



DEBT MANAGEMENT

Your how-to guide

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Introduction.

The importance of an effective credit control policy.

There are many important components in running a successful business. A healthy cash flow is the measure of your success, so ensuring you and your team are following procedure is extremely important.

Without a credit control policy in place, you could find yourself unorganised, unpaid and spending too much downtime chasing slow payers.

This guide has been created for businesses who wish to tighten their credit control procedures to reduce their payment timeframes, prevent non-payment and in turn improve cash flow.

The three components of good credit management are assessment, management, and enforcement. We will cover each component separately keeping in mind that they are all interrelated.

**Future-proofing your business is easy with
EC Credit Control.**

Give us a call today at **1300 361 070** or find your
Business Support Specialist **here**.

Assessment.

Be better informed to make good business decisions.

Any request for credit from new or current clients should be assessed to ascertain if a potential client is likely to pay and if they will pay on time. To undertake this assessment, you'll need your client to complete an 'Application for Credit Document'. This could take the form of a Credit Application Form (for ongoing monthly accounts), a Quotation Form, or a Work Authorisation Form (for one-off type jobs).

A well-designed Credit Application form requests sufficient details to undertake the following:

1. Clarifies the client's legal name or legal trading name
2. Allows you to assess their ability to meet their financial obligations
3. Allows you to undertake credit reports under the Privacy Act
4. Discloses your Terms and Conditions of Trade
5. Ensures their billing information is correct.

The credit application should, at a minimum, include the following information:

- Identification type and number eg ABN or company number
- Full legal name
- Partners / Directors' full names (if a company)
- Physical and/or postal address
- Business and/or home/mobile telephone numbers

The more information you have, the easier it will be to obtain their credit history.

Is your client a Company?

You may wish to obtain a Personal Guarantee from the Directors to tie them back to their company's debt as individuals. As a suggestion, rather than requesting a guarantee from every Company Director set a policy that stipulates that a Director's Guarantee is required whenever a company debt is going to exceed a previously specified amount.

When assessing your client's ability to repay debt look at a number of factors such as how long have they been in business. Do they have sufficient capital? Do they have a clean credit rating? and what do their trade creditors think of them?

As a general rule of thumb, 75% of new businesses cease trading within the first three years. This is not to say that all of these failed businesses leave a trail of bad debts behind them; however, you should be more cautious with a new business rather than one that has been trading for some time.

Has that company only just commenced trading?

As a suggestion, set a policy that stipulates that a credit limit of 'x' dollars is the maximum that you are prepared to approve pending further review once they have a satisfactory credit history with you.

Your application forms should also include the necessary disclosures for you to be able to undertake **Credit Reports** under the Privacy Act. Your **Terms and Conditions of Trade** set out your relationship with your client. Under the Fair-Trading Act, they are only enforceable if they have been disclosed before your client incurs debt with you, this means that you must disclose or make your customer aware of your Terms and Conditions before you commence work or provide Goods or Services.

Advising your **Terms and Conditions of Trade** at the time you invoice your clients or after the work has been completed is not deemed to be sufficient notice. Therefore, the most convenient way to put your **Terms and Conditions Trade** before your clients are to include them as part of your application forms.

Did you know? Reviewing historical credit repayment behaviour is extremely effective in assessing the risk of future default. You can access 97.5% of the individual credit active population and 100% of commercial businesses' information.

Talk to us today about our **credit reporting** services.

Management.

Following on from the assessment of clients' ability to meet their commitments, the next task is to effectively manage your client payments, i.e. your debtor ledger.

The following steps assume that you run 30-day net accounts with invoices sent on delivery and a statement sent at the end of the month. You can tailor the time scales accordingly to meet your business requirements.

Step 1:

Client orders goods on the 15th of month one and an invoice is sent.

Step 2:

A statement is sent on the 30th of month one with an outstanding balance.

Step 3:

Payment has not been received by the 30th of month two – the account is now overdue.

Step 4:

Between the 5th and 10th of month three, you contact your client to qualify why the account has not been paid.

Step 5: If payment has not been received by the 15th of month three send a further statement with an overdue notice stamp and payment due by the 20th of month three. You should also send a copy of your **Terms and Conditions of Trade** highlighting what happens in the event of default. We have resources available such as a 7-day letter you can use in this instance. Contact us to request a copy.

Did you know? If you put Terms and Conditions of Trade on your quotation and invoice, you are 1.5x more likely to get paid on time.

Qualification of outstanding debt.

At this stage, you need to ask questions to find out why the account is overdue. Keep notes to ensure your customer is not using the same excuses, for example, the usual 'answers we hear are:

- Administration error - someone forgot to pay the account
- Cash flow problems - you'll get paid when I get paid
- In dispute - your work/goods were not up to standard
- Delinquent - sorry we've gone into liquidation or administration.

What to do in these situations.

- If an administration error is advised, then set a time frame for when payment can be expected.
- If a cash flow problem, then set a time frame for repayment or return of Goods. You can dictate your expectations. After all the account is overdue. Get any agreement in writing as this will help should you need to use our debt collection services. Are they able to enter into a payment arrangement? Hold them accountable and monitor their payments.
- If in dispute, either resolve the dispute with your client or seek arbitration. Either way, you need to reach an agreement with your client.
- If delinquent contact the liquidators, or the administrator immediately.

Step 6:

If payment has not been received by the 20th of month three send a final notice. This is now your opportunity to advise that the debt will be placed in the hands of a third party to resolve.

Step 7:

If payment has not been received by the 30th of month three send the unpaid invoice to your nominated resolution agency.

The above time frames are suggested only and are dependent on the type of responses you get when qualifying an overdue account, and what arrangements (if any) you make with your client for payment of their account.

However, steps 1 through 7 should be included as part of your credit management policy. The important thing to remember is to be consistent with all of your clients.

Keep in mind: You have a much greater opportunity of collecting an overdue account if you act quickly. Generally, if you are in regular contact with your client to pay their overdue account than other creditors then the more likely they are to pay you first.

If you need us for the resolution of your unpaid accounts, we can help. As a reputable debt resolution agency, our team are specialists in getting you results.

Find out how easy it is to sign up with us **here**.

Easy ways to improve your billing workflow.

When you have suppliers and/or a team who rely on you, there is nothing better than being paid on time for your product/service so that you can sort out your obligations as a business owner. Here are some ways you can improve your invoicing processes.

One of the most important things is your **Terms and Conditions of Trade**. Firstly, you have them, and they are up to date. Secondly, they outline your payment terms up-front. The best practice is to get your customer to sign your Quotation Form, or a Work Authorisation Form (together with your Terms on the reverse) before starting the job.

We can help with your Terms and Conditions of Trade.

Our team are on hand to implement new or assess your current Terms and Conditions of Trade and advise if there are any tweaks you need to make. **Contact us** to find out more.

Ensure you get a deposit upfront.

Implementing a 50% desposit on a job before the work begins will bolster your cash flow. Put simply, if you are targeting 50% gross profit percentage, you will have covered all your costs at the start of the job.

Remember: A deposit upfront ensures trust and relieves some of the risks of non-payment. You need to establish trust with the prospect to get money upfront.

Invest in billing software.

As your business grows, it becomes more important to automate your systems. Not only does it save you and your team time, but also minimises errors, in turn saving you money. Our friends at **Xero** and **MYOB** can assist with this.

Enforcement.

Make a credit management policy your priority.

Following on from the management of your debtor ledger is enforcement of your credit management policy.

By the time that you have reached step 7, your client would have received sufficient opportunity to advise the reasons behind non-payment. Now is the time to consider enforcing your **Terms and Conditions of Trade**. Whilst this may appear harsh, it will greatly impact how your customers and prospects perceive you and build that trust that you are a reliable business.

Protecting your cash flow is something we specialise in.

If you get to the enforcement stage, we are more than happy to take over the process. This starts with sending your unpaid invoice for resolution to EC Credit Control.

Signing up with us is easy!



1
Agree To
Our Terms &
Charges



2
Fill In Your
Contact
Details



3
Upload Your
Unpaid
Invoices



4
We get To
Work

Our online portal makes it simple to **register with us** and load your unpaid invoices. Not only that, but we have also partnered with Xero and MYOB so if you use their accounting software, it's even easier. Watch our quick videos on how to load invoices in our **debt recovery help centre**.

Want to know more?

We've got Australia covered.

Our team of **Business Support Specialists** are located throughout the country and are more than happy to come and visit you on-site for an obligation free chat on your current processes.

We also have our friendly Customer Service team on hand to answer any questions.

Don't hesitate to get in contact with us. We look forward to speaking with you.

Email: info@eccreditcontrol.com.au
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