



## WATFORD & WEST HERTS CHAMBER OF COMMERCE

Simple ways to avoid the impact of late payment (courtesy of the Institute of Credit Management)

You have probably seen for yourself that finance to support business is becoming less readily available. As a consequence, pressure on cash flow is growing and our 'best practice' advice is more important than ever.

Always follow these four simple tips to mitigate the impact of late payment:

1. Know your customer
2. Agree the payment terms before you supply
3. Invoice accurately, clearly, and promptly
4. Don't be afraid to ask for payment - it's your money!

Remember - "A sale is a cost until it is paid for!"

1. Know your customer

Every 3-4 minutes of every working day a business closes down in the UK due to insolvency. You therefore should **KNOW YOUR CUSTOMERS!!** Knowledge is everything (and so are your profits)! What do you know about your customer base? Are you at risk from potential bad debt? Do you regularly assess the credit status of your clients?

Sales alone are not enough – businesses need cash to survive and until a debt is paid the selling company is multiplying costs thus eroding net profit. You must assess the 4 "C"s of:

- Character - willingness to pay
- Capacity to pay - capability to run business
- Conditions - business and economic situation
- Capital - ability to pay

And it's vitally important from day one to capture the correct liability or legal identity of your customer. If a business is known as 'ABC Widgets' – this is not enough, even if everybody identifies historically with this name. You must find the correct liability behind the trading name.

2. Agree the payment terms before you supply

The effectiveness of your company's credit control directly affects your profitability. Any credit extended to customers should be the minimum required in order to win the sale (obviously accept cash wherever possible)! The terms and conditions of sale apply to every order whether written or verbal and are essentially a legal contract, a part of which are the credit payment terms. At the point of sale, a clear understanding must exist between buyer and seller. Any ambiguity at this point will allow the buyer opportunity, however feeble, to evade payment at a later date (and will make any attempt at legal recovery action difficult and expensive). The selling company's payment terms and conditions must be clearly communicated verbally and in writing to remove any confusion.

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3. Invoice accurately, clearly, and promptly

It's essential that you invoice as soon as possible after the goods or services have been supplied. Your customer can't pay an invoice they haven't yet received! Your invoice should include:

- Invoice date
- Invoice number
- Invoice address
- Customer order number
- Description of goods or services sold
- Net invoice value
- VAT value
- Gross total

4. Don't be afraid to ask for payment - it's your money!

Even before you pick the phone up, you should be prepared for any eventuality, excuse or action:

- Know who you are calling – telephone number / name / position
- Have all the relevant account data to hand (invoice numbers / dates / amounts / order numbers and so on)
- Review your customer contact log to ascertain previous history with your contact. The log should show previous excuses encountered, and how you handled them (if you countered the excuse professionally, it probably will not be used again)!
- Review the age of the debt, and know who to ask for if you need to escalate the call to a higher authority
- Know what you are asking for. What are your call objectives? Are you calling to chase the usual monthly amount, or do you need to resolve any disputed or long overdue debts?

You must be clear about these options before you pick up the phone and a good piece of advice is to call a couple of days before your amount is due to ensure your customer has all the relevant data to hand in order to process your payment.

Take Personal Responsibility

If you are a senior manager, director, managing director, partner or owner, credit control IS YOUR RESPONSIBILITY. You may delegate the authority for credit control but you can't delegate the responsibility.

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Business Link Health Check

You can fill in an interactive questionnaire on the Business Link website, [www.businesslink.gov.uk/healthcheck](http://www.businesslink.gov.uk/healthcheck) that will help you evaluate potential problems and suggest ways in which they can be resolved.

Or just call 08457 17 16 15 for a one-to-one with an experienced Business Link adviser.

Stephen Herman

Business Adviser

Business Link


Phone: 0845 641 9820

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Business Link... the place to go for business support

Online: [www.businesslink.gov.uk/east](http://www.businesslink.gov.uk/east)

On the phone: 08457 17 16 15

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