



# CHASING PAYMENTS

HOW CAN YOU KEEP ON TOP OF BAD DEBT IN THESE CASH-STRAPPED TIMES? **ALEX BLYTH** OFFERS SOME ADVICE

**B**ad debt can be a problem for most businesses at the best of times, but in the worst of times, such as those we're currently experiencing, it can be devastating. Not only is it more difficult to win new business, it also becomes harder to get customers to pay for goods provided. It can be very easy for cashflow to suddenly dry up.

The serious effect of the recession on cashflow in UK businesses was revealed in early December with the publication of research from the Forum of Private Business. This revealed that 61% of small firms in the UK were encountering greater difficulty managing cashflow than they had been in the first week of November.

That research was quickly followed by an announcement by Lord Mandelson that the government was introducing a voluntary code aimed at preventing companies from reneging on agreed payment terms. However, few finance directors are making the mistake of relying on a voluntary code.

As Martin Williams, MD of Graydon UK, provider of credit risk information, puts it: 'Long before the economic crisis really began to bare its teeth, many large corporates were habitually using their purchasing power to squeeze their suppliers through late payment, even though they had plenty of cash in their coffers to pay the bills. As the economic situation has worsened, even large companies no longer have the readily available cash required to pay bills.'

Indeed, more and more FDs are now taking steps

to recover all outstanding debts before they become bad. Business Link adviser John Grange says: 'Managing cashflow at the moment is absolutely key to business success. Businesses can have full order books, and the forecast for profitability might look good, but in the short term they have to ensure that they have money in the bank to pay the bills.'

## PICK YOUR CUSTOMERS

It can be easy to assume that debt management is all about chasing customers for payment and then pursuing recalcitrant late payers through the courts. In fact, debt management begins much earlier. It should begin before you even start marketing to a particular individual or company.

Charles MacMillan, partner and head of corporate recovery at accountancy firm Beever & Struthers, explains: 'Many organisations derive most of their profits from a relatively small number of customers, so protecting your profitable core is the key to surviving in a downturn. Late payers should be critically assessed. At a time when working capital is a scarce resource, it is not only the cost of money that brings their viability into focus but the opportunity cost of servicing more profitable business.'

So, the first step you should take is to identify the bad payers among your existing customers and see if you can identify any common themes. Are they businesses of a certain size, or consumers who buy a particular product? If there are common themes you can avoid acquiring



any more customers like those. Focus your efforts on customers who are more likely to be good payers.

You should then ensure that everyone in your sales team follows this principle.

The best way to do this is to link at least some of the commission payment your salespeople receive to the actual payment from your customer. If nothing else, this should get your credit control and your sales departments working together.

### KNOW YOUR CUSTOMERS

The next step is to know your customers. Mark Boughey, associate director in restructuring and recovery services at accountancy firm Smith & Williamson, offers this advice: 'Set credit limits based on suggested credit ratings by companies such as Equifax. But don't rely on them exclusively. Do your own research on your customers. Look at Companies House for financial information, call up their website, speak to your lawyer or accountant, read the local and national press. Whatever limit you decide on, make sure you stick to it.'

He continues: 'If it is a new customer, start small and then increase supply as you see evidence that they pay in a timely manner. Meet your customers. Get your credit controllers to go and meet with the company, set out the terms of business, and get them signed. Apply strict payment terms – 30 or 60 days from day of invoice – and try to get them to stick to them.'

No matter how well you research your customers or how much you trust them, you must insist upon signed terms and conditions. Robert Ball, MD of credit management software provider Draycir, says: 'Make sure terms and conditions are watertight and that entitlement to goods and services is only passed over to the customer when payment has been received. That way, if the customer goes bust you'll have the right to claim back your goods or intellectual property.'

You must also maintain regular contact with your customers. Nick Gretton, an associate with Secantor, a network of FDs, says: 'Ensure there is regular friendly contact between your credit controller and the purchase ledger department of all key customers. Be willing to use whatever method gets the best response from the customer. It might be phone calls at 8.30am or 5.30pm. It might be text messages, emails, instant messaging, or a combination of these approaches. However you do it, you need to keep the channels of communication open.'

### RECOVERING DEBTS

The sad fact is that you can pick the most reliable customers, you can agree the most stringent terms and conditions, and you can have the most transparent relationships, and still things can go wrong. Companies run into difficulties and you can find yourself struggling to recover a large debt.

Before it happens, you need to establish a clear process for how you deal with the problem. Philip Davies, MD of back office expert LPM Outsourcing, offers this advice: 'Know when a payment has failed. Keep cash postings right up to date, and establish a system for spotting late payers the day a debt becomes overdue. Act immediately to get ahead of other creditors. Unless it is a legal requirement under your terms and conditions, don't send letters – use the phone.'

He continues: 'Don't be afraid to elevate your claim to director level. The purchase ledger manager may not have the power to settle your payment so speak to someone who can. If you have limited resources, make sure they are focused on the area where you are most likely to lose money. And finally be cynical – it is amazing how many people will be economical with the truth if their business is facing potential failure.'

### BRINGING IN THE LAWYERS

If all the above fails then you may need to consider legal action. If you do go down that route, then you should get advice from a lawyer. Tim Gray, partner at Clough & Willis, explains why: 'Often a lawyer's letter is enough to get them to pay up. Failing that, a good next step is to issue a statutory demand. This gives them 21 days to pay up or the business is wound up. It can be very effective. However, if they succeed in obtaining an injunction to get it set aside you will be liable for all costs, so you need to make sure it's the right thing to do and you need to go about it in the right way.'

Above all else, you should never be afraid to chase debts using all the tools at your disposal. As MacMillan at Beever & Struthers, concludes: 'All too often companies place too much emphasis on protecting customer goodwill. They forget that their customers are just as interested in protecting their supply chain. Fickle customers give rise to a fickle business and so the nearer you can get to a genuine partnership with your customers the more likely it is that your business will survive this recession.'

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