



## Collecting your Cash

Almost every business faces the challenge of collecting cash due from customers by the due date and bridging the timing gap between cash in from sales and cash out spent on purchases and running costs.

To help you avoid being unlucky, we've put together 13 ways to improve the collection of debts in your business to minimize cash flow problems.

### 1 Agree payment terms

Always make a point of agreeing with your customer exactly what services/goods are required and when and how payment is due. Ideally do this in writing by having terms and conditions of business with your customers. If your terms are payment on invoice, your customer should be aware that it won't be acceptable if they take 30, 60, 90 days or longer to pay you.

If your business incurs costs, including wages, in undertaking the work it is perfectly reasonable for you to request a payment in advance and there is no reason why you should not ask for the whole amount if you consider this to be appropriate. If you are ordering in stock specifically for a customer, obtain payment before ordering if you can.

### 2 Know your customer

If you allow credit to your customers (and you may need to in order to be competitive), take sensible steps to identify your customer and satisfy yourself of the customer's financial position. If you are dealing in large sums of money you may wish to take steps to ensure their ability to pay you. There are various search facilities available should you wish to use them for example Dun & Bradstreet or Experian.

### 3 Timely invoicing & follow-up

Be sure to invoice on time and issue regular statements to customers who owe you money. If you give this task prompt attention, your customers are more likely to pay you promptly.

### 4 Offer as many methods of payment as you can

Make it convenient for your customers to pay you whether in cash, by cheque, credit or debit card, BACs and online transfers. Standing orders are also another good option for collection of regular payments. Put your bank details including sort code and account number on your invoices. Consider opening a Paypal account so customers can pay you via Paypal especially if the amounts involved are relatively small.

### 5 Planned approach to debt collecting

If in spite of your best efforts, you end up with slow-paying debtors, devise a strategy for chasing payment. For example, you could contact your customer when the payment is 2 weeks late and every 2 weeks thereafter until you obtain payment. How long you leave the first reminder and how often you contact your customer will depend on how large a sum is involved and often on how urgently you need the money. Set aside a time every week to pursue debts. You will soon find out when your customers are likely to answer your calls and plan your debt chasing accordingly.

### 6 Use the phone

Speaking to your debtor in person gets better results than writing letters. Before you ask for money, ask if there is a problem.

Resolve resulting complaints promptly so you can get paid. Don't delay issuing credit notes if required otherwise customers can use this as a reason to delay paying you. If your customer tells you there is a problem in making the payment it often pays to be a little bit flexible. A customer who is paying their bill in installments is far better than one who isn't paying anything at all so be prepared to accept stage payments if someone is in difficulties.

### 7 Build a relationship with the accounts team at your customer

If you're dealing with a larger business they will have a purchase ledger or accounts receivable team which deals with invoices received, authorisations and payments. Make sure you have a regular, friendly and professional dialogue with the purchase ledger team. Successful credit control is often about building rapport and co-operation over time with the people who handle your invoices and will make the payments to you.

### 8 Keep a record and refer your customer to it

Record the date and outcome of all debt chase contacts and remind your customer of any failed promises. It reinforces your intention to be paid.

### 9 Keep it friendly

No matter how frustrated or angry you are, keep the tone friendly. Losing your temper closes the door to negotiation and to any potential future trading. If you can't do this, get someone else to make calls for you.

### 10 Letters

Chase letters are the traditional way to collect overdue debts and can be highly effective. Make sure the letters are accurate and professional with a call to action for your customer, for example to

### Business Debts and Statutory Interest

A significant number of businesses fail as a result of late or unpaid commercial debts. Small and medium-sized businesses are particularly at risk where a large value of their debtors may be concentrated in a small number of customer accounts. Large organisations are sometimes criticized for using their commercial weight in this area to delay payments to smaller suppliers who need the money faster to meet their expenditure. In circumstances such as these, debt collection strategy takes on an increased importance.

Legislation was first introduced in 1998 to attempt to rectify this problem and ensure companies adopt fairer payment practices. The Late Payment of Commercial Debts (Interest) Act 1998 which was amended in 2002, allows UK businesses, for all contracts created on or after 7 August 2002, to charge interest on late payments and debt recovery costs for customers that have exceeded payment terms agreed by the parties.

The effect of this legislation allows businesses to charge 8% above the Bank of England base rate set on a twice-yearly basis and debt recovery compensation of up to £100 on each overdue order. The charges that can be levied under this Act are much more likely to exceed any interest a company can benefit from withholding the sum due. The obvious incentive of the legislation is to encourage businesses to pay within the contractually agreed timescales.



pay by a certain date.

Find out if your accounting system can mail-merge addresses and customer details into standard letters. Sign the letters in ink rather than a scanned signature if you can to make them more personal and review them for errors before you send them out.

### 11 Escalate it

If you're dealing unsuccessfully with a relatively junior person in the company that owes you money, then escalate matters and talk to someone more senior. If you need to then speak to the Finance Director or Managing Director. As directors they have a legal responsibility to make sure the business can pay its debts as they fall due.

### 12 Calling on your debtor

A polite call at the door often opens up communications and can result in a payment. If no one is home or at the business premises leave your card, compliment slip or letterhead with a note that you called and will be in touch. Follow it up promptly.

### 13 Threaten further action

When all else fails consider threatening to place the debt with a debt collector or to issue a statutory demand or raise a County Court Summons. No-one likes a debt collector calling on them, and a CCJ against them can have serious consequences. These measures are only effective against people who have something to lose. Several solicitors offer on-line services to help you collect debts. One that we have found popular with our clients is Thomas Higgins & Co. They will send non-paying debtors a 'Letter Before Action' for a surprisingly low cost and this is often effective at

producing a payment.

Debt chasing can be demoralising. There's nothing worse than doing your work, providing a service or delivering products for your customer, only to find yourself faced with a debtor who simply cannot or occasionally will not pay you. Sadly, it is a sign of the times that this situation is occurring more frequently. However, there is a lot you can do to avoid this happening to you and on the occasions where you cannot avoid the problem, approaching your debt collecting in a structured organised way will improve your chances of a successful outcome.

### How Harrington Kelly can help

We can help you maximise your cash from your customers and debtors in several ways:

- Streamline your sales ledger to make your procedures more effective.
- Identify the skills and resources you need to collect your cash.
- Get the most from your IT by sending out effective chase letters and statements.
- Deal with complex cases involving reconciliation, queries or an independent expert.
- Identify ways to bridge the funding gap through bank finance, factoring or invoice finance.

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