

Systemise Your Outstanding Account Collection Process



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Outstanding accounts may represent an asset on your balance sheet, but not one that a business really needs. The costs of collecting an overdue debt can be high over a period of time and put a big hole in your profit margin.

Collections are best done using a pre-planned system rather than being handled on an ad hoc basis. Be sure you are alerted at least weekly of accounts that become overdue, and then begin a series of communications with the debtor that continues until the outstanding amount is collected. The most effective collection systems use a combination of telephone calls and letters to get results.

Collection efforts should be made in a series of communications that gradually increase the pressure on the debtor, ranging from a gentle reminder to warning of court action. A standard four step system can be used in most instances, bearing in mind that communications back from the debtor may require some variation.

Step 1. A reminder note that the debt is overdue

Step 2. A reminder letter of the previous note plus a specific date for payment

Step 3. A final demand for payment by a specific date

Step 4. Warning that legal action is about to commence unless payment is received immediately

Start with a reminder notice when an account goes overdue. It is just a 'reminder' and gives the customer time to make payment within a reasonable period of time. It also gives them a chance to query the amount or any other details of the account.

Be sure your notice contains the following information:

- The customer's trading name and full street address
- Your invoice number and any reference number the customer has provided
- A restatement of the purchase in question and the outstanding amount
- Where payment is to be made
- Options for method of payment (credit card, Internet etc.)
- A date by which payment should be made

The notice should be sent to the person in your customer's company who has the authority to deal with the outstanding account and process the payment. It should be a formal piece of correspondence and be limited to reminding about the overdue account, not any other matters that may be occurring between you and the debtor on other issues. And put it in plain English.

If there's no response to the first notice you can use either a reminder letter or a phone call to follow up. This can be worded slightly more strongly than the reminder notice - by continuing the 'softly softly' approach you're likely to find yourself remaining at the bottom of your debtor's 'to pay' list, while more noisy creditors are getting action.

Using a letter is common when the amount is not significant. It should mention that the first notice has not been acted on and that now you would like payment by a certain date – seven days or so is recommended.

If it's a large amount in question, you might prefer to use the telephone and speak to the person responsible for paying the account. This isn't so you can threaten them in person! It's just that talking personally indicates a stronger degree of concern than a letter.

These calls should follow a pre-set script like this one:

- Make sure you have the right person with authority to make payment
- Briefly recap the outstanding amount and previous collection history
- Ask if the payment can be sent immediately
- If not, ask if payment can be made by a specific date
- If this date is rejected, state a date by which it must be paid
- Let them offer a repayment date
- If their date is unacceptable, then restate your position
- State the action you will take if payment is not received

In a telephone call, always try for a commitment to payment. If you get any excuses that don't sound convincing – the usual ones are claiming the payment was made some time previously, or "*The cheque's in the mail*" – promise to investigate the situation immediately and respond with details within 24 hours. Resolve such matters immediately to prevent them becoming another basis for non-payment.

Once you have a commitment from your debtor, send them a letter or email that restates their commitment and tells them that you'll be looking for their payment on the agreed date.

If you need to go to the next stage, making a final demand, you should definitely use a letter for legal reasons, but accompany it with a telephone call that tells them the letter has been sent and offer them a final opportunity to make payment before legal action is necessary.

Legal action itself should only be taken when you're certain that this is going to be the only way to recover the outstanding amount. Once you've given a final warning, your communications are virtually at an end and the only way to resolve the situation is for them to pay their debt immediately.

Remember that legal action incurs additional costs and takes up your time. Even if you win, the court may order payments to be spread over a period of time. Legal action should always be seen (by you) as a last resort.



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