Debt Collection Made Easy..

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By Ian Renton

“Tis against some men's principle to pay interest, and seems against others' interest to pay the principle.”

- Benjamin Franklin

PART A
Avoiding Problems In Debt Collection

PART B
Overcoming Problems In Debt Collection

Introduction

Quite frankly, this book had to be written. There are so few books written about debt collection in Australia and New Zealand. Of those that are available, they are so complicated. I know since I have read many of them. The topics are presented in a complicated manner. The Law is there to help us collect our money and should not be feared. It should be understood and used to our advantage. Yet, other books make the law very difficult to be understood.

Firstly, a little about me. I am not a law graduate, nor am I an academic. Instead, I am a business owner. I have over 10,000 customers in Australia and over 1,000 customers in New Zealand and most of them pay my business on credit. I have owned this business since 1991 so this book is based on my real life experiences. Also, one of the products we sell is stickers to put on invoices and statements. So, yes I have had experience in collecting money both for my business and I have assisted thousands of other businesses in collecting their money more quickly at least indirectly through our stickers.

I know what it is like to ring a customer many times and have them refuse payment. Also, I have experienced bad debts due to my customers going out of business. I have made mistakes such as granting credit too easily and failing to check a customer's capacity and more importantly, willingness to pay.

My experience is very much in collecting small accounts rather than large ones. However, the same principles still apply for collecting large accounts. In fact, you can go to a Local Court in Australia to collect debts up to $60,000 in most states. Quite simply, for accounts larger than these I recommend you use a solicitor.

Being an owner of a small business means that I have to focus on selling and collection at the same time. In fact, there are only two ways for a business to bring in money. One is marketing and the other is collection. In large companies, there is still on occasions, a battle between the credit department and the sales department. I cover this topic in this book but the simple answer is that you always do whatever is most profitable for you to do.

Business owners are judged by their profits. I believe that employees should be judged by how much they contribute to these profits. They can contribute by improved marketing, increased efficiencies, cost-cutting, better customer service and finally, faster collection and less bad debts.

This book is not long by the standards of other books in the field of credit management. There are 46 easy chapters for you to follow and refer back to when

Part A

Avoiding Problems In Debt Collection

Chapter 1 - Definitions

The following terms will assist you in understanding this book:

Debt – Amount owed to you

Debtor – Your customer who owes you money

Credit – A situation where a customer is allowed to receive goods and services before payment is forthcoming

Creditor – You as the supplier of the goods and services. You are the one who is owed money.

Terms – The rules under which credit is granted. Normally, it is agreed that the goods or services will be paid in full within a certain period of time.

30 day account – This generally means that payment is due at the end of the month following the date of invoice. This is different from credit being granted for 30 days from date of invoice.

Net – Payment in full is due. No discount is allowed.

Overdue – This refers to payments which have not been forthcoming by the due date.

Accounts Receivable – The department inside a company which is responsible for collecting money on behalf of the company.

Credit Manager – The boss of the accounts receivable department. Generally, this person is responsible for deciding whether credit is granted at all, how much credit is given, what the payment terms are, what action is taken to collect overdue accounts, and finally if and when and how legal action is taken.

Mercantile Agent – This is a person or a debt collection agent or firm employed by the creditor to collect a long overdue account.

Final Notice – A warning is given to the debtor stating that unpleasant circumstances such as legal or other action will follow if the payment is not paid immediately.

Letter of Demand – This is similar to a final notice. It is often written by a third party such as a mercantile agent or a solicitor.

Write Off – This is where a decision is made to take no further action to recover a debt. The supplier will still be able to claim a tax deduction for the unpaid amount since effectively sales have been reduced. No payment for goods provided or services rendered is forthcoming.

Defendant – If you need to take your debtor to court, then your debtor will be known by the courts as the defendant.

Chapter 2 - Why Grant Credit At All?

There is one and only one reason to grant credit. You grant credit in order to get a sale. If granting credit to your customers did not increase your sales, then quite simply you would not do it.

When you go to your grocery store, you pay by cash, EFTPOS or credit card. In fact there are many industries where it is very unusual to receive credit when you make a purchase. These include retail stores, restaurants, food outlets, entertainment venues and many more.

In fact, whenever we make purchases as an individual, most of the time we must pay upfront before the goods and services are delivered. Exceptions are telephone, rent and utilities such as rates, garbage collection, electricity, water and gas.

Most people pay all of the above on time even when funds are short since they know that the supplier has the power to withdraw these services.

There are a number of businesses that also operate like this. They believe their services are so important that they can entice upfront payments from their customers.

Business coaching is an example where upfront payments are made.

There are a number of businesses which sell their products on the internet. Almost without exception, upfront payment is required when you purchase on-line.

Direct debit payments are also common today. The increased technology in the 21st century means that it is easy to organise your credit card to be debited regularly or for money to come directly out of your bank account on a regular basis.

In fact, we do less business on credit today than ever before. This is despite a strong economy and unprecedented wealth in the western world. We have even become accustomed to paying upfront.

The question must be asked, “Why grant credit at all?”

When your customers are businesses, then you will most likely be competing with many other businesses for your customers. If you don’t offer credit, then you will need to have great products, great service and a great offer to compete. You will be competing with other companies that do offer credit. This is the only reason to offer credit – to compete on an even basis or better still, provide your business with a competitive advantage.

This is why mostly you will grant credit for 30 days. Usually, this is from date of statement, not from date of invoice. This effectively means that your customer can receive up to 60 days credit. If your customer orders on July 1, then payment will not be required until August 31.

Some businesses offer credit for 7, 14, 21 or 30 days from date of invoice. Other businesses expect payment on 20th of month following date of invoice. However, 30 days from statement is by far the most common form of credit terms.

Already, you can see a conflict developing between credit and sales. It is good for your cash flow if you insisted on receiving payment in 7 days. However, by asking for payment 30 days from date of statement, you are offering up to 60 days credit to your customer. This is a valuable service that you are providing.

30 days credit is then used as a tool to get a new customer and keep a customer. This goes back to the origin of credit in the first place. Credit was first granted to get a sale. Your credit policy is designed to maximise your profit. Never forget this.

Let's consider two businesses with similar margins and similar cost structures. A business with $1,000,000 in sales and 5% losses due to bad debts will most likely be more profitable than a business with $500,000 in sales and 0.1% of sales resulting in bad debts.

Similarly, let us again consider two similar businesses as above. One has sales of $500,000 and collects its money on average every 14 days. The other business collects its money on average every 50 days and has sales of $1,000,000. Again, the second business is likely to be more profitable even though it will have a higher interest bill.

This book looks at how the credit function fits into the overall performance of your business. Too many businesses focus only on minimising bad debts and Days Outstanding. In fact, most books on the subject of credit management are only concerned with these two topics. Their focus is always about reducing bad debts and minimising days outstanding.

These things are important but there are two other things that are important and this book will not overlook them. One is increasing sales and in particular profitable sales and the other is minimising the costs of collection. There is no point in spending an extra $100,000 on credit management to save $20,000 on bad debts.

The money is in the selling. Business owners need to focus the majority of their energy on marketing and selling more of their products and services. The credit function is there to support this process, not to inhibit it.

This book is designed to give you systems to use credit to increase sales, reduce bad debts, collect your money more quickly and easily, minimise your costs and finally show you how to use the courts to collect money from delinquent customers.

Chapter 3 - Credit Risk

There are three components of credit risk:

1. *Potential gain, i.e. extra sales*
2. *Potential loss, i.e. bad debts and costly recoveries*
3. *Probability of payment.*

Our aim is to maximise our potential gain by generating a lot of extra sales, minimising our potential loss by having a small number of bad debts, both in quantity and value and also by collecting our debts with minimum cost and effort. Ultimately, our aim is to increase sales and make bad risks pay. We are looking for reasons to grant credit rather than reasons to refuse credit.

Ideally, we would like the credit risk to be low. The risk is low if the mark-up is high. This is because the cost of goods sold is low relative to the value of the sale.

Another example of low risk is if you have surplus staff, surplus stock or surplus space. If you are a service oriented firm, say, a computer consultancy firm, an accounting practice or a legal firm and you had staff who weren't busy then the credit risk is low because you have to pay your permanent staff whether they are busy or not. Similarly, if you are selling obsolete stock, the risk is low. Also, if you have surplus space in a newspaper or on a radio station then the credit risk is low. We say the risk is low since we have a low opportunity cost. By accepting a sale on credit, we are not forgoing the opportunity for other sales since in these examples there are no opportunities for additional sales.

Similarly, the credit risk is high if the margins are low. In this case, the cost of goods sold is high and is much closer to the value of the sale. Also, if you have a radio or television station and offer advertising space, then you can't offer the same advertising space to someone else. If the demand for advertising space is high, then you have an opportunity cost to consider. The higher the opportunity cost, the higher the risk.

Investment advisors will always tell you to diversify when investing your money. The same is true in credit. If possible, you would like to grant credit to different customers, customers selling different products and services, customers in different industries, and customers in different regions.

Finally, you should assess the customer you are planning to grant credit to. The first step is to do a financial analysis but there are also other things to consider. Does this customer depend on one main business for its sales? Does this customer sell only one product? Is this customer well diversified – i.e. amongst its customer base and the products or services it sells?

It is still possible to make a profit out of high risk companies by setting a reasonably low credit limit. Your aim here is for your profit generated from earlier sales to exceed the loss caused by bad debts in the future. You can take a gamble on granting credit to high risk companies provided you don't have too many of them, and have systems in place to check that they are staying within their credit limit.

Most of the time, you are looking to grant credit since the potential gain is usually higher than the potential loss. The exception is where a customer's failure would threaten your survival.

Chapter 4 - Beware of Liars and Cheaters

Have you ever heard of someone handing in a wallet to authorities and then being congratulated by the media? Well, I am saying you should not be surprised. You see, 98% of the population are good people. Ask yourself, if you found someone else's possessions in the form of a wallet with identification, would you hand it in? I am guessing you would.

It is not in our nature to steal and cheat and lie. However, there are some people who do. The number of people who do is much smaller than you think.

If you have had bad debts in the past, consider how many of those are outright liars and cheaters? I will bet that many of them are people who want to pay you but do not have the means or the money to do so.

What does all this have to do about granting credit? Well, quite a lot. If you granted credit to everyone who came to your business, you would have some bad debts but not nearly as many as you think you would. People genuinely want to do the right thing.

When deciding whether to grant credit to a business or individual, you are obviously checking their capacity to pay. For large amounts of credit, you are well within your rights to check financial records such as personal information, previous company income statements and balance sheets. The purpose of this book is not to give a detailed lesson on analysing financial statements. If you cannot determine if your customer has the capacity to pay based on the information provided to you, then simply employ someone to do this on your behalf.

As well as personal information provided to you, there is almost unlimited information on the internet. This is especially the case for public companies.

It is generally easier to find out information about a business. Always find out what type of business you are lending money to. Is it a sole trader, a partnership, a privately owned company, a public company or some other entity? When you do grant credit, you are effectively lending money.

For individuals, it is common not to grant credit. It is usually only utility companies and landlords which grant credit to individuals. Do not feel that you need to grant credit to individuals. For legal purposes, sole traders are also treated in a similar way to individuals.

The advantage of lending to sole traders is that in the event of non-payment, you do have the right through the local court system to seize and sell their assets in order to get paid. Certainly, you should check that they do have assets. Another thing to check is how long they have been at their current residence.

Another thing to be aware of is that 80% of your problems will come from 20% of your customers. I would not go out of my way to grant credit generously to individuals or sole traders. It is more likely that this group of people will be dishonest than companies that have been in existence for several years.

Some common problems in collecting money from these people are unreturned phone calls, the telephone is disconnected, their place of residence is unattended or worse still – they have moved. I have been a business owner for 17 years and this group is the one group which is the most unreliable. The other point is that the reward is usually less than the risk. Sole traders and individuals often do not make large purchases.

Before granting credit you must know who you are dealing with. The next group you could be asked to grant credit to are partnerships. Again for this group, the risk is quite high. It is quite inexpensive to incorporate so partnerships are rare today. The risk of doing business with a partnership is only slightly less than granting credit to a sole trader. Again, you need to find out a lot about the partners before granting substantial credit to these groups of people.

For private companies, there is usually less risk but certainly not none. For very large orders, you can request balance sheets and income statements. For most companies, the completion of a credit application form will be enough to justify the granting of credit. Of course, you must check the credit application form.

There is a group of companies you need to be aware of. I have been fortunate enough to avoid them in my business life. However, many others have not. They are not prevalent but they do exist and you must be aware of them. I am referring to phoenix companies.

When a phoenix company goes broke and is unable to pay its debts, it sells its assets to itself and sets up a new company under a different name. It is the usually the same company with the same directors but without the old debt. Unfortunately, these companies are difficult to know about.

However, you are offered some protection from the law. In what's believed to be a legal first, workers who lost hundreds of thousands of dollars when their employer went broke are being allowed to pursue a separate company for the money.

In June 2006, the NSW Industrial Court found that there was a real case for the plaintiff to pursue the new company for money owed by a previous company.

If you are granting large amounts of credit, then you can get a credit check done on your behalf. This is a service that is available. However, I recommend you do your own due diligence in most cases. The Privacy Act limits the amount of information available to you.

For new customers wishing to make a large initial purchase, do not be afraid to ask for a percentage deposit. This is not unreasonable. It is a great way to share the risk between the buyer and the seller. Be confident in the products and services you are offering. Aim to be in the stronger position. If your customer is unwilling to make a deposit, then this customer is quite likely not worth having.

Credit is about trust. When granting credit, you have to trust your customer. When you buy goods and services upfront, the buyer has to completely trust the seller to provide value for money.

The trick is not to want a sale too badly. This is when your judgment becomes cloudy. Also, it is better for you if the customer badly wants to do business with you rather than the other way around. This immediately gives you more power in the relationship and ensures you get a better quality of customer.

Here is one way of avoiding some liars and cheaters. Before a sale is made, your potential customer refuses to play by your rules. Here are some examples.

1. *A small deposit is refused.*
2. *Completion of a credit application form is not forthcoming.* (This is quite acceptable since some customers prefer to pay upfront with a credit card or cheque or direct deposit. Ensure you receive this upfront payment if a credit application is not forthcoming.)
3. *The credit application form is incomplete.*
4. *Trade references completed are not valid.* (Always check these thoroughly. What someone else says about your customers is far more powerful than what they say about themselves.)
5. *Your customer wants to be invoiced instead of paying by credit card on your website*. (Credit card payments online are very common today so the risk to the customer is very small.)

The other types of organisations you may be asked to give credit to are public companies, sporting and other clubs, charities and government departments. These are all quite safe. Despite the collapse of HIH a few years ago, it is generally safe to grant credit to public companies since their financial records and public announcements are all easily able to be researched on the internet. Government departments are also safe. They will not go broke but you may have to follow certain rules in order to be paid.

Charities and clubs are generally safer to deal with than private companies because it is easy to find out information about them. Nevertheless, an element of caution should be exercised.

The bulk of this chapter is designed to protect you from bad debts. Most bad debts are caused by poor initial research rather than inadequate followup.

Collecting your money quickly is another skill altogether. The bulk of this book is designed to help you collect your money quickly but more importantly to collect it profitably. There is much more to debt collection than speed. It is about fostering the relationship with your customer so you can create a customer for life. It is also about minimising your expenses.

Remember, 98% of people are good people. Most people want to pay their debts. The skill in credit management is to weed out the bad people as quickly as possible and then become friends with your customers including those who owe you money.

Chapter 5 - How to Set Up An Account

When you get a new customer, you are looking for two things. Firstly, ensure you have the right information regarding this customer and secondly compile information that would enable you to market to this customer in the future. This second point is often overlooked.

It is the responsibility of the credit department to not only have enough information to sue your customer if necessary but secondly to give the opportunity for the customer to be marketed to via a number of different media.

Below is some information worth recording:

1. *Who is your customer?* Believe it or not this is a common mistake and is one reason for bad debts. Is your customer an individual or a company or partnership or some other entity? Note that trading names are less relevant. It is who the trading name represents that is important.
2. *ACN number for companies.*
3. *ABN number of sole trader or partnership or company.*
4. *Relevant address.* For a company it is the registered office. This is often different from their place of trading. For individuals, it is their home address.
5. *Details of the owners.* Who are the owners? This is especially important for private companies. For public companies, this information is easily found on the internet.
6. *Results from credit application.* Include date approved. The credit application form is a whole separate subject. (Refer to Chapter 6 for details.) However, it often forms the basis for setting up the account. Note that there are times when a credit application is not necessary. E.g. government departments, publicly listed companies, those placing small infrequent orders with your business. If you do request a credit application form to be completed, ensure you ask for three trade references and check that they are valid.
7. *Name of the person responsible* for paying your account and the mailing address, phone number, fax number and email address.
8. *Details of the person who places the order* - name, physical address, phone number, fax number, email address, mobile number and birthday.

This is a brief list and it is likely you may wish to know even more things about your customer.

Point 7 above will help you collect your money quickly. It is important to know who is responsible for paying you and how you can contact them.

Point 8 is a little different to the way many businesses do things. This information enables you to market to your customer in several ways. There is more to marketing than just posting information or making a phone call. Take advantage of all the media available and find out your customer's birthday if you can. This way you can send your customers birthday cards or make special offers around the time of their birthday.

Chapter 6 - The Credit Application Form

Do you really need a credit application form?

Of course we need a credit application! And I would completely agree with you for new customers spending $500 or more. However, if you are a company that has many small transactions I would just not bother with a credit application or a credit check on these small transactions. Whether you make it under $500 or under $200 is up to you, but the point here is that your credit policy should be flexible enough to allow for these small first time customers.

While most people understand the need for credit applications, think of the time and cost saving both to you and your customers by not having to fill out a credit application for a small $150 order. Sure, you will lose some money as bad debts, but this will be more than offset by the time savings and money saved by not conducting a credit check on these small transactions. Best of all, your new customer is not inconvenienced in any way and they are left with a good first impression.

What do you do if you offer credit on a small initial order, say for $100. Then, a short time later, this same customer requests credit for a $3,000 order. This is the problem with granting credit automatically with an initial order but it can be overcome in one of two ways. You can ask if the customer minds completing a credit application form. Most of the time, this will not be a problem.

Alternatively, you could state with your first order that their credit limit is $500 or some other appropriate amount and future orders above $500 require the completion of a credit application form.

What is contained on a credit application form?

There are several text books available which outline in much detail what to include on a credit application form. But most importantly, make it easy for your customers to complete. Some items you should ask for include:

- *Company Name*
- *ACN Number*
- *Trading Name*

- *Owner's Name and Address and Phone Number*
- *Directors' Names and Addresses and Phone Numbers*
- *Banking Details*
- *Three Trade References*
- *Signature*
- *Date*
- *State your Trading Terms*

You may wish to ask for more financial details such as company assets and profit. Very likely, if an individual is applying for credit you would need details on that person's income and assets.

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Chapter 7 - Design Your Invoice Properly

How and when you do invoicing are very important and can have a big impact on when you get paid. Here are some points to consider.

1. *Who are you invoicing?* Is it a company, an individual, a partnership, a club, a charity, a government department or something else? Make sure you have the correct contact details of who you are invoicing. For in-store sales, this is not necessary but you should have an email address and a phone number for future collection action as well as future marketing. Ideally, you would include the person's name who is responsible for payment of the invoice. Alternatively, the invoice can be posted to the person who placed the order or accounts payable.
2. *Include your contact details*. This would include your physical address, email address and phone number. This will ensure queries can be dealt with quickly.
3. *Record any other relevant information of your customer.* The order number if provided is vital. Their ABN Number is also relevant but not necessary if the physical address is provided.
4. *A clear description of what the customer bought is important.* You need to provide much more than your product code. Include unit price, total price, quantity and any freight charges.
5. *Make it very easy for your customer to pay you.* List all payment options. If you accept credit cards, explain which ones. Also, document any charges incurred if your customer pays by credit card. You should encourage payment directly into your bank account since this is usually an inexpensive way for you to receive payment. Include these details on your invoice.
6. *State your trading terms clearly.* Is it 7 days, 14 days, 30 days from date of invoice, 30 days from date of statement or something else? If it is not printed onto your invoice, then use a sticker to highlight your trading terms. This is what we do since it is more effective in making your invoice stand out. Make it obvious when you want to be paid. If your customer cannot find your trading terms, then your invoice will simply be placed on the bottom of the pile since it is not urgent. Another popular method used effectively by large companies is to have a due date for payment. This is powerful since it makes it obvious when you require payment.

7. *Are there any special terms in the form of discounts or penalties?* Occasionally, companies will offer a discount for paying large invoices early. Other companies will impose a late fee for payments made after the due date. Make your policy clear to your customer.
8. *If you wish to include legal details in the form of the contractual details between you and your customer, then this can also be included on the back of your invoice.* However, in terms of requirements by the local courts, the actual invoice with the above details is sufficient proof that the order is legitimate. Of course, delivery dockets are also relevant if you have these.
9. *Colour should be considered.* It is quite acceptable to print your invoice on A4 paper with black text on your laser printer. However, the use of colour especially to highlight the due date, the amount or even your company logo can add to the impact of your invoice. You want your invoice to get noticed. You are also advertising your company. It is unusual to advertise your products on your invoice but it is good to send relevant advertising material with your invoice if it is being mailed since you do not have to pay for postage.
10. *Generally, invoices are posted in a window envelope always make sure that your customer's address details are visible in the window.* This will make things quicker and easier.

Finally, make sure you send your invoice out as soon as the goods are delivered or your services have been completed. In fact, where possible include your invoice with delivery of your goods. Invoice as quickly as you can. Don't leave the invoicing to the last day of the month. It is too important to put it off. Delayed invoicing is very likely to result in delayed payments.

If you invoice the same customer the same amount over a regular period of time, usually 12 months or more, then it is not necessary to send the same invoice every month. Instead, you can send just one invoice with an accompanying letter which will explain how long this invoice is valid for. An example of this idea is an invoice for commercial rent. It will be the same amount for 12 months.

Chapter 8 - The Collection Plan

Today, many businesses have sophisticated marketing plans. They use lead generation programs, multiple direct mail packages, telephone broadcasts, fax broadcasts, emails, telephone calls and more. Everything is done at a certain time after the first lead generation program goes out. Every future action depends on what the customer has done in the past.

Well, you should also have a sophisticated plan for collecting your money.

The Collection Plan is Essential

When devising a method of collecting accounts you need to consider three things:

1. *Collect the money as quickly as possible.*
2. *Minimise the cost of collection.*
3. *Encourage future sales.*

Some people place too much emphasis on collecting the money quickly, often to the detriment of the cost of collection and the future relationship your company has with those debtors. The major cost of collection is usually labour and procedures should be in place to minimise the time taken by your staff to collect your money.

Every contact you have with your customer affects the relationship with that customer. The more lenient you are in collecting your money, the greater the benefit to your customer and the greater the likelihood of future sales. But being too lenient can cause cash flow problems for your business. The best way to overcome this dilemma is to get to know your customers.

Ideally, you should have a collection plan for every customer but this is only possible if you have a small number of debtors. As a general rule of thumb you can usually afford to be lenient with long term customers while you should be stricter with newer customers.

I recommend a lenient credit policy but only if your business can sustain it. If you already have a large overdraft and are paying considerable interest payments then you would obviously be less inclined to have a lenient credit policy. However, future sales should not be sacrificed for early payment. Any additional interest payments are likely to be well worth it to keep a profitable customer happy.

The size of the account also affects your credit policy. It is far easier to be lenient with slow payers if the amount owing is only small.

Below is a collection plan that I use and would recommend in cases where a lenient credit policy is justified:

1. *Invoice with 30 day sticker.*
2. *Statement at end of month with a thank you sticker on it.*
3. *30 days – Statement with early reminder sticker.*
4. *45 days – Mid month statement with a slightly firmer sticker.*
5. *60 days – Statement with a sticker asking for payment as well as why the account is unpaid.*
6. *75 days – First Phone call.*
7. *83 days – Second Phone call.*
8. *90 days – Third phone call.*
9. *98 days – Fourth phone call.*
10. *105 days – Fifth phone call*
11. *113 days – Sixth phone call*
12. *120 days – Statement with a final notice sticker.*
13. *135 days – Court Summons.*

The above collection plan does work as only a small percentage of our accounts reach 75 days. This is important since when you start to telephone your customers, the cost of collection increases dramatically.

For details on how to use the telephone effectively, refer to Chapter 11. An important point is to give your customers a minimum of 24 hours to return your call and then ring them again. If you are not getting anywhere with your phone calls and you feel you are in danger of not getting paid go straight to Step 12.

The advantage of a statement with a final notice sticker on it is that there are a few debtors who will only pay your account on receipt of a final notice. If you make a threat, then you must carry it out.

Then, do not hesitate at Step 13. Before suing, refer to Part B, Chapter 6, as sometimes it is best to write off the account. Once you decide to sue, time is of the essence. You do not want to be the last person to sue because your customer may only have a limited amount of money left.

Always send statements on the second or third day of the month at the earliest. A number of customers will post their cheques on the last day of the month. This will give you time to process these payments. You do not want to post statements unnecessarily. This is a waste of postage and labour and creates confusion for your customer.

Step 4 is a powerful collection tool. Often, businesses will mail their statements at the end of the month and then take no more action until the end of the next month. This is a mistake. Do not give your customer an opportunity to pay someone else first. Keep in touch at least every 14 days once the account is overdue.

The above credit policy is a very lenient one. I would not recommend anything more lenient than this unless it is standard practice in your industry.

One of the most important parts of account collection is to be organised. Have a plan even if it is entirely different from mine.

Note that this plan relies entirely on the mail and the telephone. You can certainly use other media to collect your money quickly. Refer to Chapter 12 for other collection methods.

Chapter 9 - What To Do When An Account Is Overdue For The First Time

Before attempting to collect overdue accounts, it is important to see how this role relates to the whole business process. When an account is overdue for the first time, it is likely that this customer is still a profitable one for you so not only do you want to collect the money but you also want to get future sales from this customer. It is good to think of your customer as just that rather than someone who owes you money.

It is likely that future sales will be more valuable to you than the sum of money that you need to collect. So what I am saying is that you should tread carefully and give your customer the benefit of the doubt.

There could be any number of legitimate reasons as to why your account is unpaid. Here are a few:

1. *Your invoice has been lost or was never received.*
2. *Your order is incomplete.*
3. *There is a dispute regarding work done or goods supplied.*

Also, with a number of people paying their accounts on-line these days, there is a possibility that you have been paid and you do not realise this. This certainly happens to us a lot since we receive a large number of payments each month and sometimes we are unable to match the payment with amounts owed to us.

The best way to collect money when an account is overdue for the first time is to contact your customer in writing. You need to remind your customer about the amount due, the invoice number and any other relevant information.

Ideally, you will print off a statement with these details recorded. Now keep in mind that your customer is also likely to receive several statements about other bills owing. If possible, you should make your statement stand out. By far the best way of doing this is by putting a colourful sticker on the account. The sticker should not be harsh. It should be colourful and should stand out on your paper. Ideally, the wording should be friendly and simply remind your customer that the account is overdue.

At this early point in the collection process, you should not make any direct threats such as withdrawal of credit or legal action. Your primary goal should be to keep your customer for life. It is too risky to antagonise your customer at this stage. I will come back to this point later.

If your statements are not handled manually, then the next best option is to have some way of highlighting the overdue amount on the invoice. **You need your statement to be noticed.** In particular, you want the overdue amount to be noticed by your debtor.

The advantage of statements is that it enables you to contact a large number of customers quickly. The biggest cost in collecting money is labour so do whatever you can to automate this process.

Now, you may not send statements in the mail. The next best thing you can do is to send copies of your invoices. Ideally, these will fit into a window envelope since this will save you time in addressing the envelope. A sticker or personal note on the invoice is a big help. You need to let your customer know that the account is overdue and should be paid promptly.

Now with the growth in on-line businesses today, I know that many businesses rarely use mail. If this is your usual way of doing business and your invoice was sent by email, then your first reminder can also be sent by email. The important thing to do is to politely ask for your money and highlight the overdue amount.

The big advantage of email is the low cost. However, the downside is that your chances of receiving payment are less if you send your reminder by email than it would be if you sent it by mail. This is only logical as all direct response experts will tell you that they get a better response if an offer is mailed than if it is emailed.

Today, most of us receive many more emails per day than items of mail. It stands to reason that your response rate will be higher if you mail your reminder. It simply has more chance of being opened and read.

Earlier, I said it is important not to upset your customer when the account is overdue for the first time. There is every chance that the late payment was just an oversight on your customer's behalf. Give your customers the benefit of the doubt. They deserve this. Always remember, you want to keep this customer for life. Do not antagonise any of them unless you absolutely have to.

If mail is more powerful than email, then the telephone is still more powerful than mail. However, do not rush into telephoning your customer the first day the account is overdue. There are two reasons for this.

Firstly, the telephone is intimidating. It is annoying to receive a telephone call about an overdue account that is merely one day overdue. In fact, it can be like being accused of doing something wrong that you were simply not aware of. This is even worse and can be quite intimidating. You see, the telephone is upfront and as such can cause embarrassment, particularly to a customer who regularly pays on time.

Secondly, and probably more importantly, the telephone is expensive. Sure, the cost of one phone call costs less than the cost of a stamp in most cases. However, the biggest expense in collecting money is labour. Large companies employ a whole team of people to collect their money.

As I explained above, typically, the telephone beats mail which beats email both in selling and collecting money. However, in many cases one reminder is all you need. It is my experience that most of the time, your statement will be opened and this increases the chances greatly of you getting paid. A statement sent on the third or fourth day of the month with a colourful reminder sticker on it will collect a lot of your money.

You should send your statements out at this time since a lot of cheques are posted on the last day of the month so lots of payments are received on the first and second day of the month. If possible, throw out or edit these statements before sending them out. This will prevent a lot of incoming phone calls. You see, most people want to pay your account and if they receive a statement with an outstanding amount on it, many of your customers will contact you just to make sure you received your payment.

Of course, not everybody will respond to your statement or your first reminder. Refer to Chapter 10 to see what you should do next.

Chapter 10 - What To Do When Your First Reminder About An Overdue Account Has Been Ignored

You should use a soft approach to collecting your money when it is overdue for the first time. Long term sales should still be the priority at this stage. Not everyone will respond to your first reminder so you must have a plan for what to do when there is no response.

Before you do anything, you should give your customer time to respond to the first reminder. I would allow 14 days. This gives your customer time to receive your reminder, ask you for an invoice reprint if necessary and post you a cheque in the mail.

You should make your next reminder after 14 days or in the middle of the month. Very rarely would you leave it till the end of the month. 30 days is too long to leave the debt unattended. However, small debts can be left till the end of the month since for these debts, you want to incur the absolute minimum expense in chasing them. It is up to you to define what a small debt is. For us, small debts are those which are under $100.

Your action will depend to a large extent on how many overdue accounts you have at this time. 45 days is not a long time for an account to be overdue so there is no need to worry at this stage. It is important that your collection action should be firmer than what it was in the first step.

We have a large number of accounts so we will still have a large number of customers in 45 days. This is what we do.

We print off statements for those overdue accounts except we will not print off statements for small accounts (in our case – less than $100). We then put a slightly stronger sticker on the statement than we what we used previously. We call these stickers our Firm Early Approach stickers. Generally, they will say something like this. "*Our accounts are strictly 30 days. Please pay your overdue account today.*" The wording should be firm but not threatening. 45 days is usually too early in the collection process to be making threats. I call this Step 2.

Step 3 is again done two weeks later, i.e. at the end of the second month. Once the account is in 60 days, there is still a very good chance that you will be able to collect your money. Again, we use statements. This time we insert a stronger sticker and ask why the account remains unpaid. A typical Query sticker would say something like this, "*OVERDUE. If a query on the account, please advise. If not, please send us your payment.*"

We then wait another 14 days and if there is no response, we telephone the customer. The reason we use this process is that is inexpensive, it is efficient and it works. By relying primarily on the mail to collect our overdue accounts, we spend very little time telephoning customers. This is because less than 5% of our debts are collected by telephone. I recommend this method for collecting money from a large number of customers.

However, this method works for us. There may be other methods that work for you. The two keys to the above plan are to spend as little time on the telephone as possible, use stronger action each step in the collection process and contact those who are overdue every two weeks.

Chapter 11 - Use The Telephone Effectively To Collect Overdue Accounts

Whether you are selling your products or services or collecting money owed to you, there is no doubt that the telephone is a powerful tool. One of the main fears in selling goods or services or collecting money through mail, email or fax is that you are never quite sure if your message has been received. It is possible your advertising material or your statement was discarded without being read. There is no such fear when talking to your customer on the phone. You know that you have been heard.

There is a reason I am comparing the art of selling to the art of collecting money. They are so closely related. In each case, you are trying to persuade your customers to perform a certain action, namely to buy your goods or services or pay their account. Collecting money is very much like selling. You have to persuade your customer on the idea of paying your account just like you would persuade someone to buy your goods or services. For more details on this art of persuasion, refer to Chapter 14.

When collecting money you have a great advantage. Often, a strong case can be mounted for not buying your goods or services. However, when collecting money, your customers cannot mount such a strong case. They have purchased your goods and services and should pay for them.

The first thing you should do when calling to collect money is to speak to the person who placed the order. Ask your customer to acknowledge receipt of the goods you sent or that they are happy with the goods or services you have provided. If you do this, then you are most likely going to get paid.

Secondly, you need to speak to the person responsible for paying your account. Often, this initial conversation will reveal a lot about your debtor. Invariably, your debtor will tell you why your account has not been paid. In fact, many of them feel quite bad that you have not been paid. Some of the most common reasons for non-payment are;

- *The debtor is experiencing cash flow problems.*
- *The debtor regularly pays most accounts late.*
- *The debtor is just about to pay those invoices from a particular month.*
- *The debtor has lost your invoice.*
- *The debtor assumed the account had already been paid.*
- *The debtor is disorganised.*

- *A cheque for this account had been drawn some time ago. (It is possible this cheque was not posted, was posted to the wrong company or has been lost in the mail.)*

Whatever the debtor says should be recorded in case further action is necessary. Your next step is to get a promise to pay from your debtor, whether this be today, this week or this month. In most cases you will get such a promise. At this stage it is far better to be friendly as you would expect the account to be paid and your debtor to continue to be a profitable customer of your business for many years to come.

If the promise has been broken, then further action is necessary, either by mail or telephone. If you decide to make a follow-up telephone call, then you are looking for another promise to pay. Your aim should still be to collect this account without making any threat.

Patience is a virtue in account collection but if your debtor breaks a second promise to pay you have an important decision to make. Do you persevere with the firm and friendly approach? In many cases, this is the best option if you are quite sure you are going to be eventually paid.

Chapter 12 - Unorthodox Methods Of Collecting Overdue Accounts

Most of the time you will collect overdue accounts by using statements or telephoning your customer. However, there are other ways of collecting your money quickly.

Firstly, the most effective way of collecting an overdue account is to visit your customer in person. If the amount owed is large and your customer is close by then this is a great way of collecting your money. By turning up at your customer's premises, it shows that you are serious about collecting your money. Also, this action will often result in payment on the spot.

The obvious drawback of visiting your customer is the expense. However, there are two ways of reducing this expense. Arrange to visit your customer when you have another appointment nearby. When you collect money in this way, you have the advantage of choosing when to visit your customer. I recommend you try to visit your customer between 10.00 a.m. and midday. This is also the best time to telephone your customer.

The second way of saving money is to visit your customer and ask for money at the same time you visit your customer about another matter. Normally, this would involve your sales representative. It is a mistake to completely separate the selling and collection tasks. Your sales representative is an ideal person to help you collect your money since he or she should have already developed a strong rapport with your customer.

A common excuse amongst slow payers is to say your cheque is the in the mail when really it isn't. If your customer makes such a promise, then it is great to have the option of saying, "*No. You don't need to do that. I will have someone come around to your place within the hour to collect your cheque*." If your customer hesitates or is reluctant for this to happen, then immediately you know that something else may need to be done in order for you to collect your money. It is important to identify such customers early, so if you need to threaten your customers then you do so at the first available moment.

In Chapter 1 of Part B, I look at how you go about threatening your customers in order to receive payment. However, there are other less frequently used collection methods that are worth considering.

You can use the fax to send a statement or a copy of an invoice. The advantage of this is that it is immediate and the cost of a fax is less than the cost of mailing your statement. The disadvantage is a lack of colour and also the cost of labour. It is easier to mail 100 statements than it is to send 100 faxes.

You can also email a copy of your invoice and/or write a personal email asking for your money. This can be effective if this is your usual form of communication with your customer. However, there is certainly a risk that your customer will ignore your email. The advantage of such a method is that it is very inexpensive.

The oldest form of collecting money is to write a letter to your customer. Now this is still very effective since it allows you to personalise the message. Also, it is likely that your letter will be opened. However, this is a time consuming method of collecting money. It is more common today to send a statement which can be accompanied by an appropriate collection sticker. The sticker used will depend on the age of the account.

Modern technology has produced other methods for collecting your money in bulk. It is the use of email broadcasts, fax broadcasts, SMS and telephone broadcasts. The same message is used for all of your customers with overdue accounts or just those you choose to contact. The message can be sent by email, fax, SMS or in the form of a voice broadcast to your customer's telephone. The advantage of this method is that it is very inexpensive and very quick because technology enables the same message to be sent to a large number of your customers instantaneously. However, there is an opportunity to personalise some of the details.

These are some alternative methods of collecting your money without making any direct threat to your customers. I prefer to use statements and the telephone but it is important to know that there are other collection methods available to you. Remember, whichever method you use, be persistent.

Chapter 13 - Payment Options

Most companies send either a statement or an invoice which shows the amount due and the name and address of the person or company which owes you money. There is much more you can do to speed up your payments. Ease of payment can often mean you get paid more quickly. Telephone companies are a great example here. You can pay by credit card over the phone, by mail, by BPay or you can pay by cash over the counter at the post office or at a bank.

We don't all have the luxury of providing all of these services. Sometimes a little thing can make a big difference. Many companies list their company's bank details on their invoices. This payment option is important as a lot of companies like to pay their accounts this way. Another payment option which is likely to become more and more popular is the payment of bills over the internet.

Other companies offer us the option of paying by credit card. As frequent flyer miles are more often related to credit cards, more and more businesses will offer credit card payments. In fact, I write fewer cheques each month.

An old fashioned yet effective method of being paid more quickly is to provide an envelope with your invoice or statement. Mostly, the customer pays the postage. However, a reply paid envelope is also an option.

Always remember that you are competing with other debtors for your customers' money, so you want to make it as easy as possible for your customers to pay you.

Chapter 14 - Persuading People To Pay

Webster's Dictionary contains two definitions of the word "*persuade*": (1.) to induce to believe something, to convince. (2.) to cause to do something, especially by reasoning, urging or inducement. How persuasive are you? Do you think that a big stick is all you need to be persuasive? If that weapon is the only tool of persuasion that you're using, your customers may not last long. And then where will you be? There are many tools a credit manager can use to be more persuasive and at the same time build customer relationships. These tools will ensure you get paid first and that your customers remain loyal and happy.

Account Collection is Like Sales

The skill used in persuading customers to pay for their goods or services is just like the skill that the sales force uses in persuading the customers to buy in the first place. In fact, our job is very much like that of the sales people. If we think of our job as a sales job, the rest of our work fits in quite easily. Pursue your customers as if you were in sales. Be friendly and persuasive — never pushy. We are selling the customer on the idea of paying their account. We are selling the peace of mind, the self respect, the clear conscience and friendship received in return for payment of their account.

There is one big difference, however, between collection and sales, a difference that gives you a big advantage. In sales, a good case can often be made for not buying the product or service at all. Not so in collection. Here, you are always right. The customer has purchased something, and now they should pay for it. There is no question about it (leaving aside the case when there has been a problem or mistake). Most often, your customer intends to pay. It is up to you to persuade that person to pay earlier than they were intending to, and before they pay anyone else.

You Are in the Mail Order Business

We send statements through the mail. Most people spend little time or effort in thinking through this process. "*The customers owe money. Let's just remind them*". A plain, computer generated page with just the invoice numbers and amounts owed is the norm. Now, let's imagine you are selling a product by mail. You will give a great deal of thought to the design of your mail piece. Maybe you will print a glossy brochure that showcases your product and explains the great benefits the customer will receive when they purchase your wonderful product.

Do you think successful companies would ever send out an impersonal computer generated letter or a plain sheet of paper with just a statement of facts about their products? Of course not. This is not to suggest that for your next statement run you do an elaborate four colour glossy page with photos of the items purchased. However, whatever you do, it should be well-designed, easy to read and concisely communicate your message.

There are a number of inexpensive ways to improve the effectiveness of your invoices and statements. A popular way is to use brightly coloured paper or envelopes. A better way is to use a bright thank you or collection sticker on your statement. This gets your message across in a clear and concise way and attracts the attention of the person opening the envelope. If you are writing a letter, you could format it in a special way. There are any number of imaginative ways you can use to get your message across in a unique way.

You Are Not Competing With the Debtor for Money

Imagine the person in charge of accounts payable for one of your customers. If it is a typical small business, every day the person will receive several (sometimes as many as 20 or more) invoices and statements, which usually will be kept in an "accounts to be paid" file.

Your customer may be a little short of money that month. This person now has to decide who is going to be paid first. There may be 50 or 100 bills due to be paid this week, but only enough money to pay 10 or so. How do you make sure that your invoice or statement will be among the 10 that are going to be paid this week? Somehow, your bill needs to be noticed. So, you see, you are not competing with the debtor for money, you are competing with all the other companies to whom your customer owes money.

Building Customer Relationships Through Collection

This is probably the most overlooked part of collection. Many firms view collection as just an added cost of doing business, not as an opportunity to build stronger customer relationships. In today's competitive business environment, every relationship with the customer is fragile. We need a good product and excellent service, but we also need more. Every contact with the customer should be viewed as important, whether it is a sales or collection phone call - or simply sending a statement. Every contact will either add to or detract from the current relationship.

It is when we do the unexpected that we are remembered most. Sales staff could send a "*Thank You*" card or a gift when they land a big order. You can also put a little

"*Thank You*" sticker on an invoice or statement, or write a hand-written note. Be innovative. The whole idea is to build a relationship between people - you as a collection person and the accounts payable person at your customer's company. It can and will make a huge difference to your business.

Even if a customer's account is overdue, you can still build on the customer relationship. If the account is only just overdue, remind them of this in a funny way. Make them laugh. While other people are probably being mean and nasty, you are being positive and friendly. You see, the art of collection is to collect money in such a way that the customer will be happy to come back and do business with you again.

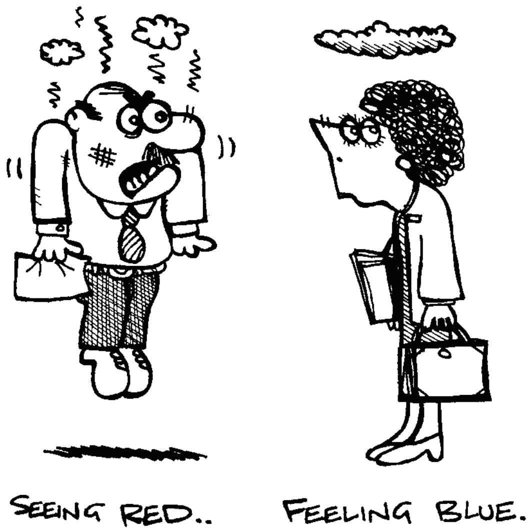
The Magic Ingredient

There is a magic ingredient in account collection. Very briefly, the basic idea is the perception that people, especially your customers, are basically good people. If you hold this perception in mind, it translates into reality and is communicated to others. It sounds simple, but it is a powerful concept. It is best illustrated by a real life example.

You have a small business customer who is late paying her account one month. Now put yourself in her shoes. She is having a really hard time in business; things have not gone as expected lately and she is fearful of losing her business, her livelihood. If she can get away with it, she will promise payment next week or next month. The best idea here is to sit down and have a frank and open discussion. Ask her how everything is, not just the outstanding account. Treat her as a good person and be understanding - you may easily have a friend for life, instead of a resentful and, perhaps, delinquent debtor. Just imagine the difference that would make to your business.

If you didn't know it before, you should definitely know it now - collection is about people. Be more than just a plain old invoice, a generic collection telephone call. Be a friend to your customers. You will enjoy your work more; you will be more successful; and the business world will be a more pleasant place.

Chapter 15 - Colour In Collection



Colour plays such an important part in our life. The car we drive, the clothes we wear and even the colour of our hair are influenced by our choice of colour. In our home, the colour of the walls, the carpet and the furniture depend very much on our own colour preferences.

Many road signs such as "*Slippery when Wet*", "*Beware of Kangaroos*" and "*Sharp Bend Approaching*" are in yellow. Most of these signs do not have words - just a picture. But because the signs are in yellow we know we need to be cautious. A red sign indicates a stronger warning because red is a stronger colour than yellow. It is essential we stop at a red light or a red stop sign.

When a traffic light is green we are free to drive without hesitation. Green is the most peaceful colour. It is the colour of the grass and the leaves and indicates feelings of peace, comfort and freedom. Many businesses today have indoor plants to make their office a more pleasant and peaceful place to work.

The orange light indicates to the motorist to prepare to stop. It is a slightly stronger colour than yellow since it is closer to red. It is actually a mixture of yellow and red. The colour red can invoke emotions of fear or anxiousness. It is often used to signal a warning or indicate danger.

Another important colour is blue. It is also a peaceful colour because it represents the sky and the water and hence, feelings of relaxation. It is also the colour of uniforms and hence, authority. This is indicated by the coloured lights of police sirens and burglar alarms. So blue can also represent strength.

You may well ask what does all this have to do with collection. The use of colour is another tool you can use in your account collection. You can evoke certain emotions in your debtors. Make your debtors feel relaxed and peaceful with the colours green and blue. Use yellow or orange to issue a mild warning to your debtors. If a strong warning or threat of legal action is required, then red is the best colour to use.

You can use different coloured paper or different coloured messages on your invoices and statements. But by far the most effective use of colour is to use different coloured collection stickers on your invoices and statements.

Gold and silver are good colours to use to thank your customers. As with Olympic medals, these colours represent value and appreciation.

Green and blue are the most common colours to use as a first time reminder since they are peaceful colours. As a first reminder you usually want to ask for your money in a polite way so that the customer does not feel threatened at all. To strengthen your first reminder you can use a stronger colour such as yellow. This has the effect of asking for your money in a more forceful way.

In a soccer match, a yellow card indicates to the player that this is their final warning before being sent from the field. Similarly, yellow is a good colour to use in account collection as a second last warning before you take the final step of threatening legal action.

If you issue a final notice to your customer then red is certainly the most effective colour to use. It indicates danger to your customer. In this case, the danger is pending legal action.

I urge you to consider colour in your collection strategy. It certainly is an underrated and underused tool.

Chapter 16 – Collecting Awkward Accounts

A customer from South Australia once asked us if we have anything for the awkward accounts. We have never referred to accounts like this but it certainly is awkward when you have asked nicely for the money, sometimes as often as three times and you have not been paid.

At this stage, your debtor needs greater motivation than the peace of mind one feels in paying one's debts. It is now necessary to give the debtor a better reason to pay than before. It can be the same message, put forward more strongly or a new message which can be subtle or obvious.

Usually, this point is reached when the account is 60 days past the due date for payment, but this will depend to a large extent on your terms of payment and the collection plan being followed.

Also, you need to consider what the debtor is costing you. There are collection costs, both costs to date and potential costs as well as lost interest received or more interest due on your overdraft. Firstly, before you proceed any further you need to make quite sure it is nobody's fault in your organisation that is causing a delay in payment.

Secondly, you need to consider if this customer is still of value to your firm. Do you want the customer to order again? Mostly, the answer at this stage is yes.

For an account of this age, you are not looking at taking legal action. You need to give the customer a stronger reason to pay than before, either by speaking more firmly, or perhaps looking at the account in a more innovative way.

There are many tools for dealing with awkward accounts. For cost effectiveness each one in the right circumstances might be the best one to use.

Firstly, collection stickers especially when attached to a statement of account are effective because they are noticed and will make your account stand out. If you have used a sticker earlier in the collection process it is important to use a more strongly worded sticker this time. You can use a collection sticker to ask why you haven't been paid, ask for your money in a humorous way, ask in a strong way without making a specific threat or threaten to withdraw credit or discontinue further supply until payment is made.

Collection letters are a commonly used tool but even the best and most innovative collection letters will be useless, unless you can convince your debtor to open the envelope. If you do send a letter, make sure your opening paragraph is powerful. Sarcasm and humour can be effective.

Probably, the most common tool for collecting awkward accounts is the telephone. This is especially effective when your debtor has not responded to earlier reminders. Prepare what you wish to say and document what your debtor says as you may need to make another call later on. The main disadvantage with the telephone is the cost, especially the cost of time.

The most effective method for collecting awkward accounts is to call on the debtor in person since you are forcing your debtor to confront you.

This is by far the most expensive form of account collection so this method is generally used only when the account is large. If you do this, make sure you see someone who has the authority to pay your account. If your sales staff are trained in collecting overdue accounts then they are ideal people to collect your money since having sold the customer your goods or services they can now sell the customer the idea of paying for them.

Collecting awkward accounts is one of the main challenges in account collection. To be successful at this, you need to be innovative, friendly and frequent.

Chapter 17 – When Do You Stop Credit?

Before deciding when to withdraw credit facilities from a particular customer, it is worth considering why you offered them credit in the first place. The only reason you would offer credit to a customer is if the reward of profitable sales from that customer outweighs the risk of not being paid. Secondly, you would need to consider what your competition is doing. This is how credit began many centuries ago. Someone felt at some stage that they could get a competitive advantage over someone else by allowing for payment of goods and services at a time in the future.

It is important to have a flexible policy on the withdrawal of credit facilities. All customers are different and as a result, represent different degrees of risk to your business. Withdrawal of credit should not be seen as a punishment for slow payments or a relatively large amount of arrears. Credit facilities should only be withdrawn if the risk of future non-payment is greater than the reward for potential future sales. Some things to consider with assessing creditworthiness are:

- The size of future purchases
- The profit margin on these purchases
- The frequency of the orders
- The age of the account
- Why the account is unpaid
- Who is the customer.

Let's say you have provided goods to a government department. The account is in 90 days. A representative from this department contacts you to say that they have just received approval to purchase ten times the amount of your product as before and what's more, they would like these delivered urgently. What should you do? Whilst it is frustrating that this account is in 90 days, a government department is generally rated as one of the safest organisations to which you can offer credit. Every effort should be made to collect the overdue account quickly and provided you were confident this account and future accounts were to be paid, then the opportunity to make future profitable sales to this government department should not be missed. Clearly, for most businesses, the rewards are greater than the risks involved.

However, if this customer was new and had not been in business very long and had a much higher risk profile, then you would be less likely to extend your credit facilities to this customer, simply because the risk of non-payment would be too high. The ability of the organisation to remain solvent and be able to pay your bill should always be the most important factor in determining whether or not you should offer credit.

Even if this government department was to regularly pay your account in 120 days, extension of credit would be justified provided the margin on your product is high enough to cover the additional cost of money. However, if the pressure on your cashflow caused by large debtors paying your account very late threatens the existence of your business, then it would be appropriate to reject this government department's request for more credit. A rejection of additional credit is not necessarily a lost sale. If you are providing goods and services at a fair price and are looking after your customers, then there is still a chance that your customer will want to do business with you – with or without the extension of credit.

Always consider why an account is overdue. Is the customer short of money or in financial difficulty, or is the reason for non-payment less serious? The person paying the accounts might be on holidays or no one in the office has the authority to sign the cheque or your invoice is not on their computer system. Trivial excuses for late payments such as these are frustrating, but are less serious because none of these reasons on their own suggest a definite risk of non-payment. However, if your customer is short of money or in financial difficulty, then you need to assess how serious this looks and whether you can afford to offer more credit to this customer. To extend credit to a business in financial difficulty is usually foolhardy but there are exceptions. Firstly, the additional credit requested might be very small. Secondly, you might be selling obsolete stock so the loss would be insignificant. Thirdly, the margin might be very high, say 100% or more, so the consequences of non-payment would be less severe. You may consider in these three cases that the rewards for granting further credit are greater than the consequences of non-payment, even if the risk for such an event is quite high.

The frequency of your customers' orders will also have a big influence on whether you wish to grant additional credit to your customer. However, two seemingly identical situations can result in different decisions. Suppose you supplied a particular product to a small store in your local area. You know that you are the only supplier of this product in the region and this customer really depends on your product. You are actually one of their biggest suppliers. This customer is getting later and later with their payments so you decide to withdraw credit. This is a legitimate decision because you consider this slowness in payments as a sign of a weakening financial position of the store. Clearly, you are in the stronger bargaining position. This small store needs you more than you need them. Also, the potential for larger sales in the future from this store is small.

Suppose you supply a similar product of a similar value to a large retail store like Woolworths. The payment history for Woolworths is identical to that of the smaller store. In this case, you decide to continue to grant credit to Woolworths. Firstly, Woolworths is a listed company and you can check its financial records quite easily on the internet. Secondly, Woolworths is in the stronger bargaining position. You need them more than they need you. Thirdly, you hope to increase your sales to Woolworths in the future so it would be foolish to stop their credit facilities because of a few late payments.

Many small businesses complain about big businesses paying their accounts well after the due date. Certainly, every effort should be made to collect your accounts as quickly as possible. However, it is usually more comforting to lend to large businesses since they have many more assets to support the payment of your account. As more laws are passed to improve company disclosure, it is likely to be even safer to grant further credit to larger businesses in the future. Nevertheless, big businesses are not immune to financial difficulties. The recent collapse of HIH and Ansett can attest to this. It is likely that most of your bad debts will come from small businesses since they are inherently riskier operations simply because of their size.

The Use And Misuse Of Credit Limits

Often, I am required to complete a credit application as a new supplier. A question often asked is the amount of credit I require per month. I really don't know how much credit I am going to need. I really don't know how much of their product I am going to use. I don't even know how long I am going to use this product for. Their products and services may be substandard - forcing me to change suppliers. Often the figure I put on this form becomes my credit limit.

Now credit limits have their uses. Credit card companies have a credit limit based on age, assets, income and other factors. They have a large pool of data to arrive at this decision. Also, this credit limit is regularly revised as you develop a credit history and your circumstances change. Credit card companies accept that they will have significant bad debts, but they know that the interest charged will be high enough to more than cover their losses.

Rather than set a credit limit, it is best to monitor every situation individually. Time constraints may prevent this so credit limits are often set. Also, it makes it easier for administrative staff to monitor the account. However, most businesses have maximising their sales as one of their objectives, so credit limits can be restrictive. After all, you want your customers to continue to buy more and more from you. A credit limit says to your staff - we want this customer to order more but not too much more. If you need to set a credit limit, use it as a guideline, rather than as a strict company policy. The reasons outlined earlier should be the only reasons for stopping credit, not some artificial limit.

When Do You Threaten To Stop Credit?

A simple answer to the above question is whenever you plan to stop credit. The golden rule in credit is if you make a threat, you should be prepared to carry it out. Having said that, it is quite permissible to threaten to stop credit as a tool for collection. There are some debtors who respond better to threats. They are just seeing how long you will take to threaten to withdraw their credit facility. Getting to know your customers is the key to good account collection. For these types of customers, a threat to withdraw credit may happen quite early in the collection process. You can make your threat with a sticker on the account. Generally, the message would say, "No further credit allowed until this overdue account is paid". Alternatively, you could convey the same idea in a letter or a phone call.

The decision to stop your customer's credit should not be taken lightly, since thousands of dollars in potential sales or potential bad debts are at stake. The best policy is to look at each case separately rather than as a group. Then it is just a matter of assessing the potential reward in future sales against the cost of the bad debt and the chances of that bad debt occurring.

Chapter 18 – Who Gets Paid First?

Recently, I received a phone call from the accounts payable officer in a large organisation. The account was a five figure sum and he was asking us to pay the account before Christmas. The account was not overdue. It was a regular 30 day account but the amount was quite large and he wanted to check that we were going to pay this account on time. Telephoning a customer before an account is overdue is not a practice I recommend but I know that a number of organisations adopt this strategy. I was actually taken aback by the phone call since the account was not overdue and our past history of prompt payments would suggest that this account was also likely to be paid on time. However, the gentleman who phoned me was obviously glad he did since he was certainly surprised by my answer.

I explained to him that the account would be paid by the due date but I was actually planning to pay other suppliers before you since I was about to complain about the level of service we were receiving. This got me thinking. Which order are accounts paid? Unless a company is unable to pay its bills, it is likely that most people pay their accounts in the following order:

- *Any payments to the Tax Office.*
- *Accounts to suppliers we determine as important, e.g. Australia Post, Insurance Companies, etc.*
- *Those companies which offer an early payment discount.*
- *Accounts that have a due date – e.g. telephone accounts, electricity, etc.*
- *Overdue accounts.*
- *Seven day and fourteen day accounts.*
- *Small accounts.*
- *Those favourite suppliers who really look after us well.*
- *Those suppliers which give poor service and don't deserve to be paid quickly.*

Those suppliers who have granted us extended trading terms.

No doubt you can think of other categories. However, it is likely that many businesses would pay their accounts in a similar order to what we do. If you refer to the above list, most of us would pay the top two categories first and give less priority to the bottom eight.

Collection is not a battle between the creditor and the debtor. Instead, you are competing amongst all of the other businesses that are owed money by your customer. Your aim is to get as to close to the top of the bottom eight categories as you possibly can. It is very rare that your account will be treated amongst the top two categories.

Naturally, we recommend you use a brightly coloured sticker on your statement to highlight overdue accounts. However, letters and phone calls are also effective in highlighting overdue accounts. The second thing you should do is see that you give the best possible service so that you deserve to be paid on time. Most debtors have the ability to pay. It is just that some will choose to pay others ahead of your company. It is your responsibility to see that your debtor has every reason to pay you first.

A tactic some companies use is to offer early payment discounts. This will certainly increase the speed of your collections, but it is doubtful that the reduced amount received justifies the benefits of faster collection. Early payment discounts also require more accounting work. Those that take advantage of early payment discounts are also likely to pay your account by the due date anyway.

One way of getting paid quickly is to treat your customers so well that they want to pay you quickly and before they pay many of their other creditors. Always be aware that the reason for late payment might be a fault in your organisation rather than tardiness from your customer. You need to know of any problems with the account so you can speed up collection from this customer in the future.

Chapter 19 – Debt Collecting Can Be Fun

Debt collection does not have to be deadly serious. It is frustrating when we have to wait longer for our money than we would like. However, there can be a funny side to collecting your money.

Here are three examples from *The Dog Ate My Checkbook*, compiled by Peter Renton. These were reproduced with his permission. Yes, they are all true stories.

My Mailman Is Tipsy

I have a customer who is consistently late, but who always claims the cheque was mailed and cannot understand why we haven't received it. One day when I called her questioning why we had not received the cheque she claimed had been mailed two weeks earlier, she said "I know, it's our darn mailman. He drinks in the morning before work and is too tipsy to do his job. He picks up our mail and delivers it to our neighbours and then just throws it away. He has problems getting our mail to us. He just can't do his job. I will be sure to get you a new cheque in the mail today."

Blowing In The Wind

A good customer called me one day very distraught. It was a couple of days before her bill was due. On that particular day the wind was very strong, and gusting. She told me that she had attempted to put the "Cheque in the Mail" when the wind blew the cheque out of her hand. She said she had chased it through a field for quite a way but could not catch it.

She checked all the pieces of paper in the ditch to see if one of them was the missing cheque, all to no avail. The customer then informed me that her payment was going to be late. She was going to have to drive into town the following day and mail another cheque from inside the post office. She said she had learned her lesson. In the future she was going into town to mail a letter. I did get her cheque a couple of days later. Just like she said I would.

Out Of The Hat

I work for a dentist as his business assistant. It was my responsibility to routinely call patients to collect on past due accounts. One day I called an older gentleman who had not paid his bill despite our previous written request for payment. When I told him why I was calling he became very angry and said, "every month I take all my bills and put them in a hat. At the end of the month I pull a bill out of the hat and I pay it. If you don't quit bothering me, you're not even going to make the hat!" The doctor and I were amused. We arranged for the man to do some needed maintenance work around the office to pay off his debt rather than waiting for the luck of the draw.

Chapter 20 – Positive Friendship

As I discussed in Chapter 14, there is a close similarity between the credit and sales functions in any organisation.

Every person involved in credit work will want to be friendly with their customers, but before considering this, it is better to discuss exactly what credit work is.

Sales work is easy to define. A person in sales work has one of the three following objectives:

a) Confirming for customers their desire to buy the company's product.
b) Persuading customers to buy this company's product instead of a similar product from another company
c) Persuading customers to buy the company's product instead of buying nothing.

Credit work is similar, but not the same. Three related objectives for a person in credit work are:

a) Collecting money on time from customers who were probably always willing to pay on time.
b) Persuading customers to pay your account before they pay somebody else's.
c) Persuading customers to pay who never did intend to pay you at all.

Sales work and credit work become very similar when it is realised that both involve persuasion of customers who are either uncertain or unwilling to do as you wish. There is, however, one very important difference.

Most sales are made to people who really need the product or at least benefit from the product. But mostly there is also a case for not buying the product at all.

Credit work is different. Your customers have bought the goods or services so they should pay for them. There isn't any argument about it. In credit work you are always right, leaving aside the case of when you or somebody else in your organisation has let the customer down in some way.

The key here is to be right, but not self-righteous. Never forget that all of your customers, even the delinquents, are nice people. It is just that it is your job to correct an element in their thinking.

I believe that it is never right for any account to be even one day overdue. But if I take this attitude to my customers I will no longer have friends among them. Instead I have to gently and subtly change their thinking in this matter. I never lay down the law.

I start off positive, just as if I were in sales. I remember these customers are nice people. I am sure that provided I have the necessary skills I can get them to see it my way. These people are my friends, not my enemies. They want to do the right thing by me, but they just haven't got the right idea, yet.

Pursue your customers with these thoughts. If you are not doing this already, soon you will be good at it. And never lose an opportunity to be friendly with both the customers who pay on time, and also those who do not.

Chapter 21 – Late Fees And Penalties

Surprisingly, the tactic of imposing late fees or penalties is rarely used in debt collection. It is not something I use but it is a legitimate tactic and should be considered.

It is generally large companies such as telephone carriers who will impose late fees. Usually, it is a small fee such as $5. The reason they can do this is because telephone carriers just have so many invoices that it would be impossible for them to know their customers on a personal level. As a result, it is reasonable for them to impose a penalty for everyone. In fact, it is expected.

Of course, libraries and video stores have been imposing late fees for many years on late delivery of books, videos or DVDs. Again, it is expected so customers have no reason to complain about this practice as it is just the normal way of conducting business in those industries.

For regular invoices from most businesses the imposition of a late fee or an interest charge is not expected. As a result, it is generally not done. It is basically because this is the industry standard.

There is another reason for overdue fees being rarely used. You want to give your customers the benefit of the doubt. Many overdue accounts are not deliberate. The invoice may be lost or there could be a legitimate complaint from your customer.

Also, just imagine if you were a long term regular customer with a particular supplier and you paid your account promptly and out of the blue you received a late fee penalty or interest charges. At the very least, you would feel quite affronted. This is why I am against the use of late fees. The rewards are less than the risks. It is just not worth risking the possibility of offending your best customers.

However, there is a way around this. If you have detailed contracts and list numerous terms and conditions on the back of your invoice, then you could add a clause something like this. “Our terms are strictly 30 days. Payment is required at the end of the month following date of invoice. Late payment may result in interest charges or a late fee.”

Such a statement gives you the option of imposing a charge but does not compel you to do so. This way you can treat fairly those customers who buy a lot from you and also usually pay their accounts promptly.

It is also important to react rationally rather than emotionally. Never get angry with slow payers. Simply treat them with respect and impose a penalty if you think their past history warrants it.

It is now up to you. I encourage you to abandon late fees since the reward in terms of extra sales is only miniscule. However, the threat of a late fee may induce faster payment from some of your customers. The decision is yours.

Chapter 22 – Factoring

Factoring is a financial transaction whereby a business sells its accounts receivable at a discount. A business sells one or more of its invoices at a discount to a financial organisation to obtain cash. The debtor then directly pays the financial institution the full value of this invoice.

Factoring differs from a bank loan in three ways.

1. *The emphasis is on the value of the asset, i.e. the accounts receivable. For a bank loan, the emphasis is on the creditworthiness of the business.*
2. *Factoring is not a loan. Factoring involves the sale of an asset.*
3. *A bank loan involves two parties where as factoring involves three parties, i.e. the business, the financial organisation and the debtor.*

There are many companies that will provide this sort of finance. The advantage is that is much easier than acquiring a bank loan. You do not need to answer several questions and provide detailed financial records of your business. Factoring provides an immediate source of cash. Also, the risk of slow payment and bad debts is borne by an outside party.

I can tell you now that I do not support factoring except in terms of desperation or if you feel that the value of your accounts receivable is much less than 100% because you are anticipating some bad debts. In practice, most businesses only use factoring when other sources of credit such as a line of credit are not available for one reason or another.

Most importantly, factoring is an expensive form of financing. Even if the discount offered by the financial institution is small, say less than 5%, then the rate is still high because more often than not your customer will pay within 60 days. The interest rate for a bank loan will most likely be less than 2% over this period.

Secondly, after having read this book, I trust you agree with me that debt collection can be made easy. As well as being an easy task to do, it can also be a rewarding part of the business. Persuading someone to pay you before they pay others is an acquired skill. It is part of the fun of being in business. It is something that should not be outsourced if at all possible.

Thirdly, I do not support the outsourcing of this process. Collecting your money is something that should be done by your business. It completes the sale. It also reduces confusion for your customer. In order to get more sales, you should make it easy for your customer to order. Similarly, to collect your money quickly, you need to make it as easy as possible for your customer to pay you. Asking your customer to write out a cheque in a name other than your business name is not a great way of building a long term relationship with this customer.

Part B

Overcoming Problems In Debt Collection

Chapter 1 - How And When To Threaten Your Customers

When collecting money from your customers, it is important to divorce yourself from the emotion of the situation. It is one of the most frustrating parts about being in business. You have done the work or supplied the goods. You have asked politely for your money more than once and yet have not been paid. What do you do?

Quite simply, it is time to threaten your customer. There are a small number of customers who will only pay you after you have made some sort of threat. It is important that you have used other collection methods to their full potential first. Here is why.

Not all customers are the same. When it comes to the latter period of collecting money, you want to look at each account separately, rather than just have a blanket policy.

You have probably heard the saying that 80% of your profit will come from 20% of your customers. This applies to almost every business. A less well-known fact is that 80% of your problems will come from 20% of your customers. You will be in good shape so long as the 20% of your profitable customers are different from the 20% of the customers giving you the most problems.

Firstly, decide how valuable your slow paying customers are. If they order regularly and in large amounts, an effective threat is a withdrawal of credit. This threat should be made in writing. You can write a letter to your customers but a far easier way is to convey this message with a Credit Stopped sticker on your statement. The message can be as simple as *"CREDIT STOPPED. There will be no further credit until account arrears are settled."* You do not need to say much. You just need to come straight to the point.

For many of your customers, such a threat will be all they need to prompt them to pay the account. If your slow paying customers rely heavily on you as their supplier, then such action will cause enormous inconvenience for them. As a result, payment is often forthcoming after you make this threat.

If the payment does not come in, you must carry out your threat and withdraw credit. You have three ways of handling this situation. You can insist on payment in advance for this order or you can ask for payment of your oldest invoice before any more goods or services are provided. However, you have a third option. You can withdraw credit permanently. This is quite fair when your customer has regularly paid late.

Also, you must be prepared to lose this customer. Note that this is often a good thing. Profit can increase when difficult customers are sacked.

For some of your customers, a threat to withdraw credit is a waste of time. Your customer may have made a one-off purchase or only orders from you spasmodically. Then, the threat applicable in this situation needs to be much stronger. The next step is to threaten to take legal action. This step also applies to those customers who did not respond to your threat of withdrawal of credit.

You must be clear on exactly what you are threatening. The two most common threats are legal action or passing the account to your debt collector. There is a difference. Your debt collector or lawyer is most likely in a position to make a threat in a stronger way than what you can. However, they only have the power to make threats. Ultimately, they will need to use the courts to collect your money if your customers refuse to pay.

Before seeking outside help, you should make your own threat. This should be done in writing. You can write a letter but the easiest way is to send a statement with a Final Notice sticker on it. An example of what such a sticker may say is, "*FINAL NOTICE. Payment must be made within seven days or legal proceedings will follow.*" Another option is to send a letter of demand. For more information, refer to Chapter 10.

Once you make a threat, it is important that you carry it out. Also, you must be prepared to lose this customer.

Chapter 2 - Romalpa Clause

A Romalpa Clause simply means that the seller does not transfer ownership of the goods to the buyer until those goods have been paid for. If you are to include such a clause on your invoices, then you should contact your solicitor. You may also be able to transfer the risk of loss, damage or destruction of the goods provided to your customer once delivery has taken place but before the goods have been paid for.

The Romalpa Clause is overstated by many credit managers. However, there is certainly no harm in including such a clause in your contract with your customer. It is certainly not uncommon. However, it has limitations and also can be unnecessary.

Firstly, the Romalpa Clause is of no use if you sell services. The services have been provided by your business and cannot be returned. Secondly, if the goods are personalised in a way that makes them impossible to sell to someone else, then a Romalpa Clause is of no use. Thirdly, your margin on a product such as software maybe very high so the return of the goods would not adequately compensate you. In this case, the Romalpa Clause is relevant but is of little value to you.

If you do receive the goods back from your customer, then most likely you should accept this even though what you really want is the money. Obviously, this depends on the reason for the returned goods.

To pursue your debtor for payment through the local courts, a Romalpa Clause is largely irrelevant. All you need to do in a court is prove that the goods were delivered. This can easily be proved through an invoice or a delivery docket or from noted conversations with your customer.

What you really want is payment for your goods, not the return of the goods. There is certainly no harm in having a Romalpa clause and legal advice should be sought before your contracts are formed, particularly if the sale of your goods or services is not straightforward.

However, if you simply provide regular goods or services to your customer, then a plain invoice will suffice. The local courts will support you also.

Chapter 3 - Sale of Goods Act

It is important to be aware of the Sale of Goods Act. If you use the courts to collect your money, you must prove that the debt exists. Usually, all you need to do is present a tax invoice and show how the goods or services were delivered. You must get your customer to admit that the debt exists, if not in writing then certainly verbally.

The Sale of Goods Act is generally referred to when disputes arise from the quality of goods or services provided. Often these disputes arise well after payment has been made. However, you should be aware of its existence.

To learn more about the Sale of Goods Act, you should refer to your local law library or simply type in "*Sale of Goods Act*" into your favourite search engine.

The most important point is that the Sale of Goods Act defines a sale as having been made when the buyer and the seller agree on a price for the goods in question. Agreement is then made to deliver those goods immediately or at some time in the future. The seller also has the right to impose certain conditions on the buyer. Once these conditions have been met and the goods have been delivered, the sale has taken place.

Chapter 4 - Credit Reports and Privacy Acts and How to Find Information on Your Debtor

It is important for credit managers in Australia to be aware of The Privacy Act of 1988. Even though they are rarely imposed, there are fines for breaching privacy legislation. The Privacy Act is designed to protect individuals, not businesses nor other organisations. Basically, the courts cannot insist that government agencies such as the police and the RTA cannot be compelled to provide personal information. The Privacy Act of 1988 makes it more difficult to find the address of your debtor.

However, in order to search for your debtor, you can use state or Commonwealth electoral rolls, telephone directories or land title searches. Otherwise, you should seek the assistance of a solicitor or private investigator.

If you wish to obtain knowledge of a company or sole trader then you may require personal information on company directors or the individual who runs a small business. As a result The Privacy Act of 1988 has an impact on how an account is set up.

The website, www.privacy.gov.au, contains details of the law if you want to know about this in detail. Here is a summary of how it affects you as a credit manager or business owner in relation to setting up an account. Quite simply, it relates to getting access to a person's credit history in the form of a consumer report from a credit reporting agency.

1. *Who can access the information in the credit report?*

   Any corporation that loans money, provides credit for at least seven days for goods or services supplied, or hires, leases or rents goods can gain access to this information. This covers most businesses. However, there are some businesses excluded from gaining access to this personal information. The Key Requirements of Part III of the Privacy Act states that "real estate agents, debt collectors, employers and general insurers are barred from obtaining access."

2. *What information is contained in a credit report?*

   You can obtain personal information such as name, sex, date of birth, address, name of last known employer and driver's license number. Also included in the report will be details concerning who has provided credit to this individual, details of any bounced cheques, court orders or bankruptcy judgments against such an individual. However, the report does not include any criminal record or physical handicaps or illnesses that the individual may have.

3. *What obligations do you have to the individual?*

   You must obtain written authorisation from the individual before you can access the details obtained in the credit report. This authorisation can either be given to yourself or the credit reporting agency which keeps such a report on file. If credit is rejected on the basis of this report, then you must inform the individual in writing. Of course, all reasonable action must be taken to see that the individual's report remains confidential.

Credit reports are used at the beginning of the credit process, i.e. to obtain information on an individual prior to granting credit. The Privacy Act of 1988 does not allow this information to be passed onto a third party, i.e. a mercantile agent or solicitor.

According to the ASIC website, www.asic.gov.au, credit reports can be obtained from the following companies.

1. *Veda Advantage (formerly Baycorp Advantage). Visit www.mycreditfile.com.au or telephone 1300 762 207.*
2. *Dun and Bradstreet. Visit www.dnb.com.au or telephone the following numbers: 03 9828 3333 (Victoria and Tasmania), 02 8270 2800 (NSW and ACT), 08 9426 1818 (WA), 07 3360 0600 (Queensland), 08 8233 5988 (SA and NT) or 09 359 8000 (New Zealand).*
3. *Tasmanian Collection Service. Visit www.tascol.com.au or telephone 03 6213 5555.*

The Privacy Act was passed in April, 1993 in New Zealand. For details, refer to www.privacy.org.nz.

There is also a Credit Reporting Privacy Code of 2004.

The detail for New Zealand is very similar to the rules for Australia except for one important difference. In New Zealand, the information in the credit report can in some instances be provided to third parties such as mercantile agents. The following statement appears on the website, www.privacy.org.nz.

"The Code limits the people who can gain access to your credit information. These will usually be credit providers who are considering your application for credit, but in some strictly defined situations the information may be available to prospective landlords, employers or insurers, to debt collectors, to those involved in court proceedings and to certain public sector agencies."

Chapter 5 - Where Do You Go When You Need More Details About Your Customers?

There are several websites that will help you gather the information you need to take your customer to court. Remember, you must know exactly who your customer is before you can sue.

1. *If your customer is an individual*, you can go to the local branch of the Australian Electoral Commission. The Commonwealth Electoral Roll is available for viewing for free at all AEC offices. Visit www.aec.gov.au. Click on About AEC, then Contact AEC and then type in the postcode of your customer or call 13 23 26.

2. *If you have the trading name of your customer* then you will need to see if this belongs to an individual or whether it belongs to a company.

   For New South Wales, visit www.fairtrading.nsw.gov.au or call 13 32 20. You will need a business name extract. This costs $13 and contains the following information:

   a. Details of registration status. (If the name is deregistered, then you are unlikely to get paid.)
   b. Owners' names and addresses.
   c. Start date and end date of each owner.
   d. ACN number if the company owns the business name.
   e. Preferred address for service of notices.

   For ACT, visit www.fairtrading.act.gov.au

   For Northern Territory, visit www.caba.nt.gov.au

   For Queensland, visit www.fairtrading.qld.gov.au

   For South Australia, visit www.ocba.sa.gov.au

   For Tasmania, visit www.consumer.tas.gov.au

   For Victoria, visit www.consumer.vic.gov.au

   For Western Australia, visit www.docep.wa.gov.au

3. *If your customer is a company then it is worthwhile getting an ASIC company extract.* These are available from Dun and Bradstreet and cost $17.60. You can visit their website at www.dnb.com.au. This will give you details of the owners, the registered address and other relevant details which will make suing this company a whole lot easier.

4. *Once, you have the right details of your customer you are ready to sue.* To find a local court (in New South Wales) that is nearest to your business, you can visit www.lawlink.nsw.gov.au/lc.nsf

   For ACT, visit www.courts.act.gov.au/magistrates

   For Queensland, visit www.courts.qld.gov.au/126.htm

   For Northern Territory, visit www.nt.gov.au/justice/ntmc/index.shtml

   For South Australia, visit www.courts.sa.gov.au/community/maps/index.html

   For Tasmania, visit www.magistratescourt.tas.gov.au

   For Western Australia, visit www.magistratescourt.wa.gov.au

   For Victoria, visit www.magistratescourt.vic.gov.au

If your debt is very large, then you will need to go to a different court. Also, in this case I recommend you seek legal advice but for small debts, say less than $60,000, you can follow the steps above and do this for yourself. The Small Claims Division of the Local Court in New South Wales hears cases where the debt is less than $10,000. If the debt is between $10,000 and $60,000 then the debt is heard in the General Division of the Local Court in New South Wales. However, you only go to court if your customer challenges the debt. For more details about collecting your debts through the Local Courts in New South Wales, refer to Chapter 13. Also, there are two real examples in collecting your money through the NSW courts in Chapter 14 and 15.

For collecting your money through the courts in other states and territories of Australia, refer to Chapters 16 to 22.

For collecting your money through the courts in New Zealand, refer to Chapter 23.

The costs for collecting your money through the Local Courts or Magistrates' Courts are quite reasonable in Australia. Refer to Chapter 12 for details.

Chapter 6 - What To Do When An Account Goes Bad

Preparation:

In setting up an account you should clearly show your trading terms and conditions. Ideally, and certainly for large accounts, your debtor should sign such an agreement. On the credit application form, ask for the individual's full name and address. For a company, you need the ACN number, the registered office and the full names and addresses of major company directors.

Once your customer has received your goods and services, you need to document thoroughly the action taken to recover the debt. Ask your sales staff to record anything that the debtor says in their post sales follow-ups.

When you telephone your debtor for the first time document exactly what is said. What you are seeking is an admission that your debtor is happy with the goods and services received. You also want your debtor to admit the debt exists and attempt to get a promise to pay. At this stage of the collection process you should be extremely friendly as one of your aims should be to encourage your debtor to reorder again and again and become a profitable long term customer of your business. Nevertheless, you need to gather as much information as possible in case the matter needs to go to court at a later date.

In second and subsequent phone calls to your debtor try and eliminate all possible excuses for non-payment. Check that the person who placed the order had authority to do so. Ideally, you would like your debtor to admit the debt in writing. This may be difficult to obtain but may be possible if your debtor offers to pay the account in regular installments. Even if you don't accept this offer, at least you have an admission of the debt in writing.

Finally, you will most likely threaten to take legal action or place the account in outside hands for collection. If you make such threats you certainly need to carry them out.

If the debtor does not respond to your final notice, you can choose from one of the four following options:

1. *Write off the account as a bad debt.*

If the debt is small, this is almost always the best course of action since the cost of recovering the debt including labour may exceed the value of the debt. Also, you could write off the debt if you are unlikely to be paid due to the financial state of your debtor. Even if the debtor has some money left, the taxation department, employees and secured creditors are all due to be paid before you in the event of bankruptcy or liquidation.

Thirdly, you could write off the debt if your debtor can't be found, i.e. your mail is being returned and their phone has been disconnected. However, all is not lost in this case. You can still seek help from Directories Assistance or from Electoral Rolls but the Australian Privacy Act of 1988 makes the task of skip tracing very difficult today.

2. *Pursue the debtor yourself through the Local Courts.*

   This step appears daunting at first but it is not as difficult or as costly as you may think. All you need to do is take proof of the debt such as copies of relevant invoices to your Local Court and complete a Statement of Claim. If your debtor is a company, you will need the company name, the ACN number and the registered office of this company. If you do not have this information, then the Australian Securities and Investments Commission will be able to help you. Also, the Local Court will assist you in completing the Statement of Claim. Refer to Chapter 5 for the initial preparation. For details on court costs, refer to Chapter 12. For a simple five or six step plan refer to Chapter 13 for collecting your money in New South Wales. Chapters 16 to 22 illustrate these simple steps for collecting your money through the courts in other states and territories of Australia. Refer to Chapter 23 for collecting your money through the New Zealand court system.

   Collecting your money through the Local Courts does take a little time. So once your debtor has failed to respond to your final notice, don't hesitate in taking further action. After all, you are competing with other creditors for your money and if there is only a limited amount to go around you don't want to be last and miss out.

3. *Send the debt to a mercantile agent.*

   Mercantile agents send a mixture of final notice letters, letters of demand and solicitors' letters to your debtors. If these procedures are not successful then they will usually attempt to collect your money through the Local Courts. The mercantile agent will pass these court fees on to you, but will only instigate court action at your request.

If your account is collected then the mercantile agent usually charges 8% to 25% commission on the value of your debt. Most mercantile agents will not charge commission if the debt is not collected but they will charge you for the initial letters sent to your debtor.

Mercantile agents can save you a lot of time but they can't work miracles. For instance, if your debtor has no money or has disappeared it is unlikely that a mercantile agent will be able to help you.

4. *Refer the debt to your solicitor.*

Solicitors are normally used if the account is very large or if there is a dispute relating to the quality of the goods or services you have provided. Use of solicitors is obviously the most expensive form of debt collection but it also gives you the best chance of collecting your money, especially if your debtor is refusing to pay your account.

If your debtor is just stalling for time, then generally a solicitor is not a sensible choice. After all, your solicitor will simply apply for a Statement of Claim in the same way you could do yourself or a mercantile agent would do on your behalf.

However, for debts over $60,000 the use of a solicitor is almost always your best course of action.

Chapter 7 - When To Write Off A Debt

One of the biggest mistakes in collecting money is how bad debts are written off. Too often debts are written off unnecessarily.

The first step to consider is the size. My yardstick is about $200. I am confident I can collect a debt of $200 through the Local Court with minimum effort. You need to set a limit. It may be $100 or $200 or $300 or $500. It is up to you. Certainly, a debt of $1,000 in Australia is too large to automatically write off.

If the account has been set up properly in the first place, then it will be easy to know who to sue. If you have insufficient information to collect the debt, then now is a good time to write off the debt and learn for next time. All you really need is the company name or individual name and their location. It is possible to access records via the internet and other sources so do not worry if you do not have the registered address of a company or the names of the directors.

Thirdly, write off the debt if your customer has no money. In some cases, you may not know this until you go through the legal process. However, you can get a feel for this as you contact your customer during the collection process. Of course, if you are worried, take legal action quickly, because your customer may only have sufficient funds to pay some of the debts. Make sure you give yourself every opportunity to be paid by suing early. Also, you need to know exactly who is responsible for the debt to be certain of whether or not your customer has the capacity to pay you. If your customer has not declared bankruptcy or gone into liquidation, then you should be able to collect your debt in full. If they have, then you may receive a small portion of the amount due to you.

Fourthly, write off the debt if your customer has disappeared. Sometimes individuals change address and it is very difficult to find them. The electoral roll may help you if your customer has an uncommon surname. Also, companies close their doors and unfortunately, some unscrupulous directors will set up a new company under a new name. If this is the case, then seek legal advice if the debt is large. Otherwise, this is another good reason to write off the debt.

There are four reasons to write off the debt.

1. *It is too small.*
2. *You do not know who to sue.*
3. *Your customer has no money.*
4. *You cannot find your customer.*

These are the only four reasons to write off a debt. Do not be soft with your customers. Be firm, yet fair. Remember, it is your money and you have lent your money at a zero interest rate to your customer. Do not feel sorry for him or her. If your customer has pressing financial problems, this is not your problem. Go in hard for your money if you have to. Your customer has the option to go into liquidation or declare bankruptcy. If this option is not taken, then you should sue.

As an aside, if you have agreed on a payment plan with a customer who is struggling financially, then you must ensure payments arrive on time. If a payment is late and is not forthcoming very quickly after the due date, then you should take further action - often this is a legal remedy. Reneging on a payment plan is not a reason to write off the debt unless it is small.

Some other reasons not to write off the debt are if your customer is in prison for a short time, is on holidays or if the debt is old. You can still use the courts to collect debts that are more than 12 months old.

Recent problems with the international economy, means that you may need to write off more debts. To minimise the chances of this happening, you should take extra care in setting up an account. Refer to Chapter 5 in Part A.

Chapter 8 - Harassment: What You Cannot Do To Collect Your Money

In May, 2008, a multinational company was fined for unduly harassing its customers. The debt collectors for the multinational telephoned its customers as much as 100 times per month, sometimes as much as 10 times per day. Not only this, but neighbours, work colleagues and family members were also harassed.

The Australian Securities and Investment Commission (ASIC) ordered that the multinational company pay compensation to its customers. ASIC concluded that such conduct did amount to unfair harassment. This order was made even though the multinational was still owed money by its customers.

So what are you allowed to do and what can't you do?

Section 43 of the Fair Trading Act of 1987 in South Australia states that it is an offence for a creditor or an agent acting on behalf of the creditor to engage in the following:

- *Demand money without saying who she or he is and how much money is owed*
- *Demand money which the creditor does not reasonably believe is owing*
- *Continue to demand money from someone who says they do not owe it without making reasonable enquiries to ensure the validity of the demand*
- *Contact a debtor's employer, friends, acquaintances, relatives or neighbours unless it is reasonably necessary to find the debtor's address*
- *Falsely state that criminal or other proceedings will be taken if money is not paid*
- *Falsely pretend to be authorised in some official capacity to claim or enforce payment*
- *Either telephone or visit a debtor on a public holiday or between the hours of 10pm. and 7am.*

It is also unlawful to assault or threaten to assault your customer in the processing of collecting your debt.

You can visit www.business.gov.au to read the Fair Trading Acts in your state.

You can also visit www.consumeraffairs.govt.nz to read the Fair Trading Act of 1986 in New Zealand.

This book is not designed to be a complete guide to the laws which apply to collecting your money quickly and fairly. To cover detailed rules such as those relating to consumer credit, maximum interest rates allowed and more, you should refer to the above websites. However, if you follow the guidelines outlined above, then you will go a long way to staying within the law.

Chapter 9 - Debt Collection Agents

The use of Debt Collection agents, commonly referred to as mercantile agents, is one way of collecting money from slow payers. They are companies hired by you, the creditor, to collect the debt on your behalf. Commonly, they will use letters, telephone calls, even visit your customer in person and finally implement court proceedings on your behalf.

However, mercantile agents are not a magical solution. If your customer either has no money or has no desire to pay you, then a mercantile agent is not going to collect your money for you. Mercantile agents have the advantage of perceived authority. Your customer knows you are serious about collecting the debt due when you hire a mercantile agent.

The threat coming from such an agent will appear to be stronger. As a result a threat from such an agent is likely to be taken more seriously by your customer. There is a danger that your customer will gamble that you might give up in chasing your money and simply write the debt off.

Now, I need to be upfront with you here. I do not use mercantile agents. I use the local courts when necessary and collect my own debts. However, you do not do need to do this. The advantage of debt collection agents is that they have more perceived authority. In practice they don't. They can threaten legal action in the same way that a firm or individual can.

The main advantage in using mercantile agents is that it frees up your time. Outsourcing to experts is almost always a good idea. However, after you have read this book, you will be equipped to handle your own debt collection right through to court proceedings if you want to.

What do debt Collection agents cost?

Typically, debt collection agents charge a zero or small setup fee of around $35 and receive commission, usually 8% to 25% for any money collected. Other costs, in particular, legal costs will be added to what you owe them.

When I type Debt Collection in Google, I found many listings but it was difficult to determine the costs of using such an agent. Here are some of the costs.

A final demand notice costs $35. A personal visit to your customer's place of business or residence by the agent costs $90. Skip tracing costs from $150 - $300.

In New Zealand, the minimum debt ranges from $1 to $300. Commission is only payable on successful collection of a debt. This ranges from 15% - 20%. The initial charge ranges from nil to $30. Legal action will only be taken with your written permission but will incur additional charges. You may be asked to pay for the following: $10 for credit control letters, $20 for company searches, $120 for chasing your customer in New Zealand, $160 for tracing your customer overseas and $80 for serving documents. Prices exclude 12.5% GST.

Do not shop around for the lowest price when looking for a mercantile agent. Giving someone $20 to $30 not to achieve anything is just a waste of money. Choose the agent most likely to collect your money. Seek testimonials from satisfied customers.

Chapter 10 - Letter of Demand

A letter of demand is sent to a person or organisation who owes you money for the goods or services you have supplied to them. The letter advises your customer of the amount outstanding and threatens legal action to recover the debt if it is not paid within a certain time, usually seven days. A sample is provided below. This can be used as a guide.

A letter of demand serves two purposes. First, it warns the debtor, i.e. your customer, of your intention to commence legal proceedings unless payment is made and gives the debtor one more opportunity to pay. Secondly, the letter is a document which may be provided in evidence during court proceedings as written proof of your claim. It shows the debt owed and your final attempt to settle the matter.

Copies of any relevant documents such as contracts, letters of agreement, invoices, etc, should be attached to the letter of demand.

You should send the letter of demand by registered post to confirm receipt and make sure you retain a copy for your records. Only one letter should be sent and be prepared to act on your threat to initiate legal action.

Example of a Letter of Demand:

Date

Your debtor's name and address

Dear Name (The individual who placed the order or the name of a company director or a person known to be in accounts payable.)

I am writing concerning the amount of $(amount) which was invoiced on (date) and remains outstanding despite several requests for payment. This amount relates to (include details of goods or services provided).

I enclose (attach documents appropriate to identify the amount owing, e.g. a copy of original invoice and/or details of the contract).

I demand that payment of the full amount be paid to me at this address (state your address) within 7 days. Cheques can be made payable to (Your Company name). Alternatively, you can deposit the amount of (repeat amount due) into the following bank account (include your bank details).

If this matter is not resolved within 7 days, I reserve the right to commence legal proceedings to recover the debt without further notice to you and this letter may be provided in court as evidence of your failure to pay.

Yours Sincerely

Sign your name

Name
Title
Company Name

If you are a company, then the letter should be provided on your company's letterhead. If you do possess such stationery, then make sure you include your name, address, phone number and other relevant details such as fax numbers and email address.

Also, if you accept credit card payments then offer this option to your customer in the second last paragraph of your letter.

Some letters of demand offer a payment plan. I believe it is too early to offer your customer such a plan unless you have agreed to such a plan during your earlier dealings with your customer. Another option is to offer settlement of the overdue account for a reduced amount. Again, this is not recommended unless your customer is disputing part of your bill.

Finally, I must tell you that I do not use letters of demand. There is nothing wrong with them. You need to be aware of them and you can easily send one yourself or get a mercantile agent to send one on your behalf.

This is what I do. I simply print off a statement and stick a final notice sticker on it. I actually use the sticker S146, which is shown here on the left. Quite frankly, I find this much easier and it saves me time and money. Labour, stationery and postage will cost less than $1.

Then, if the money is not forthcoming, I go to the Local Court to proceed with Legal Action. See Chapter 11 on what steps are involved in this process.

Chapter 11 - Summary of Court Procedures

For the vast majority of overdue accounts that require legal action in Australia, you will be able to use the Local Court. The following chapters will show in detail how to go about collecting your money though the court system yourself. Usually, the only restriction is the size of the debt.

You can lodge most claims through the Local Court or the Magistrates' Court. There are upper limits and these vary from state to state in Australia. As a quick rule of thumb, most claims under $60,000 can be lodged in the Local Court or the Magistrates' Court.

If you have a claim against a debtor in another state, then your first point of call is still your Local Court in your area. Your Local Court will then liaise with other courts in other states or alternatively advise you what steps you need to take next.

The following chapter lists the court costs. Note that these court costs are less than $250. Also, in most cases, these costs can be added to your debt and paid by your customer. These costs are valid in August, 2008.

Even though the court procedures are very similar in the Australian states and territories, I have still included ten chapters about these results. There are subtle differences. Refer to Chapters 13 - 22. Chapter 13 is about collecting your money through the New South Wales Local Courts. Chapters 14 and 15 give two real life examples about how this can work for you with minimum effort on your part. Chapters 16 – 22 show you the procedures for collecting your money through the Local or Magistrates' Courts in the other states and territories of Australia. Chapter 23 deals with collecting your money through the New Zealand Court System.

Below is a short 5 step general guide to collecting your money through the Local Court system in Australia.

1. *Obtain all of the information on your customer including a copy of the tax invoice and proof of delivery if available.*
2. *File a Statement of Claim.*
3. *Wait 28 days.*
4. *Apply for a default judgment or a writ of execution.*
5. *Wait for payment from your debtor or alternatively from the Sheriff who in most cases will have the authority to seize your debtor's*

personal property, sell these goods and use the proceeds to pay your account. Also, you can serve a document called an examination summons that brings the debtor back to court to be examined. You can ask the Local Court for a garnishee order so that the debtor's wages or savings can be used to pay your debt.

This final step can cause problems. This is because the Sheriff has limited powers. Firstly, your debtor may have moved address. It is your responsibility to provide the Sheriff with a new address. Secondly, the Sheriff can be refused entry to a private dwelling. The debtor does have this right.

There are variations to the above, according to where your claim is lodged. Refer to Chapters 16 - 23 for these variations.

Chapter 12 - Court Costs and Which Court do I use?

The costs of going to court range widely and depend on the size of your debt and what state you are lodging the debt.

Below is a summary of these costs and a brief explanation of how these courts work in the states and territories of Australia. Costs are accurate as of August, 2008.

Victoria

In Victoria, the two jurisdictions most commonly used are the Small Claims Tribunal at the Victorian Civil and Administrative Tribunal and the Magistrates' Court.

The Small Claims Tribunal can hear debts which are less than $10,000. Lawyers are not permitted. The matter must be conducted by you, the creditor. No costs can be sought against debtors in this tribunal.

The Magistrates' Court now has jurisdiction to hear monetary complaints up to $100,000. Clients who are successful at the Magistrates' Court will usually have 60-70% of their legal costs ordered to be paid by the debtor. The Court orders costs paid according to a scale of costs in most instances, and that scale falls below the amounts charged by solicitors on a time basis with clients.

A useful website is www.magistratescourt.vic.gov.au.

Australian Capital Territory

For debts under $10,000 and if the debt arose inside the ACT and/or the person being sued is a resident in the ACT you can use the Small Claims Court. You file an Originating Application. The cost is $42 if the debt is less than $2,000. It is $108 if the debt is between $2,000 and $10,000. Fees are recoverable if your claim is successful.

Your debtor has 21 days to respond (two days extra if served by post and four days extra if served interstate).

If no agreement or money is forthcoming then you can file an Application for Default Judgment. This costs $16 per item or $127 per hour of search time.

If your debt is between, $10,000 and $50,000 then you can lodge your claim with the Magistrates' Court. Details of these costs and procedures are beyond the scope of this book. For more information, you can refer to the following website: www.courts.act.gov.au/magistrates.

New South Wales

In New South Wales, Local Courts can be used to collect debts up to $60,000.

For debts under $10,000, you can use the Small Claims Division of your Local Court. To find out the location of your nearest NSW Local Court refer to the NSW Attorney General's Department website: www.lawlink.nsw.gov.au/lc.nsf.

A statement of Claim is needed when the debt is less than $10,000. The filing fee is $146 in New South Wales. This amount can be added to the cost of the debt owed by your customer.

Then allow 28 days for a response. If the debt remains unpaid you can then lodge a Writ of Execution. This costs $61 and these fees can also be passed onto your debtor.

For debts between $10,000 and $60,000 use the General Division of the Local Court.

Queensland

For a debt of up to $50,000 and if the debt is a fixed sum you can go to the Magistrates' Court.

A list of courts is given at www.courts.qld.gov.au/126.htm.

Action must be brought either in the Court located in the district where the dispute began, or where the other person carries on a business, or where the other person agreed in writing to repay the debt.

Debts under $10,000 are classed as Minor Debts. To file a Minor Debt claim the cost is $48 for debts under $2,500 and $75 for debts between $2,500 and $10,000. Allow 28 days for a response and if the debt remains unpaid you can request a default judgment/money order. The cost is $75.

Northern Territory

Civil cases involving debts to a maximum of $100 000 are heard in the Local Court. Refer to this website:
www.nt.gov.au/justice/ntmc/index.shtml

Actions for amounts under $10,000 may be heard in the Small Claims jurisdiction of the Local Court.

A Statement of Claim is served. It must be filed in person. The cost is $176 for a debt up to $10,000.

You can arrange for this to be served by the Court / Lawyer but if you serve it yourself then you must also file a Declaration of Service as proof that the claim has been served.

If the claim is not paid after 28 days the Court will send you a Notice to Attend a Pre-Hearing Conference in the Court building.

South Australia

Claims between $6,000 and $40,000 are dealt with by the Magistrates' Court (General Claims Division).

Claims under $6,000 are dealt with by the Minor Claims Division of the Magistrates' Court.

The first step is to file a Pre-Lodgement Final Notice of Claim which can be served either in person or by regular mail. The cost is $13.60. Fees are recoverable if your claim is successful.

You must then wait 21 days for a response from the Defendant.

If no payment is forthcoming then a Claim Form is lodged at the Registry nearest to where the other party resides or does business. The cost is $93.

Wait a further 21 days. If still no response, then you will need to approach the Registry and request that judgment be entered in your favour.

If judgment is set aside, the matter will continue in the court process. If judgment is not set aside, then the judgment in your favour stands as a judgment of the Court and you are able to recover the amount owed to you.

A helpful website is: www.courts.sa.gov.au/community/maps/index.html

Tasmania

Claims under $5,000 should be made in the Minor Civil Claims Division of the Magistrates' Court.

Claims between $5,000 and $50,000 should be made in the General Division of the Magistrates' Court.

A Claim is filed at Registry. The Cost is $89.60.

This must be served in person or by Registered Post.

After this you must wait 21 days from the date of service. If, after the 21 days, the defendant has filed a defence, then it will proceed to a court hearing. If the defendant has not, then you may proceed to enter judgment in your favour. This is called a Default Judgment.

A useful website is: www.magistratescourt.tas.gov.au

Western Australia

The Magistrates' Court deals with civil matters that involve:

- *claims for debt or damages of up to $50,000 (to be increased to $75,000 in January 2009)*
- *minor claims for debt or damages up to $7,500 (to be increased to $10,000 in January 2009)*

For claims under $7,500 you must first complete and lodge a Minor Case Claim for which the filing fee is $108.00. This can be done in any Magistrates' Court within Western Australia. The Court can arrange service of the claim by a bailiff for which there is a fee. Alternatively you can make arrangements to serve the claim yourself. The defendant has 14 days to respond.

If the defendant fails to respond you may apply for a default judgment to be given. This is filed together with an Affidavit of Service to prove to the Registrar the date your claim was served.

After judgment has been entered, you may proceed to apply to the court for an order to enforce judgment.

A useful website is: www.magistratescourt.wa.gov.au

Chapter 13 - Collecting Your Money Through The NSW Court System

Below is a short 5 step guide to collecting your money through the court system in New South Wales.

1. Obtain all of the information on your customer including a copy of the tax invoice and proof of delivery if available. If you are unsure, refer to Chapter 5.
2. If the debt is under $10,000, you can lodge your claim with the Small Claims Division of the Local Court.
3. You file a Statement of Claim. The cost is $146. This fee can be passed on to your debtor.
4. Wait 28 days for a response.
5. If no response is received, you can lodge a Writ of Execution. This costs $61. Again, these fees can be passed onto your debtor. The Writ of Execution gives authority to the Sheriff to seize your debtor's goods so they can be sold. The proceeds of these sales are used to pay your account including the fees for the Statement of Claim and the Writ of Execution.

In practice, it is unlikely that proceedings will go this far. The following real examples in the next two chapters show how my company collected money from slow payers in full before the debtor's goods were seized.

If your debt is between, $10,000 and $60,000, then you can lodge your claim with the General Division of the Local Court. For more information, refer to the following website: www.lawlink.nsw.gov.au/lc.nsf

Chapter 14 - Example 1: How We Successfully Collected Our Debt Through The NSW Local Court

One of my customers had not paid for his Christmas cards. The invoice was only for $286 so I guess he was assuming that I would just write off the account. Well I didn't. This is why.

1. *I knew my customer was still trading and could afford to pay.*
2. *I had all the details I needed, i.e. the registered address of his company.*
3. *There was no dispute about the goods delivered.*
4. *Going to the Local Court is quite a simple and painless process.*

The last point is important because you cannot afford to spend a lot of effort in chasing $286.

On June 20, 2008 I lodged my Statement of Claim with Blacktown Local Court. This cost me $146. However, I am entitled to invoice my customer for this amount. I sent him an invoice for $146. This brought the total amount my customer owed to $432. Also, I sent the court documents to my customer by Registered Post.

My customer then had 28 days to pay. The period elapsed without payment but I remembered that we did not have time to get to Blacktown Local Court to obtain an Execution of Writ. Our delay proved fruitful as we received payment from our customer in full for $432 on July 21.

To collect this money, there were three costs. They were:

1. *A company search to verify the registered address of the company I was suing. I obtained an ASIC company extract from Dun and Bradstreet for just $17.60.*
2. *The cost of my time in going to Blacktown Local Court once. This is minimal since I decide to go at a time convenient for me.*
3. *The cost of the Registered Post envelope. This is just $3.20.*

That's it. The total cost for me was $20.80 plus labour since my customer paid my legal costs of $146.

The next example in Chapter 15 shows how you can still collect your money even if your customer ignores your Statement of Claim.

Chapter 15 - Example 2: How You Can Collect $184.50 From A Customer Who Refuses To Pay

What would you do if a customer owed you $184.50 and the customer refused to pay you even though they had sufficient money to pay you? Most of you would just write off the account. Well, often that is good advice but the following real life example shows that even small accounts can be collected with only a little extra effort.

Often taking legal action proves too daunting to a lot of people but it need not be. When the account is small, then you can take the account to the Local Court and they will show you what to do. There is no need to have any knowledge of the law at all. The Local Court in NSW defines a small account as being less than $10,000.

It is very important that the account is set up correctly before you go to the Local Court. Before offering anyone credit you need to know you who you are dealing with and their address. Post boxes are not acceptable. Is the debtor an individual or a company or some other entity? Even if you do not use a credit application form for a new customer, it is vital you have the correct street address and the correct name of your customer.

However, even if the account is not set up correctly, all is not lost. Our customer was a company so we applied for an ASIC Company Extract. We obtained this from Dun and Bradstreet. Basically what we are looking for is the registered office of the company. This is sometimes different from their place of business.

If your usual methods of collection have not resulted in payment, then the next step is to prove the debt exists. This is not difficult to do. All we did for our small account of $184.50 was reprint the Tax Invoice for the Local Court. The goods were delivered by Australia Post. The Local Court does not need to see proof of delivery. You do not need courier or postage records.

On June 1, 2007 I took a cheque for $136 together with a copy of the Tax Invoice and the ASIC Company Extract to Blacktown Local Court and completed a Statement of Claim. (As of August, 2008, this cost had increased to $146.) The form is easy to fill in and one of the court officials checks it anyway. The Court makes copies and records a claim number. The amount of $136 is added to the Statement of Claim. My customer now owes us $320.50. We then send the Statement of Claim by Registered Post to the customer. Proof of delivery of the Statement of Claim is important.

We waited 28 days. Nothing happened.

On July 18, I took a cheque for $59 to Blacktown Local Court and completed an Execution of Writ form. (As of August 2008, the cost of this writ is $62.) This gives the local sheriff the authority to seize the customer's goods and sell them so the account can be paid. The amount of $59 is added to the customer's debt. The customer now owes us $379.50.

Our customer was in rural NSW so we had to wait for the Sheriff in this locality to visit our customer. You can use the Local Court system to collect any debt in Australia. The debt can be in a different state.

On September 9, we contacted Blacktown Local Court. They were able to give us the number for the Sheriff who was handling our case. We were told the Sheriff had not been to our customer's premises yet.

On September 19, the sheriff went to the registered office of our customer and left his calling card.

On October 4, we again rang the Sheriff's Office but they were too busy to visit our customer again.

On October 17, we rang the Sheriff again. He promised us he would be going to see the customer next week to seize assets.

On October 19, our customer contacted us with a promise to pay.

On October 23, the amount of $379.50 was deposited in our bank account. We then contacted the Sheriff to tell him that the matter had been resolved.

This example shows that it is possible to collect small accounts at very minimal expense. When making a Statement of Claim and executing writs in New South Wales these costs are automatically added to your customer's account. In fact, the only costs to us were the cost of the ASIC Company Extract ($17.60) and the Registered Post mail ($3.20). There was also the cost of time in going to the Local Court twice. We spent about two hours on the whole process.

Collecting money through the local courts is not something to be feared. The officials of the Local Court will do everything for you and the fees in NSW in 2008 are only $146 and $62 so the risk is quite low. However, you need to sue the correct entity and you need to be confident your customer has enough assets to pay your account.

Chapter 16 - Collecting Your Money Through the ACT Court System

Below is a short 5 step guide to collecting your money through the court system in the Australian Capital Territory. This includes Canberra and surrounding suburbs.

1. Obtain all of the information on your customer including a copy of the tax invoice and proof of delivery if available. If you are unsure, refer to Chapter 5.
2. If the debt arose inside the ACT and/or the person being sued is a resident in the ACT you can use the Small Claims Court.
3. You then file an Originating Application. The cost is $42 if the debt is less than $2,000. It is $108 if the debt is between $2,000 and $10,000. Fees are recoverable if your claim is successful.
4. Wait 21 days for a response. Add two days if the Originating Application is served by post and four days extra if it is served interstate.
5. If no agreement or money is forthcoming then you can file an Application for Default Judgment. This costs $16 per item or $127 per hour of search time.

If your debt is between, $10,000 and $50,000 then you can lodge your claim with the Magistrates' Court. Details of these costs and procedures are beyond the scope of this book. For more information, you can refer to the following website: www.courts.act.gov.au/magistrates

Chapter 17 - Collecting Your Money Through the Queensland Court System

Below is a short 5 step guide to collecting your money through the court system in the state of Queensland.

1. Obtain all of the information on your customer including a copy of the tax invoice and proof of delivery if available. If you are unsure, refer to Chapter 5.
2. If your debt is a fixed sum and under $50,000, you can use the Magistrates' Court. Visit the following website to see the lists of the Magistrates' Courts that are in Queensland: www.courts.qld.gov.au/126.htm
3. Action must be brought either in the Court located in the district where the dispute began, or where your debtor carries on a business, or where your debtor agreed in writing to repay the debt. Debts under $10,000 are classed as minor debts. You can file a Minor Debt Claim with the Magistrates' Court for $48 if the debt is under $2,500. If your debt is between $2,500 and $10,000, the cost to file a Minor Debt Claim is $75.
4. Wait 28 days for a response.
5. If none is forthcoming, you can lodge a default judgment. This costs $75.

Chapter 18 - Collecting Your Money Through the Northern Territory Court System

Below is a short 5 step guide to collecting your money through the court system in the Northern Territory.

1. Obtain all of the information on your customer including a copy of the tax invoice and proof of delivery if available. If you are unsure, refer to Chapter 5.
2. Civil cases involving debts to a maximum of $100,000 are heard in the Local Court. For more information, refer to the following website: www.nt.gov.au/justice/ntmc/index.shtml
3. Amounts under $10,000 may be heard in the Small Claims jurisdiction of the Local Court. A Statement of Claim is served but must be filed in person. The cost is $176 for a debt up to $10,000. You can arrange for this to be served by the Court / Lawyer but if you serve it yourself then you must also file a Declaration of Service as proof that the claim has been served.
4. Wait 28 days for a response.
5. If your claim is not paid after 28 days the Court will send you a Notice to Attend a Pre-Hearing Conference in the Court building.

Chapter 19 - Collecting Your Money Through the South Australian Court System

Below is a short 6 step guide to collecting your money through the court system in South Australia.

1. Obtain all of the information on your customer including a copy of the tax invoice and proof of delivery if available. If you are unsure, refer to Chapter 5.
2. Claims between $6,000 and $40,000 are dealt with by the General Claims Division of the Magistrates' Court. If your debt is under $6,000 then you should go to the Minor Claims Division of the Magistrates' Court. The first step is to file a Pre-Lodgement Final Notice of Claim which can be served either in person or by regular mail. The cost is $13.60. Fees are recoverable if your claim is successful.
3. Wait 21 days for a response from the Defendant.
4. If no payment is forthcoming then a Claim Form is lodged at the Registry nearest to where your debtor resides or does business. The cost is $93.
5. Wait a further 21 days.
6. If still no response is forthcoming, then you will need to approach the Registry and request that judgment be entered in your favour. If judgment is set aside, the matter will continue in the court process. If judgment is not set aside, then the judgment in your favour stands as a judgment of the court and you are able to recover the amount owed to you.

The following website will assist you in finding the closest Magistrates' Court to you: www.courts.sa.gov.au/community/maps/index.html

Chapter 20 - Collecting Your Money Through the Tasmanian Court System

Below is a short 5 step guide to collecting your money through the court system in Tasmania.

1. Obtain all of the information on your customer including a copy of the tax invoice and proof of delivery if available. If you are unsure, refer to Chapter 5.
2. Claims between \$5,000 and \$50,000 are made in the General Division of the Magistrates' Court.
3. Claims under \$5,000 should be made in the Minor Civil Claims Division of the Magistrates' Court. A claim is filed at the Registry. The cost is \$89.60. This must be served in person or by Registered Post.
4. Wait 21 days from the date of service.
5. If after 21 days the defendant has filed a defence, then it will proceed to a court hearing. If the defendant has not, then you may proceed to enter judgment in your favour. This is called a Default Judgment.

A useful website is: www.magistratescourt.tas.gov.au

Chapter 21 - Collecting Your Money Through the Western Australian Court System

Below is a short 5 step guide to collecting your money through the court system in Western Australia.

1. Obtain all of the information on your customer including a copy of the tax invoice and proof of delivery if available. If you are unsure, refer to Chapter 5.
2. The Magistrates' Court deals with civil matters that involve debts under $50,000 (to be increased to $75,000 in January, 2009).
3. For minor claims under $7,500 (to be increased to $10,000 in January, 2009) you must first complete and lodge a Minor Case Claim. The filing fee is $108.00. This can be done in any Magistrates' Court within Western Australia. The Court can arrange service of the claim by a bailiff for which there is a fee. Alternatively you can make arrangements to serve the claim yourself.
4. Wait 14 days for your debtor to respond.
5. If your debtor fails to respond you may apply for a Default Judgment to be given. This is filed together with an Affidavit of Service to prove to the Registrar the date your claim was served. After judgment has been entered, you may proceed to apply to the Court for an order to enforce judgment.

A useful website is: www.magistratescourt.wa.gov.au

Chapter 22 - Collecting Your Money Through the Victorian Court System

The Magistrates' Court deals with debt recovery claims up to the value of $100,000.

The Court recommends that an amicable settlement is attempted to resolve the dispute before commencing legal action and offers a mediation service as an alternative to the court process.

Below is a short 5 step guide to collecting your money through the court system in Victoria.

1. To start legal action you need to file a document called a Complaint. In order to do this you will need your customer's details such as trading name and current address. If you are unsure about this, refer to Chapter 5. You will also need to list when, where and how the debt arose.
2. The Complaint must be lodged with the Court nearest to where the cause of action arose or where the defendant, i.e. your customer, resides. The filing fee for this is dependent upon the value of the debt. The Court will be able to advise you of the exact cost.
3. The Complaint must then be served on the defendant. Any person can serve a Complaint but the Court recommends you use the services of a process server who will ensure the Complaint is served in the correct manner.
4. Wait 21 days for your debtor to respond. It is necessary to provide the Court with proof of how and when the Complaint was served. This is called an Affidavit of Service.
5. If the defendant does not response after 21 days then you can get a Default Judgment which is obtained by filing the Affidavit of Service and the appropriate fee with the Court.

A useful website is: www.magistratescourt.vic.gov.au

Chapter 23 - Collecting Your Money Through The New Zealand Court System

In New Zealand, surprisingly the costs of legal action are much higher than they are in Australia. In Australia, it is worthwhile taking someone to court if the debt is over $300. For debts in New Zealand, the debt should be over $1,200 to justify legal action. There are different procedures for collecting your money from an individual as opposed to a company.

Even though it seems to be more costly to collect debts in New Zealand than in Australia, the chances of success are also lower. The following statement appears on the website, www.justice.govt.nz.

“The Collections Unit serves and executes civil judgment orders and enforces Court Orders on behalf of judgment creditors (the party in whose favour the judgment was made). Civil judgments are made as a result of a civil court case, or in a tribunal such as the Disputes Tribunal or the Tenancy Tribunal. In all civil judgments, the successful party is responsible for initiating each stage of the enforcement proceedings and providing the debtor's current address. The Court cannot guarantee the recovery of civil debts.”

The last sentence is certainly a worry for businesses collecting money through the New Zealand Court system.

Collecting Money From An Individual

The first step is to a file a Notice of Proceedings and a Statement of Claim in a District Court. See below for the most appropriate District Court for you. The Notice of Proceedings will cost you $250 if the debt is less than $4,500, $450 if the debt is between $4,500 and $20,000 and $600 if the debt is over $20,000. There is an additional cost of $80 to have the legal documents served. The service agent must swear an affidavit which outlines the date and time in which the Statutory Demand was served. The cost of the affidavit is an additional $20.

If your customer, i.e. the debtor, responds within 30 days of service, then your claim can go to a hearing. However, if your debtor fails to respond within 30 days of service, then judgment can be obtained by default. Judgment costs you $115 if the debt is under $4,500, $190 if the debt is between $4,500 and $20,000 and $240 if the debt is over $20,000. Court costs may be paid by your debtor but this will be the judge's decision.

If your debtor has not paid after the Court has given you a judgment for the debt, then you can ask for an Order For Examination. This is a court order to get your debtor's financial position examined before the Court Registrar. If the Registrar believes the debtor can pay, then repayment of the debt in regular instalments is usually recommended. The cost for you to get an Order For Examination is $150 if the debt is under $4,500 and $165 if the debt is over $4,500. Solicitor's costs may also need to be added. These are $160 if the debt is under $4,500, $180 if the debt is between $4,500 and $20,000 and $200 if the debt is over $20,000.

The Registrar may also make an attachment order. This instructs the debtor's employer to take regular amounts from the debtor's wages until the debt is paid. The cost of an attachment order is $150 if the debt is under $4,500 and $165 if the debt is over $4,500.

Alternatively, the Registrar may order the bailiff to seize goods from the debtor and sell them in order to pay your account. This is called a Distress Warrant. The cost for this is $130.

The Registrar may also impose a Charging Order to prevent the debtor from selling property until the debt is paid. The property can then be sold to satisfy the debt by a Writ of Sale.

If you need to incur all of these costs, then the total legal costs for a debt less than $4,500 comes to $1,055. For a debt between $4,500 and $20,000 the legal costs are $1,380. For debts over $20,000, the legal costs come to $1,600. These costs exclude 12.5% GST. However, the judge, at his discretion, may ask your debtor to pay some or all of these costs.

Collecting Money From A Company

The Companies Act of 1993 provides a quick procedure for obtaining payment from a company or at least, finding out if payment is possible.

The first step of legal action is to serve a Statutory Demand on the company. This demand should be served on the company's registered office. The company has ten working days to dispute the debt and 15 working days to pay the debt. The cost of the Statutory Demand is $250. Also, there is an additional cost of $80 to have the legal documents served. The service agent must swear an affidavit which outlines the date and time in which the Statutory Demand was served. The cost of the affidavit is an additional $20.

If the company hasn't paid the debt after 15 days, and it has not disputed the debt, then it is deemed unable to pay its debts. You can then apply to the court to have the company placed in liquidation. The cost of liquidation is $2,000. The details involved in liquidation are beyond the scope of this book. All costs shown above exclude 12.5%.

It is certainly possible to collect your debt yourself. This chapter outlines the procedures involved. However, I strongly recommend you seek the assistance of the courts before beginning.

Below is a list of some of the district courts in New Zealand.

Auckland: 65-69 Albert Street, Auckland, Phone: 09 916 9000
Christchurch: 282 Durham Street, Christchurch, Phone: 03 962 4000
Wellington: 43-49 Ballance Street, Wellington, Phone: 04 918 8000

There are another 63 district courts in New Zealand. To obtain a list of these and their contact details, visit www.courtsofnz.govt.nz. Click on "District Courts" then "Locate a Court".

The relatively high costs of legal action in New Zealand as compared to Australia mean it is more likely that you will seek the assistance of a solicitor. It is also more likely that you will write off the overdue account because the New Zealand Court System does not guarantee to reimburse your legal costs.

If your debt is large enough to spend over $1,000 in legal costs, then it is likely to also be large enough to justify the use of a solicitor. Keep in mind that solicitors can't work miracles. If your customer is broke or has disappeared, then there is little that your solicitor can do to recover your money.

At this stage it is worthwhile referring again to Chapter 7 – When to Write Off a Debt.

Chapter 24 - When Do I Use A Solicitor?

The idea behind this book is that debt collection is not that difficult. It is just that other people make it seem hard. If you have a good system in place and follow it closely then the likelihood is that you will not need a solicitor to help you collect your money.

However, business does not always go as smoothly as we would like. Before deciding when to use a solicitor, we need to know how much they cost. Most solicitors are paid by the hour. This can range from $200 to $1,000 as a general rule of thumb.

Some solicitors will pay on results only. This may seem like a good idea but beware of this promise. A solicitor is not going to take on work if the chances of payment are slim. You are likely to be better off paying an hourly rate. At the very least, your solicitor will be able to advise you as to whether your customer is worth pursuing.

At this point in time, it is worthwhile recalling when to write off a debt. There are four reasons to do this.

1. *The debt is too small.*
2. *You do not know who to sue.*
3. *Your customer has no money.*
4. *You cannot find your customer.*

Do not expect your solicitor to perform miracles. If your customer has no money or more importantly, no assets, then a solicitor is not going to help you receive payment. Also, if your customer has fled, do not expect your solicitor to be able to help you.

So, when can a solicitor help you? There are just three times to use a solicitor.

1. *The debt is large.*
2. *There is a dispute arising between you and your customer.*
3. *You do not have the time or the desire or the confidence to collect the money yourself.*

The big question is how large is large? Well, there are two answers.

Firstly, the debt must be large enough to cover your solicitor's costs. If there is a dispute and you need to engage legal counsel in court, then the cost could go from

$1,000 to tens of thousands of dollars. You can be up for barrister's fees and court costs. However, your solicitor will be able to provide you an estimate of these costs as well as your chances of success.

Secondly, if the debt is too large to be under the jurisdiction of the Local or the Magistrates' Court, then a solicitor will be essential. He or she will advise you as to which court to lodge your claim.

The Local Court is there to help small businesses collect their money. However, there are limitations. I recommend going to the Local Court when you are confident that your customer will not question your debt. If your customer disputes the amount owing, then you can still take your claim to the Local Court but your solicitor should be engaged to help you prepare for your court appearance. It is far less costly to engage a solicitor in preparatory work rather than have them appear in court for you.

The nature of the dispute will affect how badly you need a solicitor to help you. If your customer's dispute against you is frivolous then you may only need your solicitor to confirm this. However, if your customer is disputing the quality of the goods and services provided by you, then your solicitor will be very helpful.

There is a common saying that it is better to work on your business rather than in your business. This means that the owner should be more involved in marketing and developing systems which make the business run more efficiently. If this is you, then it is understandable that your time is better utilised by doing this sort of work rather than spending time in local courts. Of course, if your systems are working, then the number of times court action is needed would be very low. In this case, the use of a solicitor is justifiable provided the cost of collection is much less than the amount due.

Debt Collection Made Easy

Quite frankly, this book had to be written. There are so few books written about debt collection in Australia and New Zealand. Of those that are available, they are so complicated.

Even the title, *Debt Collection Made Easy*, is very important as this is exactly what this book will show you.

If you need to use the courts this book, will help take the mystery out of the court system for you.

There are two parts to this book:

Part A - Avoiding Problems in Debt Collection, emphasises a lot of things you can do to avoid legal action and bad debts.

Part B - Overcoming Problems in Debt Collection, concentrates on the final stages of collection, including the legal processes.

Debt Collection Made Easy is not like any other book you would normally read about debt collection. It is <u>not</u> a theoretical account. Instead, it provides practical advice and includes a number of resources you can use today to make your debt collecting easier. Learn how to influence your customer to pay you first, to come back and purchase from you, how to threaten your cutomer and how to carry out your threat with minimum cost and effort.

Debt Collection Made Easy is a must read for every business owner and credit manager. This book was written for you to enjoy, as well as to make your debt collecting a much happier and more successful experience.

A Note About Ian Renton...

Ian isn't a law graduate or an academic but he is a business owner like you. With over 17 years of real life experiences in debt collecting, Ian has managed to help tens of thousands of businesses in Australia and New Zealand to collect their money more quickly, using the very same steps that are included in this book.