

## Strategy to reduce the current customer debt

- Bring your ledger up to date. Ensure all payments, credit notes and invoices have been entered. Ensure all customer contacts and phone numbers, credit limits and terms of trade have been entered.
- Deal with any disputes and try to make a decision if you have to do a rework or issue a credit note, or write the invoice off if the issue is unresolvable.
- Print out a detailed debtor's ledger so you know what you are dealing with. Make sure you have contact name, phone number and due date on the report. If you do not have enough invoice information on this report, make sure you can access the original invoice easily from a file.
- Phone every customer. There is a phone script later in the course to assist you. Keep a record of the conversation, this is important. We will also be covering excuses and how to deal with them which will help also. Some customers will just say sorry I forgot and just pay you because you have phoned. Follow up with an email to confirm your conversation and the offer to pay. When they pay, send an email thanking them for their payment. Its good PR. Use your calendar to schedule follow-up phone calls. Some customers may have no money and you will have to write the invoice off.

### **1. Sort the Customers into Categories**

- a. Customer who have agreed to pay. When they pay send them an email to thank them for the payment. Especially since you may be tougher in future when you get your new overdue invoice strategy in place.
- b. Customers to cease giving credit to because their account is too overdue. It is not in the interest of the customer to continue to supply them with more goods and increase their debt when they cannot pay.
- c. Customers to offer a payment agreement. Set up a system to manage this especially if you have several agreements to track.
- d. Customers to send a strong letter to. Don't start with the reminder if the invoice is over 45 days. If you threaten legal action, then be prepared to follow through. You may be able to send a strong letter and then offer a payment plan if you find they have a cash flow problem. If the invoice is small do not threaten legal action as you probably will not proceed due to the cost. Consider writing off as it may be more cost effective.
- e. Customers who are avoiding payment and who have advised that you will receive payment next week etc., first try to agree on a date. If they do not pay by that date, phone immediately the day after and politely inform that you did not receive the payment and have they sent it. If they are having cash-flow problems, you may be able to offer a payment agreement. (Observe your local laws in dealing with a debtor in this process. Some laws state that you can only phone during business hours and you cannot phone more than a few times a week. In other words, you are not allowed to harass people. There could also be restrictions on contacting them in person)
- f. Notice I have not said customers to seek legal action as you should try all other options before considering this action. Some invoices may not be big enough to warrant legal action because of the cost. It may be better to write the invoices

off and manage your ledger better in the future. I have also not mentioned sending the invoice to a debt collector. I doubt a debt collector is going to do any more than you are doing now. But that will be your decision.

## **2. The Goal**

The goal you are aiming to achieve is:

30 days after starting this strategy and as of the cut-off date, the only invoices that should be outstanding are the invoices on a payment plan that should be consistently reducing, and the invoices that you have decided to take legal action. Everything else should be paid or written off. Hopefully you have resolved all complaints in the 30 days otherwise you may have to look at business improvement strategies to reduce the amount of time for resolutions

## **3. Other Procedures**

- Re-evaluate all customers' credit limits to reduce your risk.
- Re-evaluate your payments terms
- Re-evaluate who you give credit to
- Stay motivated and try to work with these customers to get the best outcome.
- Make it a challenge and your goal to clear everything that is over 30 days old or whatever the 'age' you decide all your customer's invoices need to be under.
- If you have old invoices you may have to accept the consequences that you will have to wear the loss of writing some invoices off.

For more information on the laws dealing with a debtor, download the ACCC Debt Collection Guidelines from the ACCC website.