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The 11 Point Cash Collection System

Introduction

Effective debt collection policy requires a system that should not be overridden other than by exceptional circumstances - discipline is the key. Not allowing late payments will avoid disrupting your cash flow and will also avoid harming your company's chances of success.

To keep debtors flowing smoothly, many businesses use a series of letters and telephone calls, all designed to ensure customers pay on time, every time. These communications start out friendly enough but progressively they become more serious and insistent as payments become overdue. How you adapt the suggested collections system is up to you - for example, you may be more comfortable telephoning customers, rather than sending letters. The important thing is to have a system - please use the steps outlined below to create yours.

Before you start doing business with anyone, remember the following:

1. **Invoices are payable immediately** It is a common fallacy that invoices are payable after 30 days or "at the end of the month following receipt". Ensure that your terms of business clearly state that invoices are payable immediately and, as a courtesy, you may wish to accept 30 days credit but that is not documented in your terms of business.
2. **Check the credit status of your potential customer** Use Riskdisk, Experian, Corpfin or some other similar credit checking agency to ensure that your potential customer is not already showing signs of becoming a bed debt for your business. You may also review the last filed accounts at Companies House to double check.
3. **Determine the credit limits** So that you do not over-expose your business to a potentially large bed debt, determine what level of credit you are willing to give this potential customer and document this into your sales ledger. You may wish to increase this as your customer proves they are paying your invoices promptly.
4. **Ensure your Terms of Business have been signed by your customer and a copy returned to you.**
5. **All invoices should have your bank sort code and bank account details in the event that your customer wants to transfer money directly, rather than send a cheque.**





1. Courtesy Customer satisfaction telephone call

Timing: no more than 3 days after delivery of your product or service.

Dissatisfied customers are more likely to pay late. Make a friendly call to inquire about their level of satisfaction with the delivery of your product or service, hopefully to confirm that you have met their needs. Always mention that an invoice will be arriving shortly and that you are looking forward to receiving payment which is due immediately.

2. First letter

Timing: 25 days after the invoice due date

This is a friendly reminder that the due date has passed. You are assuming that the client has forgotten, neglected, or lost the bill and will pay with a gentle prodding. Send a copy invoice with "now overdue" stamped on it with a covering letter.

Dear

Following our telephone call of (Date) when we agreed that you were happy with our recent delivery of..... (product)/ (service), we sent you your invoice for £..... We notice that the amount is outstanding by 25 days and, on this occasion, are happy to have extended you 25 days credit. I would be most grateful if you would give this your kind attention so that we can keep your account current.

Yours sincerely

3. Second letter

Timing: 35 days after the invoice date

Another mild nudge reminds the customer that the account needs attention. This can be a short form letter with another copy invoice attached. Keep it friendly and non-threatening.





Dear

Following our telephone call of (Date) when we agreed that you were happy with our recent delivery of.....(product)/(service), we sent you your invoice for £..... We subsequently sent you a further copy onshowing that we had, as a courtesy, extended you 25 days credit. We see that it is now overdue by 35 days which is perhaps an oversight on your part. I enclose another copy for your information. I would be most grateful if you would give this your urgent attention so that we can keep your account current.

Yours sincerely

4. Second phone call

Timing: 45 days after the invoice due date

Follow the courtesy telephone call and two reminder letters with a second telephone call to confirm that there is still no problem with the delivery of your product/service and also to find out the reason for non-payment. For example, the customer may say that he has changed his mind and is now dissatisfied with your product or service, or may be experiencing cash flow problems. Be courteous but never take any criticism personally. Play it cool and if they are dissatisfied, find out the reason and where possible, get a commitment to pay. Be prepared to handle excuses. For example, if the customer says the cheque is in the post, ask when it was sent and where it was sent so you can determine the day it should arrive. Document your phone call so that a follow up confirmation letter can be sent to the customer.

5. Third letter

Timing: 45 days (same day of the second telephone call) after the invoice due date

Keep the tone of this letter consistent with the first telephone call - courteous, but direct. Confirm in writing what was said over the telephone and remind the customer of their promise to pay.

Dear

Following our telephone conversation on [Date], I confirm our discussions as follows:

1. You confirmed that you were happy with
2. You agreed that our invoice was overdue and needed to be settled





As we discussed, you agreed to send us the outstanding amount of £..... in full and we look forward to receiving your payment by (date).

Thank you for taking care of this matter.

Yours sincerely

.....

6. Third phone call

Timing: 55 days after the invoice due date

The account is now 55 days overdue. Make the call - be polite yet firm and ask for full immediate payment. Work to resolve payment problems. If the debtor cannot pay immediately, offer the following payment options:

1. Post dated cheques
2. Standing Order to pay a fixed amount every week or every month
3. Payment by credit card (if you do not have this facility, perhaps your accountant or some other contact does)
4. Discount for immediate full settlement

Take a note of the telephone call so that a follow up letter can be sent.

.....

7. Fourth letter

Timing: 55 days (same day of the third phone call) after the invoice due date

Keep the tone of this letter consistent with previous correspondence - courteous but direct. Confirm in writing what was said over the telephone and remind the customer of their promise to pay.

Dear

Following our telephone conversation on [Date] regarding settling the outstanding amount of £....., I confirm our discussions as follows:

- 1.
- 2.





We appreciate the difficulty you are experiencing in settling this amount and therefore we thank you for taking the time and effort to resolve this outstanding matter.

Yours sincerely

8. Fifth letter

Timing: 65 days after the invoice due date or immediately it becomes known that the customer has defaulted

In the event that the third telephone call proves unsuccessful or immediately it becomes apparent that the customer has defaulted on agreed payment arrangements, you should send out the fifth collection letter to communicate the seriousness of the delinquency. This letter should demand immediate payment and outline the short-term consequences of failure to pay. Send this letter and any subsequent correspondence via registered post to give you a record that it was received.

Dear

Despite three telephone calls and four letters on this single invoice, your account has become seriously overdue. If payment is not received within 7 days, you will force us to place your account on hold which means that we will not carry out any further business with you until your account is settled in full.

We have done everything we reasonably can to help you and would be pleased to retain your business but only if our invoices are settled in line with our terms of business.

Please help us continue to serve you by bringing your account up to date immediately.

I hope to hear from you very soon

Yours sincerely





9. Third phone call

Timing: The later of 75 days after the invoice due date or 10 days after 5th collection letter

“Last chance saloon” telephone call. While remaining polite and calm, stress the seriousness of the situation. Use this telephone call to explain that this is the last opportunity for the customer to pay before you turn the matter over to a collection agency and possibly take further legal action. Be sure to communicate the benefits of resolving the issue - maintaining good relations or good credit. As with the previous telephone call, get the debtor to promise to pay by a certain date.

Take a note of the telephone call so that a Final collection letter can be sent.

10. Final letter

Timing: 7 days after third collection phone call

The tone is now stern and demanding. Use this letter to confirm what was agreed-upon in the last call and demand payment. State that if payment is not received by the agreed-upon date, you will turn the account over to a collection agency.

Dear

This letter confirms our conversation on [Date].

You must take immediate action to bring your account up to date. If we do not receive payment within ten days, we will turn the matter over to a collection agency, which, amongst other things, may adversely affect your credit rating.

I do hope that you will send a cheque or transfer the money to us immediately.

Yours sincerely

11. Turn over to collection agency

Timing: 10 days after the final collection letter is sent





The account is now 92+ days in arrears and requires professional assistance. Receiving a letter from a collection agency often motivates a debtor to pay but these services can be costly - agencies typically take from a large percentage of what they collect. Instead of immediately turning the account over to a collection agency, you might instruct your solicitor to make a quick phone call and follow up letter - this can often motivate payment.

