



# Debt recovery – What to do and when to do it

Many businesses fail because they don't have cash in their bank account to pay their debts. How do you ensure that this doesn't happen to you? Jeremy Streten offers helpful debt-recovery advice.

Are you struggling to make ends meet? Do some customers take liberties and pay you weeks or months after you finish the work? Do you have a large outstanding debtor balance that just doesn't seem to reduce? If you answer yes to any of these questions then more often than not the answer to your problem is putting a debt recovery procedure in place. A good debt recovery process will train your customers to pay on time. It can be a difficult task as they will often be busy in their own business and don't prioritise payment of your bills.

Often you may feel that you are working long hours and getting no reward; usually this is because you have not been paid for work you have already finished. Cash is the lifeblood of any business. It lets you continue to operate, pay yourself and pay your bills.

## Prevention is better than a cure

Getting paid up front before you do your work is the best solution to improve cash flow in your business. One option is to provide a discount, if your customer pays you up front. The money that you save not chasing your debtors should allow you to offer a discount.

## Debt recovery options

If you provide credit you must have a procedure in place to ensure that you get paid. The procedure needs to help you collect your debts, training your customers when they need to pay you. There are a number of steps to the debt recovery process, ie: demand; going to court; and enforcement.

### Demand

Once a debt is overdue, you need to contact the debtor to demand payment. In dealing with the debtor, it is important that you:

- Know all of the details about the person that owes you money
- Are confident, business-like and courteous
- Listen carefully
- Adapt your approach according to their response
- Convey a sense of urgency in setting deadlines for payments
- Be calm and polite no matter how rude the debtor may become
- Make sure the debtor knows you want a fair outcome

By following these simple guidelines, you will show the debtor that you are serious. Becoming aggressive and rude will only escalate any conflict and it is unlikely to result in you getting your money. If this doesn't work then you should consider employing the services of a professional debt collector. They will also usually work on a contingency fee, meaning that they will be paid a percentage of any money recovered.

### Going to court

Once you exhaust your options demanding payments, then you can consider litigation. This means commencing



proceedings in a court or tribunal to recover your money. This process can be costly and affords the debtor the opportunity to dispute your debt. If they do that, then the costs of the recovery process may end up costing you tens of thousands of dollars. This is where you need to take a pragmatic approach to ensure that what you are paying to go through this process won't cost you more than you get back. Often even if you are successful in litigation, you may only receive somewhere between 50%-75% of your costs back so be careful not to just pursue someone for 'the principle of it'.

The litigation process can also be time-consuming. You may need to appear in court or tribunal and give evidence in a court setting. This may not be something that you want to do. Before you proceed with litigation you need to speak with your lawyer about the time that you will be required to devote to the process not just the costs. This is so you can consider the emotional toll that the process will take on you.

### Enforcement

If you are successful in the litigation process, you will receive a piece of paper that says that you are owed an amount of money. This is known as a judgment. At this point you then need to enforce that judgment against the debtor. There are various processes that you can use (all of which cost more money and take more time) to recover your money. Remember if the debtor has no money, then there is nothing to recover. At this point you can consider applying to make the person bankrupt.

### The end game

Ideally you don't need to give credit to your customers. If you do decide to give credit then you need to understand the debt collection process. More importantly you need to ensure that you strictly follow your process. If you do not, then your customers will know that they can get away without paying you for longer periods of time. Doing it right will ensure that you can maintain the cash in your business so that you can pay your debts and operate a successful business.

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