Be the Squeaky Wheel – Minimising Bad Debts

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There are a few simple rules that, once implemented **and followed,** should help your business reduce the number of bad debts, increase cashflow and allow more time to develop new customers and business.

Rule 1 – Trusting is good, checking is better.

- Before you extend credit to a new customer, **always** have them complete a credit application and provide references. Depending on the size of the business and its expected spend, it may also be worth obtaining a credit report on the person or entity. If dealing with a corporate entity, ensure that your credit application includes a legal and enforceable director's guarantee. This must be completed and signed by each director.
- Require trade references **and always check** those references.
- If a previously good customer starts to pay slowly, review their credit application and check their references again. If you have any further doubts, ring the directors of the company and ask them to explain the changes in their paying pattern. If you are not completely satisfied with your enquiries, reduce their credit terms.

Rule 2 – Start as you mean to go on.

- Ensure that your standard terms and conditions are clear and concise and made available to customers **prior** to doing business with them. Print them on every quote and invoice, and display them on your website.
- Never take on a customer that you have heard from others is a slow or bad payer. It is always easier to find better and more reliable customers unless they are **restricted** to pre-payment or POD.
- If your terms of credit are 14 days, ensure that on day 15, especially in the early days of the relationship, someone is telephoning about the payment. Far too many businesses find themselves with bad debts because they believe they are jeopardising a relationship by chasing payment.

Rule 3 – Be the squeaky wheel.

- You have to ensure by your systems and actions that you are going to get paid as soon as the customer is in a position to do so, and the only way to achieve this is by being the squeaky wheel.
- Enforce your terms of trade. You or someone in your employ needs to be tough on chasing debts. Don't stop once you have extracted a promise for payment – if a promise of payment or part payment is not met, then you have to seriously consider withdrawing credit from that customer and commence recovery proceedings to ensure you are not at the bottom of a pile of bills.
- Accept a payment plan if you must and, provided the customer is being honest with you, enforce that payment plan. Always put an agreement for terms in writing and if you are giving a discount make it clear that if the terms are not met, the full debt is recoverable.
- Ensure your recovery system is organised and followed. These days it is quite simple to have your lawyers set up a system where a letter of demand is quickly followed by a statement of claim which can be issued cheaply and efficiently by your office.

Rule 4 – Don't throw good money after bad.

- Never get emotional about a bad debt.
- Before outlaying any real money on legal fees to recover a debt, have your lawyer do sufficient searches of the customer entity and people behind that entity (including bankruptcy and owner property searches) so that you can do a sensible risk and cost-benefit analysis to recover that debt.

Rule 5 – Learn from your mistakes.

- Do not give a bad payer or a customer who has gone into liquidation and re-invented themselves another chance – they will only do it to you again. Your time is better spent looking for better customers.
- Do not blame the legal system or even the customer for the fact that you weren't paid. Take the opportunity to review your systems and what your company could do better in the future, and then implement those changes.

Contact us at CLS Legal at info@clslegal.com.au for further information, to discuss reviewing your credit applications, terms and conditions of sale, debt recovery procedures or if you have any questions about the contents of this document.