

Good Vs Bad Debt Collection Strategies

The strategies adopted by a business when collecting debts impact not only on the profitability of the business, but also the brand and reputation of the business.

This article looks at both good and bad debt recovery strategies and when it is best to hand bad debts over to a professional.

Poor debt collection strategies

Poor debt collection strategies fail to recover debts, fail to build relationships with customers, and impact negatively on the image of the creditor business.

It is vital that businesses are aware that a current debtor may also be a current or future client. Poor debt collection practices may not only result in failure to recover that debt, but result in a loss of business in the future.

Businesses who handle their own debt collection through their accounts receivable departments need to be aware of the regulatory and legislative regime within which they operate.

Debtors are covered by laws that protect their privacy and other rights, and it is vital that debt collection practices do not infringe on these rights. Common mistakes include:

- Revealing a debt (even unintentionally) to third parties, without the debtor's permission.
- Contacting a debtor too often, to the point where it can be construed as harassment.
- Falsely misrepresenting that a request for payment is from an official source (i.e. using a government or solicitor's letterhead).
- Threatening to take legal action against a debtor, when there is no intention to do so.
- Failing to record amounts paid by the debtor in a timely manner, causing damage to their credit score.
- Using threatening or intimidating behaviour towards a debtor.

Of course, most business owners attempt to operate within the bounds of the law, and in fact many are guilty of not doing enough when it comes to recovering debts. Poor debt collection practices of this kind include:

- Not doing sufficient credit checks on customers before extending credit.
- Not spelling out credit terms on invoices and documents.
- Failing to pursue overdue debts in a timely manner.
- Not having a credit policy in place.
- Not training staff on correct debt recovery practices.
- Waiting too long before handing bad debts on to a collection agency.

Effective debt recovery strategies

Businesses with effective debt recovery practices ensure an emphasis on setting out the rights and obligations of parties from the outset in any documented terms of trade, credit applications, or on invoices.

This makes the taking of recovery action at a later stage more straightforward, and ensures that the creditor business is in a strong position to demand payment.

Once recovery action is required, businesses ought to adopt set strategies which establish strict timeframes for recovering activities, including the issuing of demand letters, making of phone calls, and escalation of matters to legal proceedings or referral to a collection agency.

How third parties help

A better, and more cost effective, alternative to legal action is to hand the debt over to a professional debt collection agency.

A collection agency has a much better chance of recovering the debt for a number of reasons, including:

- The agency has no pre-existing relationship with your client – they can be more assertive than you would be in collecting the debt, while ensuring all collection activities are within the law. The involvement of the agency indicates that the matter has been escalated, whereas the debtor may not have taken you seriously. They will be more inclined to pay if a collection agency is involved, as they will realise that you mean business.
- They have more resources at their disposal – collection agencies are able to access information about the debtor that you may not be privy to, and can conduct searches to locate and contact a debtor that may have relocated.

Further, the referral of a debt to a collection agency provides the creditor business with peace of mind that all collections activities will be conducted in a compliant manner. This will protect the creditor's brand name, while providing the creditor business with the opportunity to concentrate on growing their business rather than chasing debts.

No business likes chasing bad debts. It is time consuming, costly, and can have a negative impact on customer relationships. The best way to avoid this is to have good accounts receivable procedures in place, and to pass bad debts on to a reputable collection agency in a timely manner.

Professional Debt Recovery for you ...contact

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Town Office-View Park Towers ,10th Fl ,Utalii Lane /
L584-off UN Avenue, Gigiri.

P O Box 27859 00100 Nairobi, Kenya

Tel +254-20-221 1382/362

Cell: +254 721 636 404

Fax +254-20-2211386

Email; debtrecovery@dolphingroup.co.ke

<http://www.dolphingroup.co.ke/debtrecovery/index.php>

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