



# Taking Control

**Twice as many small businesses are facing crippling problems because they are afraid of tackling late payment. New figures reveal almost 60 per cent of small businesses across the UK have suffered difficulties as a result of late payment, up from just a third from two years ago. Jenny Esau investigates.**

With UK businesses owed a staggering total of £16 billion according to a survey carried out by BACS, businesses need to tackle late payment issues, and they need to tackle them in a customer-focused way.

Unless small businesses begin to tackle late payments seriously, many will go bust. The late payment culture has been growing steadily for some time, If this trend continues, the effect on the region's

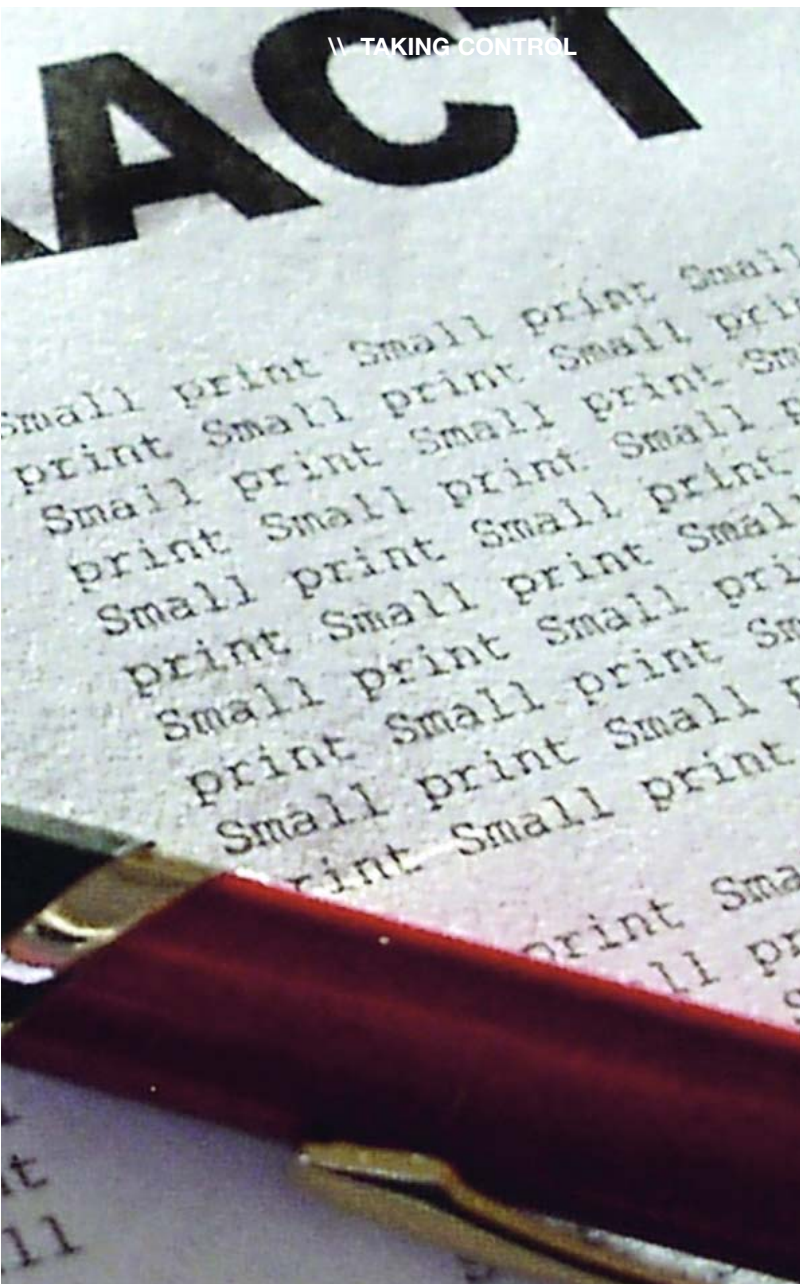
enterprise economy could be disastrous.

### Customer Focused Credit Management

Research shows it costs ten times more to gain a new customer than to keep an existing client, yet many companies take a 'sledge hammer' approach to collecting payment from their customers. They get paid but lose their existing client base in the process, destroying future business relations.

To ensure your company's collection activity adds to the business relationship, follow these suggestions:

- Take a customer-focused approach to collections, remaining polite and professional, but also persistent.
- Manage disputed invoices by setting a time limit to resolve issues.
- Give new and high-risk customers a



'customer service' call before the invoice is due and find out if there are any issues which may delay payment.

- Use Late Payment Legislation as a negotiating tool to get paid more quickly.

Credit control should no longer be seen as the 'anti sales' department, they should work with all areas of the company to provide good customer service, whilst improving cash flow and reducing bad debt exposure.

### Court Judgement

The courts are full of unenforceable judgments because claimants didn't take

the trouble to find out who they were trading with at the beginning of trading relationships.

Here are some suggestions to follow to be successful, if litigation is required to get paid:

- Use credit application forms to get all relevant information
- When dealing with sole traders and partnerships, get full names of owner/partners and home addresses
- A change in the County Court regulations in April 2006, now means you need the date of birth of individuals in order to get a county court judgement. Individuals include sole traders and partnerships.

Ensure that you get this information before starting the trading relationship.

### Getting The Sale

Many smaller businesses are often so focused on sales, they forget about the risk of their customer going into receivership and suffering a bad debt. It is vital, in order for companies to survive in the current economic climate, that they reduce their risk of bad debts as much as possible. Here are some suggestions to limit your risk:

- Credit check new and existing customers regularly. Set credit limits and review them monthly to reduce the risk of bad debt
- Subscribe to a 'monitoring service' where you will be informed if there are any changes in the company's details such as CCJ's or the filing of new accounts
- With new start ups, where there is often little information available to assess credit risk, check to see if the directors are directors of any other companies and credit check them too

### Before The Sale

Most people think credit control is just about collecting payment of overdue invoices. However, everything that goes before payment is received can affect a company's ability to get paid. The process starts when you first start talking to a new

prospect. This process is often referred to as the 'order to cash' process.

So what is the order to cash process? Here are some basic elements of the process, although they will change depending on the type of company:

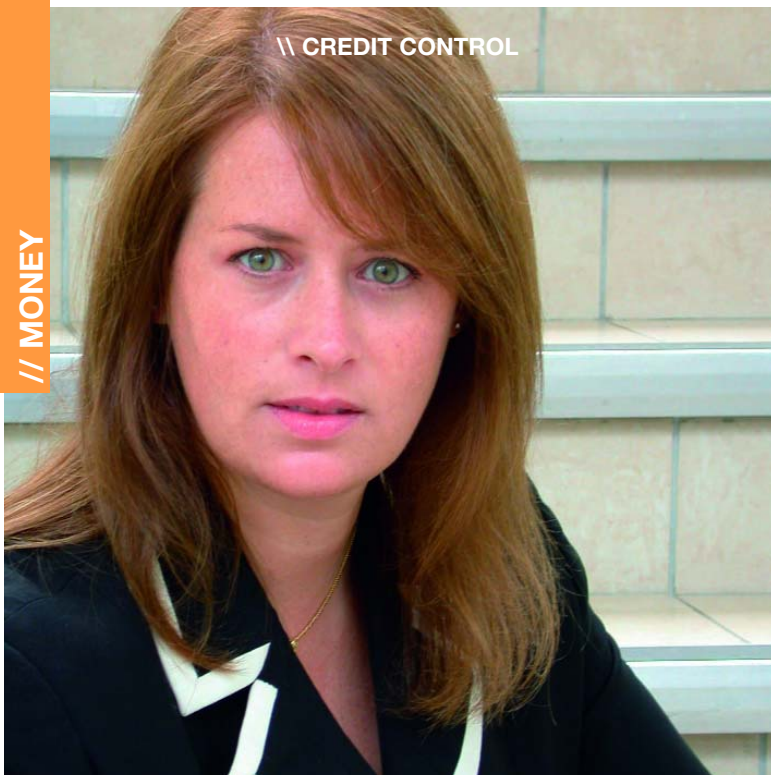
- Order
- Credit risk assessment
- Terms and Conditions
- Manufacturing goods
- Delivering goods or service
- Invoice procedures
- Dispute resolution management
- Collections procedures

All small businesses should monitor, manage, measure and constantly improve each aspect of the order to cash process, to improve cash flow and reduce bad debt. In the modern world, all companies need to remain customer focused whilst ensuring they get paid in full and on time. With a positive cash flow, perhaps all companies will be able to pay all their suppliers on time and reverse the 'late payment culture' we have in the UK. **YEM**

// YEM GUEST WRITER



**Jenny started her company three years ago after working for large companies and Blue chips across the UK for the past 20 years.**



Jenny Esau

# Q&A

We put Jenny Esau from Esau Credit Control Services Ltd in the Hot Seat to answer your credit control Questions.

**Dear YEM**

*What advice can you give me with regards to asking for money? I'm sure I'm owed lots of money but I send so many invoices, that it is becoming increasingly hard to chase them all?*

**Beth Stewart, Barrow**

Use the 80-20 rule. First call the invoices with the highest value. You will get more money for your one call.

For smaller value invoices, do a letter cycle. Most accounts software has a facility to set up an automatic letter cycle to send three letters out with a pre determined time gap in between. In all cases, call the client prior to sending a final demand to ensure you have sent any letters to the correct address and

possibly rescue a business relationship before any court action is taken.

**Dear YEM**

*Should I be charging interest on my client's late payments?*

**Aaron Dwyer, Manchester**

Yes, you should. You should have details of costs and interest for late payment in your terms and condition of sale. For commercial debts you can claim a collection fee and interest at eight per cent above the prevailing Bank of England base rate under 'The Late Payment of Commercial Debts Legislation (2002)'. If your terms and conditions state a lower interest rate than the Late Payment Legislation, you can only claim

the amount in your terms and conditions. Make sure your terms are in line with the Legislation. If you don't have late payment clauses in your terms and conditions, or have no formal terms and conditions, you can still rely on the Late Payment Legislation and charge collection fee and interest.

**Dear YEM**

*Are there debt collectors who will chase money on our company's behalf completely free of charge? If so, what's the catch?*

**Stacey Miller, Wirral**

Some companies will use Late Payment of Commercial Debts Legislation. The costs and interest will usually cover the commission, therefore the debtor pays for the collection charges. If court action is necessary, there maybe further charges that are not all recoverable on a successful outcome.

**Dear YEM**

*At what stage should I consider court proceedings if a client refuses to pay me the money that I'm owed?*

**Stephen Leigh, Congleton**

Only when all efforts to negotiate payment have been exhausted. The courts will want to see you have attempted to get payment prior to court action. You should always send a final demand before any court

action is commenced, giving the debtor a reasonable amount of time to pay (at least seven days) and make it clear what action will be taken if payment is not made by this date. If there is no chance of settlement, act quickly; the longer you leave it, the harder it is to get payment. Debtors move and are difficult to trace and businesses become insolvent therefore greatly reducing your chance of getting paid, even if court action is successful.

**Dear YEM**

*As a designer I spend a long time perfecting my work, and as a result I can end up going long periods of time without getting any income. How much should I be asking my clients for as a deposit?*

**Scott Jones, Accrington**

Try to ask for stage payment on completion of certain aspects of the project. As an example, 30 per cent deposit, 20 per cent on completion of X and 30 per cent on completion of Y. Perhaps you should find out what your competitors request and align your pricing structure accordingly so you are not at a competitive disadvantage.