

10 Ways to Manage Your Debtors to Improve Your Profits



1. Do you **credit check all your new customers** to see whether they can actually pay you? Do you check them with one of the numerous credit reference agencies? This service is not expensive and if it reduces the risk of not being paid, it is money well spent. It won't eliminate the risk of non or slow payment, but it will reduce it. And it shouldn't stop with new customers; it's worth updating the check annually on existing customers
2. **Set cautious credit limits for all customers**; again credit reference agencies make this process very affordable with recommended credit limit levels. Let your client know about their credit limit along with your terms of trade. Don't forget to state the terms of business on your invoices too. If the customer account goes over the credit limit, but them on stop and let the customer know
3. **Make sure you have a written order from the customer** and **make sure your invoice is accurate**. Your customer will check every invoice in detail and if it's exactly how they want it laid out with all relevant details, in accordance with the order too, it will be processed first time and if they are a large business you will be paid in accordance with the agreed terms. The customer will have no excuse for not paying you
4. **Always obtain proof of delivery** or signed customer satisfaction with the service
5. **Invoice promptly**. It's a well known fact that the longer you leave it to invoice the customer, the less likely you will be paid!
6. **Keep your outstanding debtors lists up to date** daily and review them weekly. Chase overdue accounts quickly
7. **Chase your overdue debtors systematically**. Start by ringing and reminding gently just a few days after the debt is overdue, say 7 days; then follow up systematically. Keep a log of all your contacts and promises by the debtor. Quote these back in follow up calls. Be polite but persistent. Whatever you do don't let it get emotional. When you issue warnings, keep your word and take action. If you use someone else to help collect your debts, make sure they are good at their job as good credit controllers are hard to find. If you find a good one, look after them!
8. **Stop the service once the debt starts to get long overdue**. Let the user of your goods or service know that they are on "stop", say 20 days after due date
9. **Consider factoring if debt collection remains slow**. The big advantage of this form of financing is that it grows as the business grows. Confidential Invoice Discounting is as the title says confidential from your customers and is increasingly available to smaller businesses, although your sales ledger accounting must be bang up to date
10. **Remove the risk altogether, get paid up front!** This can be done in a number of ways, including bank transfer, direct debits, standing orders, credit card payments or cheque up front. However

make sure payment has cleared the bank for whichever method of payment is used. Talk to your bank to confirm

Want help or want to know more? Get in touch with Mr & Mrs Accountant now! 01924 666432

"101 Ways to Make More Profits" by Steve Pipe, 2nd Ed., now out of print, was the inspiration for the above article