

## **Problem Debtors?**

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**It doesn't matter what size business or organisation you are, no business can afford to undertake work or provide goods and not be paid for it.**

**If you are running a business and are experiencing problems receiving payment for the goods or service you have provided you need to take action. You also need to ensure that you do not continue with repeat problem debtors as this could be detrimental to the ongoing concern of your business.**

### **So when does a debt turn bad? And how do you handle it?**

For small businesses especially, poor payers are worrisome as they can make or break a small firm who may have limited cash flow never mind a substantial or new start-up business.

You need to be clear about the need to keep a firm check on your debtor list. The nature of the business does not matter. All companies have to get paid somewhere along the line and, if you don't clearly set out your stall, then it can be far easier to fall in to the trap of making the sale but not collecting the money.

Let your customers know what your terms of business are up front and this will help you run into fewer debt recovery problems and give you documented evidence, should you need it at a later stage, to recover the debt through legal action. Agree payment terms before you begin to transact business and make sure that from the start you follow up on unpaid debts so that it does not become a misconception that you are accepting of your customers paying late as this may become a habit you just can't break!.

Can't pay or won't pay? You need to make sure you quickly distinguish between those debts that are by customers who are having difficulties to pay or those who simply refuse to pay for whatever reason. You may be able to offer alternative payment terms to those who can't pay and retain them as customers.

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Good steps to put in place and follow include:

- ◆ The development and execution of an effective credit policy to reduce risk.
- ◆ Procedures for the approval of lines of credit for new customers should be put in place. A credit application form is a good way of finding out the necessary information on prospective debtors.
- ◆ Put conditions for payment in place which involve, how much credit will be extended, the period until the repayment is due and penalties for late payment.
- ◆ Minimise the time between a sale and payment and invoice promptly. Keep detailed debtor records, report and act immediately on overdue accounts. A problem can only be acted on once it is detected, that is why your business needs to keep a close eye on its debtors.
- ◆ A systematic follow up procedure must be put in place as an account gets further behind, the balance may increase while the chance of being paid decreases. The follow-up procedure can consist of a series of letters or phone calls or both as required. No more credit should be extended on slow or doubtful accounts. If this procedure fails to result in payment, options are still available to you.

If you are unable to recover the debt through methods you undertake yourself then legal action can be sought. A solicitor's letter may often have a greater impact than the letters you have already sent. Bear in mind that actually pursuing legal recourse can be an expensive and time consuming process and should be the option of last resort once you have tried to recover the debt yourself.

**For Business advice, speak to our specialist Marc Porritt-Allison by telephoning 01904 624185 or emailing [law@crombiewilkinson.co.uk](mailto:law@crombiewilkinson.co.uk)**

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