Ten common mistakes when tackling business debtors

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In this guide TW's head of Debt Recovery, Pritti Amin, looks at the ten most common mistakes business owners can make when it comes to tackling debtors, and advises on the best course of action for businesses to take.

1.

Failing to have a credit policy

When a company provides goods or services before receiving payment, it is essentially the same as handing over cash. For this reason it is vital for cash flow and ultimately the survival of your businesses to be able to predict when you are likely to get paid and the cost of ensuring that this happens. This begins with having a credit policy.

By gathering the same types of information from each customer, it is possible to attribute different risk levels to each and adjust your payment terms accordingly. Your credit policy provides uniformity of terms for each type of customer you have and ensures compliance with regulations. Without a credit policy you are at risk not only of losing money, but also of breaching consumer protection regulations. If you treat some consumers more favourably than others without proper rationale, you could even fall foul of discrimination legislation.

2.

Not having enough information about your debtor

Before you enter into any new business relationship, it is highly advisable to undertake 'due diligence' at the outset. This means you should try to gain as much knowledge as possible about your new customer's ability to pay as is reasonable, depending on the size of the transaction. If dealing with consumers, it is also advisable to gather information relating to their employment status, their home ownership status, other financial commitments and whether they have had county court judgments or issues with debt repayments in the past. This can be done by carrying out a credit check.

3.

Being inflexible and failing to review terms

While it is of course vital to the survival of the business to have a credit policy, which you send out with your terms of business at the start of your relationship with your customers, it is also very important to learn from experience. With time, you will begin to identify and profile the types of customers you have who are high risk and those who are low risk. You can then tailor the availability of credit to each type of customer accordingly. Some of your debtors may have genuine cashflow issues but otherwise be prompt payers, so it is important that this is taken into

consideration.
Businesses should review their credit policies to ensure that they remain relevant and effective for their business. Businesses change, economies strengthen and weaken, and there can be differing demands on cash flow. If you do not adapt your policy having learned from mistakes you have made in the past, or tailor to the changing needs of your business, you could end up in serious financial difficulty.

4. Ignoring the costs of debt recovery

Before you embark on a campaign to recover a debt from a customer, it is vital to evaluate the costs that you will incur in doing so. Obtaining a judgment in the county court can be only part of the recovery process. It is imperative that an eye is kept on the costs of the recovery measures implemented to ensure any expenditure is both proportionate and cost effective.

5. Not complying with regulations

There are numerous regulations that businesses must adhere to when seeking to recover debts from consumers. Overly aggressive or persistent demands may also constitute criminal activity contrary to the Prevention of Harassment Act. As such in order to avoid penalties, you must ensure that your policy does not break the law.

6. Failing to follow up

A robust credit policy must also be structured; your debt recovery staff should be able to follow a procedure to ensure that your debtors are contacted consistently. If you demonstrate persistence, late payers will soon learn that they cannot just ignore the debt. Decide how long you will continue to contact them until they pay, and when you will pursue formal recovery proceedings.

7.
Only using one means of communication

Letters and emails can often be enough to get some debtors to pay, but some of your debtors may require a more personal approach. Telephone calls are an effective way of getting your debtor to provide information to you, and it is much harder to ignore someone when you are speaking directly to them. In other cases, reminders via text messages can also be effective but again this will depend on the profile of the debtor you are dealing with.

8.
Having out-of-date customer records

Out-of-date information about your customers can lead you to assess them as a lower risk than they may be, so it is worth making sure that you keep a record of their ability and willingness to pay on each occasion so that you are not caught out later on. If you do have to take court action, you will need their correct address and contact details for service of court documents.

9.
Failing to undertake due diligence with companies

In much the same way that consumer customers' details need to be up to date, it is important to ensure that you are contracting with the right business. Companies can often have group subsidiaries, so it is vital that you have a binding contract with the right company, that this company has the means to pay, and that it is the correct company to pursue should payment not be forthcoming.

10.
Understand your customers' payment processes

Each of your customers will have a different procedure for paying invoices. It may not be entirely straightforward, and may require the authorisation of several individuals before payment can be made. Therefore, it is important to know the names of the people responsible for this process so that you are not unnecessarily sending reminders or increasingly forceful demands at a time when payment is winding its way to your account, albeit slowly.

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