



Options for Debt Recovery

Debt Recovery: instruct a legal firm vs. engage a DCA

If you have the time to chase your debtor and they are expected to pay quickly then collecting a debt yourself is the preferred option. However, a Debt Collection Agency (DCA) is often the preferred first step to recovering a debt as it offers a no-cost no-risk solution to debt recovery and can prepare the ground for recovering the debt through the courts. Instructing a legal firm should be done as a last resort after attempts to collect the debt amicably have failed.

Do-it-yourself

If you have the time to chase your debtor and they pay quickly then collecting a debt yourself is the preferred option. However, when the debtor is slow to pay there are hidden and significant costs associated with collecting the debt yourself.

The time and effort spent chasing the debt has to be paid for and is time and effort which could otherwise be more gainfully used to manage your business. The result is that the business does not perform as well as it could. Productivity falls as a result of effort

wasted chasing the debt and revenue and profit are depressed as a result of the time needed to develop new opportunities not being available.

In other words the business is paying its staff to chase the debt rather than serve its customers and grow sales.

Engage a DCA

Using a DCA to collect a bad debt is more cost effective than doing it yourself: it is likely to be more successful, and is usually more cost efficient than instructing a legal firm.



A professional DCA will provide a no-win no-fee service meaning you will not pay a penny if the debt cannot be collected. If the debt is collected then often the DCA's fees can be collected from the debtor.

Moreover, a DCA can prepare the ground for recovering the debt through the courts and professional DCAs will have a panel of legal firms which they can use to collect a debt if an amicable repayment cannot be achieved.

In summary, there are good business reasons to use a DCA to recover a bad debt. In particular a DCA,

- Takes all the financial risk and frees you to manage the business.
- Will often recover the debt more quickly meaning improved cash flow timing.
- Maintains your good business relationship with the customer which might otherwise be threatened.
- Provides an arm's length relationship with your customer insulating you from criticism.
- Can often more easily identify the reasons for non-payment and act as the go-between to negotiate a resolution.
- Ensures that all debt recovery is carried out in accordance with regulations and any industry standards which apply.
- Will advise on the wisdom of seeking recovery through the courts and can

instruct a legal firm on your behalf if the debt cannot be collected amicably.

- Ensures that the pre-legal debt recovery process is compliant with the requirements of the courts.

A DCA should be your preferred first step to recover a bad debt.

Instruct a legal firm

Using a legal firm to recover a debt is often the more costly option for a company.

Instructing a legal firm is necessary if you want to collect the debt through litigation. But this should be the final resort. The majority of debts can be recovered without recourse to legal action.

Many legal firms offer "pre-litigation" debt recovery services but generally these are fee based and as soon as formal legal proceedings are started there are significant legal costs to pay. In addition the fact that a legal firm has been instructed might jeopardise an otherwise good business relationship with the customer.

Instructing a legal firm should be the last resort and done after attempts to collect the debt amicably, either through your own efforts or through the efforts of a DCA, have failed.

Advanced Collection Systems

Established in 2000, ACS provides credit management and debt collection services. Further information and resources including copies of "How To" guides are available on its website.

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