

# Overdue Receivables Three Strike Process



## Getting Paid

# Overdue Receivables Process

## Account Receivable Process & Statutory Demands

### Overview

Having a robust accounts receivable process is crucial for businesses because it ensures timely payment collection, which in turn enhances cash flow stability and liquidity.

A streamlined AR process minimises the risk of late payments or bad debts, thereby improving overall financial health and reducing the need for additional borrowing or financing.

By promptly invoicing clients, tracking payments, and following up on overdue accounts, organisations can maintain strong relationships with customers while optimising their working capital management.

This efficiency not only supports day-to-day operations but also enables strategic investments and growth opportunities in the long run.

A poor accounts receivable process can lead to cash flow disruptions and financial instability for a business, as delayed or missed payments hinder the company's ability to meet its own financial obligations and invest in growth opportunities.

Additionally, it can strain customer relationships and harm the company's reputation, potentially resulting in lost business and reduced competitiveness in the market.

### General comments

It's important to remember that businesses are not obligated to finance their clients' outstanding debts, emphasizing the distinction between providing a service and extending credit.

Assigning accountability to a member of the admin team ensures consistent oversight of the accounts receivable process, promoting efficiency and adherence to established protocols.

New client onboarding should involve comprehensive information gathering, with the admin team responsible for collating details

Maintaining discipline in following the outlined process is key to its effectiveness, ensuring timely action on overdue accounts and minimizing financial risks. Additionally, it's advisable to have Terms of Trade in place to formalise payment terms and procedures, with any gaps addressed by consulting a lawyer.

Considering the possibility of charging interest on overdue accounts, if permitted by the Terms of Trade, can serve as a deterrent for late payments and encourage prompt settlement.

## The Process

**Below is a 3 strike process** which involves:

- Appointing someone to oversee receivables
- Reviewing accounts regularly and defining 'overdue'.
- Following a three strikes process for overdue payments before that matter is referred to your lawyer

**First Strike:** If payment is initially overdue, the admin team makes a phone call to the client, verifies if the invoice was received, asks for payment status, and sets a payment date. They document the conversation in GL/other method and set a follow-up date.

**Second Strike:** If payment is not received by the agreed date, another phone call is made to the client, followed by an email reminder. Also clarify that the invoice is not under dispute. The admin team updates GL/other method, sets a follow-up date, and informs their Manager.

**Third Strike:** If payment is still not received, the Manager calls the client, sets a new payment date, and the admin team sends an urgent final notice email. Follow-up actions include seeking legal advice and issuing a letter requesting payment, with further legal action if necessary.

Additional considerations include gathering client information upfront, adhering strictly to the process, implementing Terms of Trade, and possibly charging interest on overdue accounts.

## Accounts Receivable 3 strike process

To ensure effective management of accounts receivable, it is crucial to appoint a dedicated individual to oversee the receivable process.

This individual should regularly review accounts, ideally no less than fortnightly, to stay proactive in addressing any outstanding payments.

It's essential to establish clear criteria for what constitutes an overdue payment, whether it's a certain number of days past the due date or other specified conditions.

Implementing a structured three-strike process for overdue accounts provides a systematic approach to follow up on outstanding payments, helping to streamline collections and maintain healthy cash flow.

### Step1 1<sup>st</sup> strike – initially overdue.

- Check that invoice/statement was actually sent
- Phone call from admin team to client. Check that they have received invoice, ask if they have paid (in case paid to wrong account)
- Ask if any reason it has not being paid & ask for date for payment
- Make note in GL/other method around conversation
- No email needed at this stage
- Set follow up date in diary & if not paid by agreed date move to step 2

## Step 2 2<sup>nd</sup> strike – have not paid by agreed date

- Phone call from admin team to client
- Advise that payment not received & ask if they have paid (in case paid to wrong account)
- Ask if any reason it has not being paid or in dispute & ask for date for payment
- Make note in GL/other method around conversation
- Send email to client (see below – **email strike 2**)
- Set follow up date in diary & if not paid by agreed date move to step 3
- Advise Manager

## Step 3 3<sup>rd</sup> strike – have not paid by agreed date

- Phone call from Manager/other designated person to client
- Advise that payment not received & ask if they have paid (in case paid to wrong account)
- Ask if any reason it has not being paid & set date for payment (i.e. in 10 days' time)
- Make note in Xero around conversation
- Have admin team send email to client (see below – **email strike 3**)
- Set follow up date in diary & if not paid by agreed date move to step 4

## Step 4 – legal advice

- Speak to lawyer & have them issue a letter requesting payment
- Upload letter into GL/other method
- If payment is not received by agreed date, discuss with lawyer & look at options to recover ([debt collection / disputes tribunal or stat demand](#))

## DRAFT emails

### *Email strike 2*

Hi xx

As discussed on the phone, invoice [number] is still outstanding & we look forward to payment on [date] as agreed.

Regards [Name]

### *Email strike 3*

Subject: Urgent: Final Notice for Overdue Payment

Hi [Client's Name],

I am writing to address the outstanding payment for Invoice #[Invoice Number], which is now [Number of Days] days overdue. Despite our previous phone calls and emails, we have not received any response or payment.

I understand that unforeseen circumstances may arise, impacting financial obligations. However, it is crucial to address this matter promptly to maintain a positive working relationship. As of [Agreed Date], the total outstanding amount of [Amount] must be settled to avoid further actions.

#### **Key Points:**

Invoice Number: #[Invoice Number]

Amount Due: [Amount]

Overdue Days: [Number of Days]

#### **Immediate Action Required:**

Please ensure the payment is made by [Agreed Date]. If there are any challenges or concerns regarding the outstanding amount, do not hesitate to contact me as soon as possible.

#### **Consequences of Non-Payment:**

If payment is not received by the agreed date, I am compelled to take legal advice to recover the debt. This step is not taken lightly, but it is necessary to protect the interests of our business.

Your prompt attention to this matter is appreciated. We value your business and hope to resolve this issue amicably.

Many thanks

[Name]

# Statutory Demand

## How Statutory Demands Work

Statutory demands are issued by creditors against debtors who owe them money and have not paid their debts. The statutory demand process is aimed at giving creditors an effective and efficient way to seek their unpaid debts.

However, it is not intended to solve complicated or divisive disputes over debts. For that reason, these demands are for debts where the parties agree on the amount of debt, and the date [payment was due](#).

In the right situation, a statutory demand can be a cost-effective tool for your business to help recover money and improve any cash flow issues. The ability to issue a demand is provided for in New Zealand law. Unlike other processes, you do not need to go to a court beforehand. Instead, you can issue a demand directly to the debtor in question. There are three key criteria:

1. the debt must be for \$1000 or more;
2. there must be no substantial dispute about whether the money is owing or due; and
3. the debt must fall due on or before the statutory demand is issued.

In the right situation, a statutory demand can be a cost-effective tool for your business to help recover money and improve any cash flow issues.

[How Do I Enforce a Payment for My Business? | LegalVision](#)

### Step 1: Communicate Directly With the Customer

If you have a large volume of clients and frequently find yourself chasing invoices, you should consider putting in place a clear procedure where you send out polite reminder letters, and regularly follow up on outstanding accounts.

If you are trying to resolve a particular outstanding account, you should contact the client directly. When discussing the debt with them, make sure that you communicate clearly. You should seek to understand exactly why they have not paid you yet. Common reasons include:

- poor internal processes, miscommunication between departments, and general lack of organisation;
- a genuine inability to pay due to circumstances of financial hardship; or
- a concern or dispute with the invoice itself, or the nature of the goods or services that you have provided.

Make sure that any of your discussions are documented. It is best to communicate in writing, however, if you speak on the phone, make sure that you keep a note of the discussion and send a follow-up email confirming the points that were discussed.

Hopefully, your discussions will be able to lead to a resolution, such as:

- payment in full; or
- an agreed payment plan in.

Alternatively, if the invoice is disputed, you can learn about the other side's point of view, which will inform your strategy moving forward. Either way, if you have to take further legal action, it is useful to have a clear record of your conversations with the customer.

## Step 2: Send a Legal Letter

If you feel that you have exhausted your internal options, you can ask a lawyer to send a formal letter. This type of letter is usually called a letter of demand, and it will include the following information:

- the exact amount that the customer owes;
- any interest payable and the interest rate;
- the deadline for the customer to pay or provide a response (usually between 7 and 28 days); and
- what action you will take if the issue is unresolved, such as suing to recover the debt.

When you send a letter of demand, you are signalling to the debtor that you are taking the matter seriously. Hopefully, the gravity of a formal letter on a law firm's letterhead will be enough to spur the debtor into action. This could be by:

- paying the debt in full; or
- engaging in a discussion with you to find a compromise.
- Sometimes, they may dispute the matter and shoot back with allegations of their own. Again, learning about the other side's point of view is useful because it informs your strategy moving forward, particularly if you plan on going to court.

## Contact PlanA Consulting

John Hutchinson from PlanA Consulting works with New Zealand business owners to help their companies become more effective and efficient, and better places to work, leading to better profitability.

Since 2008, John has been able to help privately owned and family companies develop their governance practices, strategic thinking, communicate that to various stakeholders and help them achieve their goals in accordance with their company values. This results in clearer company direction, defined strategy, better governance, better accountability and improved statement of performance and position.

John has a strong practical business background, having owned his own companies for 20 years.

PlanA Consulting has developed a number of options for business owners to use, that assists them in making sure they're working on key areas of their business in order to get the results they deserve. These include but are not limited to:

- General Governance & Management Support
- Business Strategy & Planning
- Business Growth
- Business Risk
- Business Succession
- Mergers & Acquisitions

So, is it time to take a closer look at your business and how it operates? Are there adjustments and improvements that can be made to make your business more effective and more profitable?

If so contact John at [john@planaconsulting.co.nz](mailto:john@planaconsulting.co.nz)

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