



# Dodging the bad debt bullet

Many businesses are particularly prone to bad debts and, unfortunately, more and more debts are being referred from the printing industry, one of many in which customers can walk in and be provided with a service without the proper checks.

The problem is further compounded by the fact your work is of nil value if that customer doesn't pay, especially in printing—it's not reclaimed stock or equipment which can be resold to someone else.

There's a line between the excitement of gaining a new customer and the practical processes which must be followed to set that customer up properly in your system. This is the crossover between the sales person who brought the customer in and the person handling the credit role in your business and who is responsible for ensuring that you don't do work for customers who may not pay you.

The most basic building block of your credit system must be your new customer credit application form. Whilst there is insufficient space here to go into what is required for the form in any detail, I would recommend that you go to the Prushka website <[www.prushka.com.au](http://www.prushka.com.au)> where you will be able to download a suitable form for free and amend it to suit your business.

A good rule of thumb is not to commence any work for a new customer until you receive a properly completed and signed form. This will provide you with information which is critical to have in the event that you ultimately need to recover money from that business. This information includes:

- Precise details of the correct legal entity of your customer
- A profile of the business, such as how

- long it has been in operation
- Who the directors are
- Annual turnover
- The name of the landlord or confirmation that it owns its own property
- The names of both business referees and contact details for its accountant and bank manager.

For any significant job, you should spend a little time calling the referees and the accountant and bank manager. If the accountant is reluctant to talk to you or advises that he has only recently been appointed, take great care. A few brief phone calls will really give you either some comfort about the risk you face or will ring alarm bells.

The form will also provide you with information about the individual partners of the business (if it is a partnership) or about the directors of the company. In particular, it will give information about whether or not these people own their homes. If they are not home owners, take care.

If you do have some concerns after looking through the completed form and making some reference checks, protect yourself by insisting on a significant deposit and also insist on cash on delivery (COD).

Bear in mind that at the time your new customer is seeking credit from you, they will provide you with as much information as possible because they want you to approve the credit. After that time, it will be very difficult to get this information, so use the time to collect as much useful information as you can about that customer. It may well prove extremely useful further down the track.

If your customer is a company, it is crucial that you obtain a guarantee from the directors. If the company wants credit, it will be likely to provide this. Once you have directors' guarantees, your risk of

Everyone in business gets a buzz when they attract a new customer—the owner is happy and, for the sales staff, it's a job well done. However, not every new customer is a cause for celebration. It's a sad fact of life that some of them will end up costing you money. Roger Mendelson looks at what you can do to protect yourself against bad debts.

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loss is dramatically reduced. Accordingly, it is foolhardy to proceed on a job without first obtaining them. The only real exceptions to this are larger, well-known or public companies which have been around for a long time.

## Minding your T&Cs

The second basic building block you should have are legally drawn trading terms and conditions. Every business must have this and yet few businesses really do have proper trading terms in place. The trading terms will set you up so that in the event where you do need to sue, your defaulting customer will find it very difficult to legally wriggle out of its obligations.

The best place for the trading terms is to incorporate them into the credit application form so that when the customer completes and signs the form they also acknowledge that the trading terms form part of the contract with your business.

In the event of the customer being in default, well-drawn trading terms will mean your business will be protected and not liable for all legal costs incurred, penalty interest and, in the event of the debt being referred to a collection agency, the commission rate chargeable by the collection agency. If those provisions are incorporated, it means that if you are 100 per cent successful in recovery of the debt, the defaulting customer will have also paid your costs and commission.

By following these steps outlined, you will be able to protect yourself against risky customers and will also have set your business up to ensure that in the event of a customer being in default, you will have the greatest possible chance of recovering the full amount. ●

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