

Ten ways to make receivables management more professional*

Securing cash flow is one of the main challenges that every company faces. Professional receivables management can make a significant contribution to this. EOS Group company lawyer and Head of the Legal Department Germany, Kirsten Pedd, has ten ideas for companies and financial directors that provide initial guidelines and facilitate professional receivables management.

1. Issue correct and unambiguous invoices

When issuing invoices, ensure that all services provided and all resulting receivables are comprehensible. Your invoices must also meet all formal criteria. These include information such as sender, customer address, date of invoice, bank details, invoice number, net price, VAT (as percentage and as amount), full price and tax number. Detailed information on issuing invoices according to the regulations is listed in Section 14 Value Added Tax Act.

Furthermore, invoices must inform the customer of the payment terms. The legal payment term is 30 days. Other payment terms are also possible.

2. Clearly define the regulation of the payment

Customers normally pay when they have received the goods or when the agreed service has been provided. Another option is that customers with low creditworthiness pay in advance. In the case of very large payments – major contracts, for example – payments on account can be agreed. Allowing the customer to pay in instalments is another option.

3. Issue invoices promptly. Monitor payments received

It is said that time is money. In order not to lose time or money, invoices should be issued immediately after close of sale or provision of service. As soon as the invoice has been sent, then payments received should be regularly monitored so that reminders about outstanding payments can be sent in good time. Delaying the issuing of an invoice increases the risk of liquidity shortages caused by payment defaults.

4. Do not hesitate to send reminders

Many companies are hesitant to send reminders. New companies, in particular, – often because they are afraid that reminders will have a negative effect on the business relationship – regularly accommodate defaulters.

Payment reminders are part of normal business practice ('arrear billing') and are acceptable in business. Using a positive, friendly, and respectful tone to send a legitimate reminder to customers reminds them that there are

outstanding invoices to be paid. It is recommended that reminders are sent in writing so that proof can be provided in the case of dispute.

If a company is not able to ensure professional arrears billing itself, then the support of a specialized service provider for arrears management is recommended. Such a service monitors payment deadlines, issues reminders in good time and has the required experience in wording payment reminders.

5. Ensure that you have funds in reserve in order to avoid cash flow problems, despite payment defaults.

Almost every company experiences payment defaults. It is therefore important to prepare and to have funds in reserve to ensure cash flow.

6. Make sure that your contracts are in good order

Contracts are the foundation of every business relationship. If a comprehensive contract defines in writing all major issues such as the place of jurisdiction and payment terms, then the information required is provided from the start and thus protects the company from unnecessary complications in the event of a legal dispute.

7. Introduce risk management

Not all customers have high creditworthiness, and not all customers pay reliably and quickly. Ongoing risk management takes the cash flow situation and payment practices of customers into consideration and can thus protect against critical payment delays or bad debts.

Record the payment practices of existing customers and take these into consideration when accepting new orders. If you would like to know more, commercial information companies can provide information about the cash flow situation of existing and new customers. If a bad debt is likely, then payment on delivery can be agreed upon.

8. Try to find a mutually agreeable solution, but take legal action if required to have the debt paid.

Make an effort to find a mutually agreeable solution. This is often faster and more effective than going to court. Arbitrators or mediators can be useful here.

Nevertheless, if the receivable is justified and the customer has not paid, despite repeated reminders, then companies should take legal default actions and submit a certificate of indebtedness. Only this can protect your claim and protect against statutory limitations. Debt collection companies or lawyers can provide support here.

9. Secure your receivables with a credit insurer

If you wish to avoid the risk of bad debts, it is advisable to work with a credit insurer who will take over in the case of non-payment.

A range of companies provide policies. As well as providing basic insurance coverage, credit insurers also provide detailed information on the cash flow situation of customers, which facilitates better risk management.

10. Let someone else take over the risk

If you want to avoid the risk of non-payment completely, then take advantage of specialized service providers. Different service providers offer a range of different models. There are many ways to ensure cash flow, including finetrading (the pre-financing of goods at purchase), the sale of invoices before the due date as part of factoring, and the sale of defaulting debt portfolios.

***Please note:** These tips cannot replace individual advice from an expert. If you would like detailed information about receivables management or are currently affected by unpaid invoices or payment defaults, you should arrange individualized consulting.

About Kirsten Schröder

Company lawyer and Head of the Legal Department EOS Germany, Kirsten Pedd, studied law in Hamburg. She did her legal clerkship, with focus on economic law, among others in the Legal Department of the Otto Group, and attained the Final State Examination in Law in 1995. She then worked at the German Federal Employment Agency. In March 1997, Kirsten Schröder began her career at EOS as Group Leader at Deutscher Inkasso-Dienst (DID). She worked as a lawyer and the head of the arrears billing department in the law firm of Dr. Ernst Meckling & Collegen from 1998 to 2000. In 2000, she returned to DID as the Head of Division. In May 2008, Schröder took on responsibility for running the Legal Department, Germany of the EOS Group in Germany.

About the EOS Group

The EOS Group, an Otto Group subsidiary, is a leading international provider of tailor-made services covering the entire life cycle of a customer relationship – from customer acquisition to electronic payment processing, debt collection and purchase of receivables portfolios. The core business is receivables management. EOS is committed to high standards of debt collection to protect creditors and consumers.

With over 8500 employees, EOS serves its more than 20,000 customers in 27 countries worldwide through 49 subsidiaries. Weitere Informationen: www.eos-solutions.com

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