

EFFECTIVE DEBT COLLECTION IN FIVE EASY STEPS

Debt collection is inevitable for most businesses

It is not a nice process but a necessary one to ensure the viability of your business and to optimise your cash flow.

If a customer has not paid their invoice by the due date, there are certain steps that your business should take to recover the debt and increase the likelihood of prompt payment or alternatively, improve your position should you need to lodge a small debt claim.

Step One - Compliant Invoice

You have invoiced a customer but have not yet been paid. Before you contact the customer, you should check your invoice to ensure it is compliant.

A compliant invoice should include the following:

- Reference to "tax invoice"
- Seller's identity and ABN
- Date of issue
- Description of goods/services sold
- Amount due
- GST amount (if any)
- Due date
- Method of payment (including if applicable, account details)
- Any other payment terms

If the invoice is not compliant, you should reissue the invoice so that it includes the above details.

Step Two – Contact the customer

Any unpaid invoice should be followed up promptly with the customer. This is best done by telephone in the first instance as it is more personal which means that the customer may be more inclined to resolve the matter quickly.

The result of a conversation may be that the customer will attend to paying the invoice straight away.



Alternatively, they may ask for an extension or payment plan. Regardless, by contacting the customer and having a verbal conversation, you should have an indication of whether the invoice will be paid in the near future.

Step Three – Put any arrangement in writing

After any discussion with the customer about payment, it is extremely important to follow up by putting the terms of any arrangement in writing and sending them to the customer. Even if the only term is an extension of the due date. This will help you keep track of the progress and can also be used as evidence of your attempts to obtain payment.

In the event that the matter progresses to claim stage, it is preferable to have written evidence of any and all arrangements made with the customer. Purely verbal arrangements are difficult to prove and can often end up as one person's word against the other.

Step Four – Letter of demand

If the debt is still outstanding after following the above steps, a simple and effective way to recover debt from customers is to send a letter of demand. A well drafted letter of demand should request payment of the outstanding debt and notify the customer that if you do not receive payment within the specified period, you will initiate court action to recover the debt.

Please note that each state and territory has different restrictions on the amount that can be claimed and the timing for making such a claim. For more details on these restrictions contact Industry Legal Group on 1300 369 703.

A letter of demand is a great tool to recover outstanding debts because:

- It is a formal process which gives the customer a final chance to pay the debt before incurring the additional expense of litigation;
- If well drafted, the goodwill with the customer can be maintained;
- It gives the customer notice of your intention to commence court action if the debt is not paid;
- Customers will often pay the debt in order to avoid the matter proceeding to court; and
- If the customer fails to comply with the letter of demand and you wish to commence court action, you can rely on the letter as evidence that you provided the customer with ample opportunity to pay the debt and tried to settle the matter out of court. This will be looked at favourably by the court.



When drafting a letter of demand, you should:

- Make sure the demand is addressed to the correct person;
- Check the terms of the initial invoice and any contract or arrangement agreed to by the parties;
- Refer to the above terms and the customer's failure to comply. Specifically refer to the amount of the debt and when it was originally due;
- Attach any relevant documentation;
- Make clear that court action has not yet been commenced but will be commenced if the customer fails to pay the outstanding debt; and
- Give the customer reasonable time to pay the outstanding debt (e.g. within 14 days).

A letter of demand can be sent a number of ways (for example email, fax, post or by hand) however if you send the letter by registered post you will have evidence that it was delivered.

Step Five – Lodge a claim

If the customer fails to comply with the letter of demand, you should seek legal advice on lodging a claim to recover the debt. Industry Legal Group can assist you with this process.

Need Assistance?

Industry Legal Group can provide all AAAA members with free information and advice on a wide variety of legal matters including debt recovery. It can also assist by providing a template letter of demand to use when needed.

Alternatively, if your debt claim is more complex, the team can assist you by preparing a tailored letter of demand and claim.

Please contact Industry Legal Group Team on 1300 369 703 or aaaa@industrylegalgroup.com.au to obtain a copy of the template letter of demand, if you have any question relating to this article or to discuss any issues that arise in your business.

This article is intended for information purposes only and should not be regarded as legal advice. Please contact Industry Legal Group for specific legal advice.