

Dealing with bad debt



When it is worth writing off bad debt? The short answer to that question is never. Of course, that's not entirely true, but I've seen too many business owners write off bad debt when there's still a healthy chance of getting the monies owed to them.

Generally, money owed tends to be written off because business owners don't have a clear and up-to-date view of what their debtors' book looks like. The other problem I run into all the time is that business owners are scared to say: "Please pay me what you owe me."

You need to get past this if you want a successful business. You don't have to be nasty about it. Often, all that's needed is a polite but firm email along the lines of: "Your account is 60 days in arrears. Payment is due in seven days, or interest will be levied."

If you threaten to add interest, make sure you actually do. This generally prompts people to pay faster! It might

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even be worth creating an email account just for chasing accounts – for example, accounts@yourbusinessname.co.za.

Even if you're the one manning the mail box, it makes it less of a personal process – it's just the accounts department sending out a routine reminder, not you personally chasing your friendly client.

See, sometimes people are not ducking and diving to avoid paying you – they have just forgotten or the account has fallen through the cracks. If you don't remind them, they won't pay, but if you do, there's a good chance they will. In fact, in our experience at ActionCOACH, clients who implement this method collect 80% of their outstanding debt.

Of course, there will be the occasional customer who needs more than a polite reminder, so your next step should be to send a lawyer's letter. This generally gets 80% of the remaining 20% settled.

For the last bit that's outstanding, you need to consider employing a collections agency. There are many that will take your debtors' book on risk and then get a percentage of all outstanding amounts recovered.

Even if they take 20%, you've still got 80% of the amount that was outstanding. Or, if the amount is not worth chasing or chasing it is starting to cost you time, effort and money, it may be worth finally writing it off.


This may all sound intimidating, but I've found that the problem is normally right near the beginning of this process – business owners don't take that first step and just ask for payment. Instead, they wait for months to pass and then it becomes an emotional issue instead of a factual one.

Start upfront. Be clearer on your payment terms. If you allow flexibility, there will always be customers who take you for a ride.

Put a system in place to track payments (for example, sending out a reminder to customers whose bills are due at month-end). The day after invoices are due, send out another reminder to people who haven't settled their accounts. Remember – the people who shout loudest get paid first!

You need to be checking up on payments daily or at least weekly, not once a month. Remember: a client is someone who pays you for your product or service. If they don't pay, stop doing business with them, or start demanding payment upfront before any work is done.

Another big mindset to change is that you should treat every client the same. Have different payment terms for different customer classes. Only good customers should get good terms!

Finally, be transparent with your team. For example, if your sales force understands that they only get commission on money paid into the bank (not money promised); they are more likely to ensure that customer payments are made promptly. 

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