



# Effective Debt Collection

Having an effective debt collection process is essential to maintaining healthy cash flow and reducing the risk of bad debt. Businesses must strike the right balance between offering competitive credit terms and managing the costs and risks associated with extending credit. A well-structured collection process not only improves payment performance but also strengthens customer relationships and financial stability. Below are some practical tips to help maximise the effectiveness of your debt collection process:

- Approval of customer credit - if a large customer, consider getting trade or bank references or ask for a set of their latest financial statements before approval.
- Agreement of trading terms (ensure the trading terms are agreed in advance with the terms specifically laying down the credit terms offered).
- Prompt issue of sales invoices.
- Issue of regular customer statements.
- Maintenance and enforcement of both monetary and time based credit limits (putting customers on credit hold where necessary).
- Regular customer contact to ensure that account is up to date and that problems are not allowed to develop.
- Incentives for early repayment or disincentives for late payment (for example, 5% discount if paid for in 30 days or apply an interest rate after 60 days to unpaid invoices).
- Establish a formal policy in relation to the action to be taken for accounts which are overdue (for example, a number of telephone calls and reminder letters before eventual referral to a solicitor or debt collection agency).
- The use of a reservation of title clause on all sales of product. A reservation of title clause allows the supplier to retain title to the goods until such time as the customer has paid for them.
- On large projects consider asking customers for a down payment.
- At the start of each month, prepare a cash collection budget broken down by week.

## Talk to us:

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