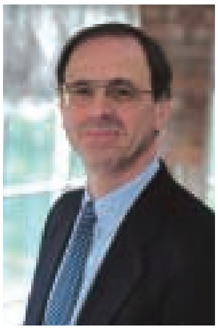
Tackling late payment

Sadly, the problem of late paying customers is all too familiar for many UK businesses. Freelancers in particular understand the severe strain that late payment can have on cash flow. You can help protect yourself by demonstrating less tolerance to late payers through the introduction of strict credit management controls.



According to Peter Rowe, member of the Better Payment Practice Group (BPPG) and Director General of the Institute of Credit Management, adopting the following ten-point plan from BPPG can help establish a good credit management policy.

The BPPG offers a free credit management guide, 'Better Payment Practice Guide To Paying And Being Paid On Time', which contains information to help tackle late payment. The guide provides advice for suppliers on credit checking new customers, managing credit risk and collecting payments promptly, and for buyers on fostering good relationships with suppliers and operating a positive payment policy. It also includes information on the late payment legislation, which allows businesses to claim interest and compensation on overdue bills, and provides a useful list of support services and publications.

The BPPG also offers a free wallchart to be used alongside the guide to help firms allocate the right resources to chasing debts. The guide and wallchart are available from the DTI Publications Unit on 0870 150 2500 quoting URN 04/606 and URN 04/735.

The Guide can also be viewed on the BPPG's web site *www.payontime.co.uk*

Ten point credit management plan

1. Check a new customer's creditworthiness before drawing up a contract. Bank and trade references should be considered as part of the vetting process, or obtaining a report from a credit reference agency (for a small fee). Companies House holds a wealth of data on companies and their individual directors and you may also wish to check the Register of County Court Judgments. If you aren't happy with the findings on a potential customer, don't be afraid to turn down their business or insist on payment in advance. If you have always provided credit to new customers, you should re-think this position. The decision to give trade credit should be based on calculated risks - it is not an automatic right.

2. Set strict credit limits and keep to them. You can do this either by setting the limit to support sales levels (if references are good enough this should equal twice the monthly sales figure for that customer), or set it at the maximum amount your business is prepared to be owed, regardless of current sales levels (a popular calculation is the lower of 10% net worth or 20% net current assets).

3. Prepare and agree with your customer unambiguous written contracts and/or terms and conditions of trading. Legal advice should always be taken when preparing terms of trade but the document should include: the agreed payment period; interest payable on late payment; the supplier's rights with regard to late payment; terms about the quality of the goods; a statement claiming 'retention of title' in appropriate circumstances; and a statement of how queries will be dealt with, including any appropriate timeframes for raising queries.

4. Make sure you know and comply with procedures used by your customers' buying and accounts departments.

5. Initiate and maintain close contact with your customers, particularly with the person responsible for paying your account. Try to create a rapport, so that even when money is tight, you are top of the list to be paid.

6. Review payment records of existing customers at least twice a year. Do not be afraid to refuse orders or withdraw credit, and obtain payment in advance if a customer has an unacceptable payment record.

7. Ensure that you get a signed delivery note for goods supplied and always invoice accurately and on time. Invoices should be set out logically and clearly, stating the invoice date, account number, order number, amount due, the date by which payment must be made and the preferred method of payment. Where possible, provide a breakdown of the amount due, detailing the exact goods supplied or services rendered with dates.

8. Check the status of each account before despatching goods. Do not continue to supply if the account is overdue and use your customer's desire for further supplies as a spur to payment.

9. Take action to collect late payments by sending regular reminders and chasing payment persistently by telephone/fax/email and, if necessary, by visiting your customers. In the collection process you are likely to encounter customers who either can't or won't pay. A customer who can't pay may have a genuine problem and, if this is the case, it may be in the interests of both parties to negotiate a settlement – perhaps by introducing a 'payment plan'. You will need to determine the cause of the problem and how serious it is, what is being done to resolve it, what you can do to help and what assurances can be offered in return for that help. Where a customer simply ignores requests for payment, or makes endless promises to pay that are not kept, further action should be taken without delay. You may wish to impose collection sanctions such as stopping supply, reviewing the credit limit or imposing interest under the Late Payment of Commercial Debts (Interest) Act. If the situation persists, place the debt in the hands of a collection agency or solicitor who specialises in debt collection, or pursue it through the court. It is your money - do not be afraid to ask for it.

10. And finally, remember to thank those customers who do pay on time.