Office Procedures Assessment Tool for Effective Debt Collection

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This assessment tool is designed for you to assess your systems and procedures in your business that specifically relate to the successful management of the debtor's ledger and the reducing risk of uncontrollable customer debt.

Each topic has a series of questions and additional information. At the end you will find a summary in questionnaire format and a table showing what is taught in the Debtor's Ledger Management course and the Debt Collection course.

The topics covered:

Cost of Running a Debtor's Ledger

Terms of Trade
Complaints

Office Procedures

Currency of the Ledger
Condition of the Ledger
Reports
Overdue Actions
Debt Collection

Meetings
Staff Training

Government Laws and Regulations

Cost of Running a Debtor's Ledger

1. **Do you know how much it costs in labour and interest to run your debtor's ledger?**
2. **Do you know what it costs you to write an invoice off?**
3. **Do you know what sales you have to generate to break even after writing off an invoice?**

Many business owners do not realise the hidden costs of carrying customer debt. If customer payments have not been deposited in your bank, then you may need to finance the bills and loans you need to pay. That finance will cost you money if it is interest on a loan; or interest on a credit card because you cannot get finance.

You will also get an interest cost if you have enough funds to pay your bills for a similar reason. You will not earn interest on money owing to you as you would if those customer payments were in your bank. You may try to charge interest on overdue accounts, but if the customer is not paying you in the first place this not going offset the interest cost.

If you have a difficult customer the cost in labour may use all the profit of one invoice. For example, if you have a $550 invoice and the profit on this invoice is $50, it will only take a few employee hours to use up all the profit.

Many business owners do not realise the costs associated in writing off a sale and that you can end up donating goods and services to the customer because you still have to pay for the cost of goods used on the job or in the service.

The sales you need to generate after the write off just to break even, is often not talked about and neither is the formula to calculate the sales needed.

The Effective Debt Collection course explains exactly what it will cost and demonstrates in a spreadsheet plus illustrates the cost of interest when payments are not collected. In addition, the course explains what the costs are, the sales needed to generated to break even and how to calculate the sales for your business.

The Effective Debt Collection course explains all the tasks needed set up a customer account, meetings to monitor the overdue customers and the debt collections activities required to chase outstanding customer debt.

Terms of Trade

4. **Do you advise the customer of your terms at the point of quote or sale?**
5. **Are your terms of trade for that customer on their invoice?**
6. **Do you ask for a deposit before starting the job/service?**
7. **Do you ask for COD (cash on deliver) or POD (payment on completion) at point of sale?**
8. **Do you give credit by default? (The customer does not request credit; you just give it)**

If you do not advise your customer of your terms of trade up front - then your customer will decide when they will pay you. The customer needs to know you are serious about the credit you give them.

There is a window of opportunity at the point of sale when the customer is keen to purchase and you will have more success in your negotiation. So many business owners say nothing or they will tell the customer the price but not say when they will invoice or when they wish to be paid.

The Effective Debt Collection course gives several case studies and also talks about ways of avoiding giving credit by default.

Complaints

9. **Do you have a complaints policy?**
10. **Do you act on complaints immediately?**
11. **Do you have any complaints or disputes outstanding?**
12. **Have they been outstanding more than a month?**

The ACCC debt collection guidelines require businesses to have a complaints policy in place. Complaints need to be addressed quickly and in a professional and systematic manner.

A lot of businesses put their complaints in the too hard basket. A customer can hold up the payment of an invoice until the complaints has been resolved and a court will not deal with an outstanding debt that has an unresolved complaint.

A business owner's ability to effectively deal with a customer complaint provides a great opportunity to turn dissatisfied customers into active promoters of the business.

The Effective Debt Collection course explains why a business needs a complaints policy with associated procedures.

Office Procedures

13. **Do your invoices display payment options, bank details, terms of payment, due date and contact details?**
14. **Are these options printed in large type so the customer will see them immediately?**
15. **Do you ask for order numbers?**
16. **Do you keep a list of the customer's personnel authorised to place orders?**
17. **Do you invoice your customer as soon as possible after the job/service has been completed?**
18. **Do you enter payments on day of receipt?**
19. **Do you check your bank daily for payments?**

Keeping the transaction in your debtor's ledger up to date at all times is crucial to effective ledger management. There is nothing more embarrassing than for a customer to phone you to ask what is outstanding on their account and you have credit notes and receipts missing. Making sure your invoices are formatted so all contact details and terms of payment are readable and can be located easily will make it easier for your customer to process your invoice.

Being aware of your customer procedures in processing their invoices, particularly if you are dealing with a big company, can mean that your invoice will be more likely to go through their system without a glitch.

The Effective Debt Collection course explains step by step procedures so you have all the information on your invoice and a strategy to keep your ledger up to date at all times.

Currency of the Ledger

20. **Can you print an up-to-date list of debtors at any time?**
21. **Are all the customer details up to date? i.e. Name, address, contact details?**
22. **Are all the transactions up to date in your ledger? Invoices, credits, payments?**
23. **Do you enter invoices and payments contemporaneously (ASAP)?**

The currency of the ledger leads on to the next topic of The Condition of the Ledger. Not only do the transactions need to be up to date but so does the customer information – particularly the contact details. Being able to directly contact the person who issues the payments can save you a lot of time in phone calls.

The Effective Debt Collection course explains procedures to make sure your ledger is up to date with the required information to make your ledger efficient.

Condition of the Ledger

24. **Are any of your outstanding invoices more than 14 days overdue?**
25. **Have you tried negotiating payment agreements?**
26. **Do you have a strategy for reducing the current customer debt?**

This topic is part of the assessment of your current ledger and the strategy to reduce the current customer debt.

The Effective Debt Collection course gives you a step by step strategy to reduce the customer debt in your current ledger. Most business owners just keep phoning the outstanding debtor or take legal action. Having a specific strategy to deal with the problem puts the business owner in control of the situation. It may or may not help with getting the customer to pay but it will assist in assessing the customer and deciding what to do so you can clear the ledger of the debt.

Reports

27. Do you print your accounts receivable reports at least weekly?
28. Are these reports detailed? Invoice numbers, due dates, contact person?
29. Do you file these reports for future reference?

Monitoring the ledger consistently is very important in order to keep control of any customer who does not pay by due date.

The Effective Debt Collection course discusses various reports the business owner can print and prepare. An example of an ageing detailed debtor's report is illustrated with all the customer, ageing and invoice details required.

Overdue Actions

30. Do you place the customer's account on stop credit when invoices become overdue?
31. Do you send out letters of reminder or final notice?
32. Do you have an overdue actions strategy?

Placing a customer's account on stop credit should be a policy of the business and should apply to all customers. Even a long standing customer can have cash flow problems – especially these days where the economy is so unpredictable.

The Effective Debt Collection course explains a step by step Overdue Invoice Strategy which includes what to do when the customer invoice becomes overdue. This includes the actions if the account is overdue or the account has exceeded the credit limit.

Debt Collection

33. Do you phone customers for overdue invoices once or twice a week?
34. Do you have a schedule of debt collection actions?
35. Do you have difficulty asking for payments? Do you know what to say?
36. Do you keep a diary of conversations and correspondence with the customer?
37. Do you have a set of reminder and debt collection letters?
38. Can you identify a delinquent debtor?
39. Do you have an on-going strategy to manage the debt collection processes?
40. Are you aware of the provisions of your local debt collector's laws and regulations?

Being consistent and persistent the ledger should be easily controlled. Having an Overdue Invoice Strategy to schedule when to make phone calls, send letters or emails out saves time puts you in control. All business owners and their employees

should be aware of the ACCC debt collection guidelines. These regulations do not apply just to debt collectors but to anyone giving credit to a customer.

The Effective Debt Collection course explains a step by step strategy to deal with overdue invoices, discusses ways for keeping records of correspondence and phone calls, lists all the activities you need for successful debt collection and advice about delinquent debtors and customers with cash flow problems. The course all includes templates of collection letters, payment agreement and a phone call script to give the caller confidence and the questions to ask in order to get paid.

Meetings

41. **Do you hold weekly meetings to monitor the debt collection processes?**
42. **Do you have an agenda for the meetings?**

Weekly meetings are essential to manage an effective debtor's ledger to monitor the activities of customer payments and your employees so you know everything is done to reduce the risk of customer debt getting out of control.

The Effective Debt Collection course explains in detail what should go in the agenda and the sorts of reports that are useful to the business, such as the number of complaints and how long they take to be resolved. The reports and monitoring can lead to identifying business weaknesses which need improvement.

Staff Training

43. **Do you train your employees in debt collection procedures?**
44. **Do you train your employees in your policies and procedures?**
45. **If you engage contractors to phone your debtors do you make sure they know your policies and procedures?**
46. **Are your employees (and contractors) up to date on the debt collection laws regarding their behaviour towards a debtor.**

Untrained employees phoning customers for overdue payments will not improve your rate of customer debt recovery as they do not have skills in debt collection, customer negotiation and interpersonal skills to deal with customer excuses. If staff are not trained in the policies and procedures of the business relating to the debtor's ledger management they may make decisions that are not in line with the views of the business owners.

The Effective Debt Collection course discusses the importance of training your employees in your policies and procedures and lists other essential skills needed to successfully manage the debtor's ledger.

Government Laws and Regulations

47. Are you aware of the laws that govern or regulate your behaviour towards a debtor
48. Have you tried to source these documents?
49. If you have the laws and regulations, have you made sure your employees and contractors are knowledgeable and abide by them?
50. Are you fully aware of the privacy laws and the security you should provide for a customer's information and details?

The ACCC has issued the Debt Collection Guidelines which are not just for debt collectors but anyone who gives credit to a customer. This includes all small business owners who give credit.

Business owners and their employees should read the document as a business owner is responsible for the behaviour of their employees towards a debtor.

Biz Skills has links to the ACCC website where the guidelines can be downloaded.

A Debtor's Ledger Management course is available for business owners who wish to have the skills and knowledge for the whole system of the ledger not just the debt collecting skills. At the end of this document you will find a table indicating the topics in each course so you can decide which is best for your business.

The desired outcome of the ledger management is to reduce the risk of customer debt getting out of control. Debt collecting activities alone will not protect or reduce the risk for a business, of uncontainable customer debt.

SUMMARY QUESTIONNAIRE

Cost of Running a Debtor's Ledger
1. Do you know how much it costs to run your debtor's ledger?
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Terms of Trade
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Debt Collection Activities
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Debt collection versus Debtor's Ledger Management

DLM: Debtor's Ledger Management
DC: Debt collection

	DLM	DC
Introduction		
What is this course about	✔	✔
What will you get from this course	✔	✔
Why don't customers pay	✔	✔
Cost to Run Ledger		
The interest cost	✔	
Calculation of spreadsheet	✔	
Cost in labour	✔	✔
Cost to the business if a sale is written off	✔	✔
Consequences of customer debt	✔	✔
Office Procedure Evaluation		
Assessing the inefficiencies in office procedures	✔	✔
Which credit method is best for your business		
Business types and how they negotiate credit with customers	✔	
Credit methods suitable for your business	✔	
Other determining issue to decide credit methods	✔	
Policies and Procedures		
Why are policies and procedures important to your business	✔	✔
Terms of Trade Policy	✔	
Customer Credit Policy	✔	
Complaints Policy	✔	
Debtor's Ledger Management Policy	✔	
Appointing a ledger manager	✔	
Training employees	✔	
Currency of your ledger		
Assessing the currency of your ledger	✔	✔
Strategy to reduce the current ledger debt	✔	✔
Debtor's Ledger Management		
Strategy to manage the ongoing ledger	✔	
Assessment of the new customer	✔	
Customer account set up and invoicing	✔	
Payments, complaints and reports	✔	
The overdue invoice strategy	✔	✔
Customer excuses	✔	✔
Meetings and the agenda	✔	✔
Preparing for the customer phone call	✔	✔
The phone call script	✔	✔
Delinquent debtors and cash flow problems	✔	✔