

Mercian Law

Commercial Debt Recovery Specialists

OUR TOP TIPS FOR BAD DEBT PREVENTION

In order to try and prevent your business experiencing bad debts in the future, we suggest the following should be considered.

- If possible you should request payment in advance or on account, at least to cover your overheads
- Maintain good customer relationship management and set reasonable customer expectations
- Do not undertake work until your terms of business have been signed
- Carry out credit checks on all customers or research who you contracting with

Taking on new customers can be high risk. Having agreed costs upon commencement, it is important to meet the expectations set. If your terms of business are not observed or pursued with regards to billing, this will inevitably create pressure on your cash flow, chasing outstanding bills and your work in progress.

Know your Customer

Try and obtain as much information about your customer as possible. Ongoing monitoring of your business relationship will assist you understand the nature of the customer's business. The quality of communication is key!

You could use a standard pro forma to be completed by customers providing personal and company details to be completed. This information will be useful if problems develop.

Depending on the value of the contract, you may also consider obtaining:

- Bank References
- Trade references
- Credit references

The three main agencies are:

- www.callcredit.co.uk
 - www.equifax.co.uk
 - www.experian.co.uk
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- Search at the Register of County Court Judgments at www.registry-trust.org.uk a report will cost £2
 - Company Searches at www.companieshouse.gov.uk

Draft and implement a Credit Management Policy and statement

- Your normal payment terms should be clear
- Have effective accounts reporting and monitor and analyse data
- Inter departmental liaison and signaling when issues arise
- Clearly defined credit control system detailing what happens if a customer fails to pay in your usual payment terms
- Get your staff on side – bill delivery isn't the end!

Post invoice procedures should be regularly reviewed and updated. Make sure you do this or delegate it.

There is no definitive credit control system as each business is different

Unpaid Debt or Genuine Dispute

Which one of these is your debtor?

Can't Pay?

- Loss of income
- Low income
- Over Commitment
- Increased/ unexpected expenses

Don't Pursue

Won't Pay?

- Withholding money on principle
- Working the system
- Ducking responsibility

Pursue

Neither Can't Pay or Won't Pay

- Genuine Dispute
- Disorganised
- Third Party Error

Maybe

Other Considerations

Does your particular industry have guidance or a code of practice? If so obtain a copy and check the recommended debt collection procedures you should be following.

Be careful not to breach the following:

Section 40 Administration of justice Act 1970

“Harass the other with demands for payment which, in respect of their frequency, or the manner or occasion of making any such demand, or any threat of publicity by which any demand is accompanied, are calculated to subject the debtor or a member of their family or household to alarm, distress or humiliation.”

Protection from Harassment Act 1997

- Criminal offence and civil remedy available to debtors in the County Court
- Must not pursue a course of conduct which amounts to harassment of another, and which you know or ought to know amounts to harassment of the other

It is pointless to:

- Pressurise a debtor who can't pay
- Ignore claims that the debt is disputed, obtain as much information as possible and reply accordingly
- Refuse to deal with debt management companies
- Failing to investigate a query or dispute
- Not stopping collection activity while investigating a reasonably queried debt, you could be wasting your money

More Effective to:

- Communicate with your debtor pre-action either by telephone or e-mail
- Communicate with their debt adviser
- Know the debtor, obtain a financial statement
- Tailor your debt recovery action accordingly

Good Practice = Good Business

Assists in settling claims, and meeting your commercial objective by working in partnership with your customer.

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