to the above account. Despite these letters, and a number of phone calls that our staff have made to you, this account remains unsettled. We have offered to discuss alternative payment plans with you, but you have failed to make contact with us.

I write now to inform you that unless you settle the account within the next seven days, we will commence debt recovery proceedings against you. In the first instance, we will hand over your account to a debt recovery agency and we will instruct them to take any necessary legal action to recover the monies owed to us. You should note that you will be liable for any and all costs associated with this action.

The outcome of this matter is now in your hands.

Yours sincerely,
DIRECTOR

Telephone Prompts for Staff Making Debt Recovery Calls to Clients

1. Ensure that all calls are made in a friendly, yet firm, manner. Our intention is to assist the client in making the payment. However, we need to ensure that the payment is made. It is crucial for our business' survival that accounts are settled.
2. Before you make the call, plan it out, and consider what are your goals. Be prepared for any questions that the client might have, and make certain that you have as much information as possible at your finger tips. Whilst the client may have genuine questions before they can make payments, you should be aware that by asking questions, this can be a delaying tactic on the part of the client. In large organisations, the accounts payable department may not have all the information about why the payment is to be made, because it hasn't been passed on by the commissioning department. You can help them by telling them who commissioned what, when, and what the work was that we carried out.
3. In the first instance, check with the client that they received the invoice, and try to ascertain why it is outstanding. Find out if there are any problems associated with the invoice. Explain that we have not received payment, and that you are checking to see whether the payment is on the way. Remember to record on the file the outcome of the phone call. Record who you spoke with, the date, time and – crucially – what they told you.
4. Try to remain positive at all times throughout the phone call. If the client becomes argumentative, or even abusive, do not yourself adopt the same stance. Remain calm, but firm. If they become abusive, be assertive with them and explain that you have the right to an abuse-free working environment, and that you are only doing your job. If the abuse continues, politely end the call and refer the matter to a supervisor or manager for their action.
5. If the client disputes the invoice, find out the reasons, and assure them that you will look into it and get back to them. In this instance, find out the facts from your colleagues.

Make certain that if you have promised to get back to a client that you do so at the correct time – even if it is to tell them that you are still investigating the facts. If necessary, ask an appropriate manager to speak to the client.

6. If the client tells you that payment has been made, or 'the cheque is in the post', ask them to tell you the cheque number, and the date it was posted.
7. If you cannot get to speak to the right person, leave a message. If you get the client's voice mail, leave a detailed message, explaining who you are and why you called. If you are required to leave multiple messages, because, say, the client didn't return your calls, include in the message, 'this is the xth message I have left for you.' If you leave a message with another person in the client's office, be certain to ask their name. Record on the file when, how and with whom messages were left.
8. If a promised cheque has not arrived, make further contact with the person who made the promise. Politely remind them what they promised and ask them to confirm with you that the payment is on its way. If you can, try to pin them down as to when the payment will arrive with you.

This is an example Debt Recovery Cover sheet that you can adapt for use in your organisation. Use it to record and monitor progress made in recovering outstanding monies.

DEBT RECOVERY COVER SHEET

Name of Client	
Name of Contact	
Telephone Number	
Amount Outstanding	£
Date Due	

CHECK LIST

Date	Name	Days Overdue	Action Taken	Result
		0	Account Noted	
		7	Phone Reminder	
		14	Letter 1 Notice Sent	
		21	Letter 2 Follow-Up	
		25	Phone Call to Client	
		28	Cease Work on Account	
		35	Letter 3 Final Notice	
		42	Commence Recovery	

Notes:

Check List:

Tick off each item as you complete it.

- 1 Put in place a credit control process
- 2 Make payment terms clear to all customers
- 3 Understand the current state of "aged debtors"
- 4 Put in place a system to collect aged debts
- 5 Develop a set of template debtor letters



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