

Making Everything Easier!™

Limited Edition

Getting Paid

FOR
DUMMIES®

Compliments of

creditsafe[®]
simply smarter



WE ARE NOT JUST A CREDIT CHECKING COMPANY.

WE ARE A BIT MORE INTELLIGENT THAN THAT.

Despite the fact that we are Europe's most used provider of credit information, what we offer goes far beyond a credit rating and red and green light. Our data, website and rating model is the most up-to-date on the market and offers a wealth of business intelligence and insight in just a few easy clicks.

In fact, it's so easy to use that you can put it in the hands of other departments, not just finance.

Whether it's the sales team checking out potential customers, the marketing team generating a list of prospects or the MD checking out an acquisition target, Creditsafe offers invaluable business insight.

It's simply a more intelligent way of doing business.

For a free company credit report please visit
www.creditsafeuk.com/free-report

For 100 free marketing prospects please visit
www.creditsafeuk.com/free-prospects

Alternatively if you would like to talk to us
please feel free to call us on **0800 0778759**

www.creditsafeuk.com

creditsafe
simply smarter

Getting Paid FOR **DUMMIES®**

by Creditsafe



WILEY

A John Wiley and Sons, Ltd, Publication

Getting Paid For Dummies®

Published by
John Wiley & Sons, Ltd
The Atrium
Southern Gate
Chichester
West Sussex
PO19 8SQ
England

For details on how to create a custom For Dummies book for your business or organisation, contact CorporateDevelopment@wiley.com. For information about licensing the For Dummies brand for products or services, contact BrandedRights&Licenses@Wiley.com.

Visit our Home Page on www.customdummies.com

Copyright © 2012 by John Wiley & Sons Ltd, Chichester, West Sussex, England

All Rights Reserved. No part of this publication may be reproduced, stored in a retrieval system or transmitted in any form or by any means, electronic, mechanical, photocopying, recording, scanning or otherwise, except under the terms of the Copyright, Designs and Patents Act 1988 or under the terms of a licence issued by the Copyright Licensing Agency Ltd, 90 Tottenham Court Road, London, W1T 4LP, UK, without the permission in writing of the Publisher. Requests to the Publisher for permission should be addressed to the Permissions Department, John Wiley & Sons, Ltd, The Atrium, Southern Gate, Chichester, West Sussex, PO19 8SQ, England, or emailed to permreq@wiley.com, or faxed to (44) 1243 770620.

Trademarks: Wiley, the Wiley logo, For Dummies, the Dummies Man logo, A Reference for the Rest of Us!, The Dummies Way, Dummies Daily, The Fun and Easy Way, Dummies.com and related trade dress are trademarks or registered trademarks of John Wiley & Sons, Inc. and/or its affiliates in the United States and other countries, and may not be used without written permission. All other trademarks are the property of their respective owners. John Wiley & Sons, Inc., is not associated with any product or vendor mentioned in this book.

LIMIT OF LIABILITY/DISCLAIMER OF WARRANTY: THE PUBLISHER, THE AUTHOR, AND ANYONE ELSE INVOLVED IN PREPARING THIS WORK MAKE NO REPRESENTATIONS OR WARRANTIES WITH RESPECT TO THE ACCURACY OR COMPLETENESS OF THE CONTENTS OF THIS WORK AND SPECIFICALLY DISCLAIM ALL WARRANTIES, INCLUDING WITHOUT LIMITATION WARRANTIES OF FITNESS FOR A PARTICULAR PURPOSE. NO WARRANTY MAY BE CREATED OR EXTENDED BY SALES OR PROMOTIONAL MATERIALS. THE ADVICE AND STRATEGIES CONTAINED HEREIN MAY NOT BE SUITABLE FOR EVERY SITUATION. THIS WORK IS SOLD WITH THE UNDERSTANDING THAT THE PUBLISHER IS NOT ENGAGED IN RENDERING LEGAL, ACCOUNTING, OR OTHER PROFESSIONAL SERVICES. IF PROFESSIONAL ASSISTANCE IS REQUIRED, THE SERVICES OF A COMPETENT PROFESSIONAL PERSON SHOULD BE SOUGHT. NEITHER THE PUBLISHER NOR THE AUTHOR SHALL BE LIABLE FOR DAMAGES ARISING HEREFROM. THE FACT THAT AN ORGANIZATION OR WEBSITE IS REFERRED TO IN THIS WORK AS A CITATION AND/OR A POTENTIAL SOURCE OF FURTHER INFORMATION DOES NOT MEAN THAT THE AUTHOR OR THE PUBLISHER ENDORSES THE INFORMATION THE ORGANIZATION OR WEBSITE MAY PROVIDE OR RECOMMENDATIONS IT MAY MAKE. FURTHER, READERS SHOULD BE AWARE THAT INTERNET WEBSITES LISTED IN THIS WORK MAY HAVE CHANGED OR DISAPPEARED BETWEEN WHEN THIS WORK WAS WRITTEN AND WHEN IT IS READ.

Wiley also publishes its books in a variety of electronic formats. Some content that appears in print may not be available in electronic books.

ISBN: 978-1-118-34083-7

Printed and bound in Great Britain by Page Bros, Norwich

10 9 8 7 6 5 4 3 2 1



WILEY

Introduction

Welcome to *Getting Paid For Dummies*, a friendly guide to making sure that your business gets paid on time.

Getting paid on time is important to any enterprise. It means you can pay your own bills according to agreed credit terms, pay your people regularly, and invest in your business for growth and expansion. Organisations that don't get paid on time end up with their own cashflow problems and may ultimately face commercial failure and insolvency.

The good news is that there is plenty that you can do *proactively* to manage the process of getting paid. The tips and advice in this book are designed to help you tighten up your procedures for setting commercial credit limits and terms & conditions, make sure that you tackle payments rigorously and advise you on what to do if all else fails and you need legal help. Armed with the right processes, you can help achieve an incremental improvement in your cashflow and a better outlook for your business.

About This Book

This book aims to provide you with information to change the way you work to improve operational efficiency and reduce the risks your business faces. Creditsafe offers insight into why getting paid on time is important, not just because it allows you to pay the bills, but because it helps to build a stronger business for the future.

Foolish Assumptions

In writing this book, Creditsafe made assumptions about you:

- ✓ You run or help run a business.
- ✓ You're responsible or partly responsible for managing inbound payments for your business.

- ✓ You want to make the payments process more effective.
- ✓ You want your business to face less risks and make more money.
- ✓ You're interested in business-to-business credit management and payments.

How This Book is Organised

Getting Paid For Dummies is divided into five small but perfectly formed parts:

- ✓ **Part I:** Start here with a quick explanation of the main reasons why managing inbound payments proactively is a vital step.
- ✓ **Part II:** Head to this part for an understanding of the importance of setting accurate credit limits and other terms & conditions with your customers.
- ✓ **Part III:** Don't just wait for the cash to roll in: Use these hints and tips to recognise red flags before they turn into late payments.
- ✓ **Part IV:** If all else fails, bring in the professionals. Creditsafe offers advice on how to manage late payments and potential bad debts.
- ✓ **Part V:** No *For Dummies* book is complete without the famous The Part of Tens. In this part, Creditsafe guides you to ten great resources for additional information.

Icons Used in This Book

Throughout the margins of this book are little pictures that highlight important information:



The Dummies man indicates real-life examples that illustrate a point and inspire you.



The knotted string highlights important information to bear in mind.



Home in on the target for tips to enable you to get paid on time.

Where to Go from Here

As with all *For Dummies* books, you can read this guide from cover to cover or flick straight to the section that interests you. Whether you read this book in small portions using the section headings or all in one long session, you can find plenty of information to help your business get paid on time.

Part I

Why Getting Paid on Time Is Important

In This Part

- ▶ Juggling cashflow
 - ▶ Keeping good credit
 - ▶ Making more money
-

Cash is the lifeblood of any enterprise. Quite simply, if you don't get paid, you won't be able to sustain your business, let alone build it up in the future. Trade credit is the key to cashflow and bigger than bank lending as a key source of finance for small businesses.

In this part, Creditsafe talks about the many reasons why getting paid on time is crucial to your business's success.

Keeping the Cash Moving

Business is a balancing act: Late payments make it difficult for a business to pay either its staff or its bills. The ultimate outcome of late payments is that a company can go out of business itself because suppliers lose patience and call time on the delivery of utilities or raw materials and staff can't work for nothing.

Maintaining Good Credit

Every registered UK business maintains a profit and loss account and is obliged to file its accounts with Companies

House. Businesses that are unable to meet their commitments to suppliers, partners, or customers will soon demonstrate a poor payment record. Poor credit ratings may then have a further influence on their ability to secure credit from suppliers in the future.



The good news is that businesses can take action to improve their business credit record, just as consumers can improve their personal credit records. These actions may include the following:

- ✓ Filing full accounts to Companies House early or on time
- ✓ Paying supplier invoices according to agreed terms & conditions
- ✓ Settling utility bills on time

Being as Efficient as Possible

By getting payments in quickly, businesses can ensure that they're running their operations as efficiently as possible. They can secure the best terms and conditions with suppliers by paying their own bills on time, for example, and ensure that staff are paid on time.

Maintaining Cash Reserves



Solvency, or always having cash reserves in the bank, is extremely important for businesses operating in a volatile economy. The most admired companies have a reserve of money that they can call on if trading conditions suddenly worsen, or customers/suppliers go bust. Call it your rainy day fund.

Using Money to Build Money

The quicker money comes into the business, the quicker you can earn interest or pay down debts to save money.

Avoiding a Ripple Effect in the Payment Chain

Businesses today are more joined up and interdependent than ever, whether that's via their supply chain or the payment chain. A slow payer at the top of the payment chain impacts everyone further down, especially now that companies are generally operating at lower margins with lower levels of income.

Looking at Legislation and Regulation

The government introduced the Late Payment of Commercial Debts (Interest) Act 1998, which gave small firms with 50 or less employees a statutory right to interest for the late payment of commercial debts. This statutory right to interest and other new entitlements has been available to all businesses and public sector bodies since 7 August 2002.

Staggering statistics: Late payments and late payment excuses

Don't be fooled by customers who claim that "the dog ate my homework". When your customers have signed a contract with you, they have no real excuses for late payments. Some of the (real-life) explanations Creditsafe has heard over the years are mildly amusing, but still cause a serious problem for companies waiting for funds:

- ✓ "The finance director had a heart attack due to stress and can't sign cheques in hospital."
- ✓ "The customer couldn't get into the office to get the cheque book

because the locks had been superglued by travellers."

- ✓ "The goods were signed for in a different colour pen to the one our warehouse manager normally uses, so we have to check it was definitely him who signed for the merchandise before we pay you."
- ✓ "My wife has gone off to look after the grandchildren for a week and taken the business cheque book with her."
- ✓ "The boss who authorised payment had gone to Thailand as his mother-in-law is ill."

In October 2008, the government pledged to pay its own bills within 10 days instead of 30 days. Announcing the plan, Skills Secretary John Denham said, “We’ve got to make sure that small businesses have cash flow.”

The Department for Business Innovation and Skills (BIS) launched a new Prompt Payment Code for business (www.promptpaymentcode.org.uk) sponsored by the Institute of Credit Management (ICM). A range of businesses and small business representative bodies have pledged to abide by the code, so, in theory, they should be awarded a certain level of trust. Key elements of the code encourage businesses to

- ✓ Pay suppliers on time
- ✓ Give clear guidance to suppliers
- ✓ Follow good practices through their supply chains.

Reduced reporting

A reduction in the amount of reporting required for smaller companies is another trend. A recent BIS discussion paper suggested that small and medium enterprises (SMEs) are taking issue with the burden of financial reporting. In the UK, this process started with the introduction of abbreviated accounts and is gaining momentum with the European Commission suggesting that micro-entities are excluded entirely from financial reporting in an attempt to remove distractions from business growth. The United States has put forth similar proposals.

While at first sight, this idea may look good from the point of view of reducing bureaucracy, full disclosure leads to more accurate data, which means more detailed and trustworthy credit reports.

Late filings and insolvency

Just like consumers, companies can take proactive steps to improve their own credit ratings. Creditsafe data shows that transparency and timeliness in statutory reporting helps companies build a stronger credit rating.



Companies that submit their report and accounts within the last possible month to Companies House are eight times more likely to go into liquidation than those who file earlier.

It's a no-brainer to ensure that you get your accounts in early, if possible, but certainly on time. That way, you're not downgraded for failing to manage such a simple process.

There's also a case for filing full accounts rather than the bare minimum: Transparency is king. This doesn't mean a company that files at the last minute will enter insolvency, but it is statistically proven that there is a greater likelihood of it happening.

Part II

Establishing the Ground Rules

.....

In This Part

- ▶ Doing your due diligence up front
 - ▶ Getting the most out of credit reports
 - ▶ Keeping current on your customers' financial situation
-

The key takeaway from this guide must be that all businesses need to spring clean their payment terms & conditions with customers and suppliers. These ground rules can span a range from “sending out invoices and hoping for the best” to a highly regimented calendar of billing, payment dates and financial penalties for late remittance.

Establishing a sensible regime is the first stage but is by no means the end of the story. Payment terms for individual customers and suppliers must be revisited regularly to ensure that they are still appropriate. In this part, Creditsafe walks you through some items you'll want to cover both up front and ongoing with your customers.

Getting to Know Your Customers

You know your customers, right? After all, they're your customers. But that doesn't mean that you can overlook the following:

- ✔ **Check out the exact name and legal status of the businesses you're trading with.** Do this check every time for every company that you trade with. If it's a partnership or sole trader, the proprietor or partners are

personally liable for any debt. Check every company's credit report to understand the likelihood of that business becoming insolvent.

- ✓ **Have clear, agreed-on procedures for who you will and will not work with as a result of this checking process.** Winning a new customer is great, but not if he can't pay the bills. Make sure that you (and all your employees) follow the rules and never be tempted to break them, even if the customer puts pressure on you.



Don't be afraid to ask for all the information you need – if you can't get it all now, it will be much harder to obtain at a later date.

Benefitting from Credit Reports

Just because you do an initial credit check of your customers up front doesn't mean that your work is done; you still need to keep an eye on what's going on. You can use business information reports to set accurate credit limits and payment terms & conditions.

Credit reference agencies (CRAs) exist to provide accurate information about the financial health and wellbeing of individual businesses. They build on publicly available data held in Companies House to provide a more detailed picture beyond the profit and loss account. CRAs then develop credit reports on individual businesses.

Each credit report includes information such as

- ✓ Date of incorporation
- ✓ Background to directors (such as all directorships they hold elsewhere)
- ✓ Shareholders
- ✓ Historical and recent financial information
- ✓ Any County Court Judgments (CCJs) incurred



Creditsafe credit reports also include a rating that indicates how likely a company is to enter insolvency, and this rating in

turn provides indicative guidelines on how much credit you should extend to a company (although each business should each make its own final decision). For more on setting limits on credit, see the next section.

You can receive a free report on your own company by visiting www.creditsafeuk.com.

Being aware of limits

Businesses should blend advice and guidance from their CRA with their own knowledge and experience of an individual customer. They should also be aware that the raw company data on offer from free information providers is likely to be based purely on financial statements, which may be many months out of date.

A CRA provides a much more detailed picture. This analysis enables businesses to establish the following limits:

- ✓ **Time limits**, such as cash on delivery for the riskiest companies to 60-day payment terms for the least risky companies
- ✓ **Credit limits**, in terms of how much exposure a business is willing to take against individual businesses.

Ideally, businesses should establish an early warning system and check ratings and limits much more frequently.

How credit reference agencies calculate ratings

CRA's include a range of different pieces of information when calculating a credit rating and look beyond financial details filed at Companies House. Creditsafe includes powerful predictors of insolvency, such as County Court Judgments (CCJs), directors' profiles,

directorships held, and how promptly financial accounts are filed. Creditsafe applies its proprietary algorithmic model, which analyses that data statistically against factors known to be an indicator of corporate failure in order to derive a credit rating, which is a proven indicator of insolvency.

Revisiting limits and terms

It's not enough to go through this exercise once. The financial performance of a business can change over time, particularly in difficult economic times. Creditsafe recommends revisiting credit limits and other terms & conditions every six months and at least every year.

Staggering statistics: Risky business

Research commissioned by Creditsafe found that almost half (47 percent) of businesses had lost money as a result of trading with another company without a signed contract in place or completing adequate due diligence.

A failure to complete due diligence saw 7 percent of UK firms become victims of fraud, losing money after being duped into sending goods to a false business address or a company that had vanished before paying for goods received.

One in six firms (14 percent) had provided goods and services without ensuring that a contract was in place or conducting any checks on the customer.

When providing goods or services to new customers, 40 percent of companies didn't have a written agreement, a contract or even email confirmation to ensure a contractual obligation for payment.

Less than half (47 percent) ran a credit check before entering into an agreement with a new customer, so they may have had no idea whether the company was solvent before trading.

Almost three quarters (73 percent) of firms didn't check whether the delivery address for goods matched a registered address for that company, and 67 percent of companies didn't even review a company's website to check that they were legitimate.

Companies are also failing to complete regular checks on existing customers to establish whether their circumstances have changed and their ability to pay for goods and services provided has been affected. Eighty-four percent of companies had provided goods and services to existing clients without running a fresh credit check on that enterprise.



Many businesses think that they need to check terms & conditions and credit references for new customers only. The reality is that most businesses establish trading relationships without carrying out proper due diligence, so you need to look at credit limits for existing clients, even if you believe that you have a brilliant working relationship with them. The best commercial partnerships are based on strong contracts with mutually agreed terms of business: Everybody knows where they are.

In addition, remember that big names don't always mean big credit ratings.

In the last few years, some very large brands have gone under, particularly in the retail sector. Big spending on marketing and advertising doesn't mean a company is solvent or can pay its bills.

Setting credit limits and terms & conditions

The BIS Prompt Payment Code website at www.payontime.co.uk provides the following useful guide to setting your own credit limits and terms & conditions:

To set your own credit limit, there are two approaches:

1. A credit limit to support sales levels. If references are good enough, the credit limit equals twice the monthly sales figure for that customer.
2. A maximum amount you are prepared to be owed, regardless of current sales levels. A popular calculation is the lower of 10 percent net worth or 20 percent working capital (net current assets).

Method 1 needs constant revision as sales increase but is a useful trigger for rechecking the risk at intervals. Method 2 is better as sales staff have the authority to sell up to the credit limit, which needs less frequent revision.

As well as the amount of credit, a risk code can indicate the likelihood of being paid late and therefore how closely you need to watch the account.



Combine your CRA report risk analysis with your own experience of a customer's payment performance in order to categorise your customers so that you can concentrate your efforts on the riskier companies that pay you more slowly on average, rather than solvent good payers.

Setting terms & conditions:

- ✔ **Part payment:** Many suppliers ask risky customers for an advance before releasing goods or providing a service. Normal credit is then allowed on the balance, such as "20 percent before dispatch, balance at 30 days from receipt". The mean risk is reduced, and the customer has time to organise payment of the balance.
- ✔ **Stakeholder accounts:** You can generate customer confidence and reduce credit risk by using a neutral body, such as a bank, to hold the funds until the buyer is happy. There are many forms of trusteeship, secure deposits, and escrow accounts to achieve equitable arrangements.
- ✔ **Special payment terms:** When a risky customer needs time to pay, you can limit the credit period to 7 or 14 days instead of the normal 30 days. Group accounts on special terms together in the ledger for constant collection attention. Any default after agreement of special terms should lead to cash terms only.
- ✔ **Discount for early settlement:** This is an expensive inducement to obtain payment from a customer and needs to be treated with caution. It is only viable when your net margin is high, and you have the staff to control unauthorised deductions. If only bad payers are offered cash discounts, all your good payers will want the same benefit.
- ✔ **Third-party guarantees:** This is a written undertaking by a third party to be legally liable to pay you if your customer does not. Because the wealth of individuals is uncheckable, limited company guarantees are preferable. Sole traders and all partners in partnerships are personally liable for their business debts anyway. Directors are not liable for their companies' debts.

EXAMPLE



Testimonial

Marwood Group specialises in hiring out equipment, such as fencing and barriers, lifting equipment and lightweight rubber matting for outdoor events. Established in 1985, the group has used the Creditsafe service for credit checking since 2006. Credit checking is hard-wired into business operations and is invaluable to the company's financial well-being. Marwood checks out every customer before it trades with

them. It also proactively checks the ongoing credit rating for all of its customers every six months so that records and policies are up to date. Marwood may not immediately stop dealing with companies as a result, but it may well set stricter terms of payment, such as cash on delivery. This policy has led Marwood Group to reduce its bad debt ratio to levels below industry averages.

Part III

Ensuring Payment

.....

In This Part

- ▶ Setting yourself up for billing success
 - ▶ Identifying potential payment issues
 - ▶ Tracking down missed payments
-

Taking a few simple steps can help you receive prompt payments. In this part, Creditsafe helps you fine-tune your billing process and identify potential payment problems.

Preparing for Billing Success

What you do during the billing process can help set the tone for payments. For customers to take paying you seriously, you need to pay attention to the little things in your billing process. These tips can set you up for billing success:

- ✓ **If possible, always ask for payment up front.** If prepayment isn't an option, offer incentives, such as reduced rates, for fast payment.
- ✓ **Offer many payment channels.** Let customers pay with credit cards, online payments, direct debit, cash, cheque, or BACS. Table 3-1 outlines the pros and cons of each payment method.
- ✓ **Send bills in a timely manner.** One major reason for slow payment is late or inaccurate bills. The sooner you ask, the sooner you'll get paid. Issue your invoices up front, along with a product at the point of delivery, or on a regular basis (such as at the end of each month).
- ✓ **Get invoices accurate the first time.** Build in time for you or your accounts team to check that all invoices are accurate so that there are no excuses for slow payments.



Raising credit notes and reissuing invoices takes up resources and time that would be better spent elsewhere. Credit notes also change payment due dates. Ask customers what they want invoices to include before you send them so that they can approve payment without any delays.

Table 3-1 **Pros and Cons of Payment Methods**

<i>Payment Method</i>	<i>Pros</i>	<i>Cons</i>
Credit cards	Trackable payments Less manual admin	Additional fees
Online payments	Speedy transfer Instant access	Potential online security risks
Direct debit	Administratively light payment method	Customers can split payments over 12 months
Cash	Immediate value and access	Manual processing and banking Potential physical security risks
Cheque	Additional payment method for small customers without sophisticated payment channels	Risk of cheques not being honoured by bank Manual processing and banking
BACS	Regular secure and guaranteed payments into bank account	Additional fees

Anticipating Problems

Very rarely does a payment problem occur without warning. If you pay attention to certain warning signs of payment issues, you won't be caught off guard.



Know your customers and keep in constant communication with them. Be aware of who your slow payers are, where the risks lie, and what you can do to guard against bad debts.

Call your customers before the payment due date to make sure that the invoice has been received and there is no query – this is good customer service.

EXAMPLE



Heeding the warning signs

Iconic UK-based hairstyling brand ghd is now a global leader in its field and sells its popular hair products in 15 different countries. ghd attributes some of its commercial success to the effective management of its global supply chain, which includes manufacturing and distribution partnerships across the world.

ghd has used Creditsafe's reports and Risk Tracker product since 2009 to check information about potential suppliers and customers, because its information is accurate and always up-to-date. The credit control team at ghd use the system to check out potential customers and suppliers, as well as to track specific companies with which it

regularly does business. These tools give the company an early warning signal if a customer or supplier is getting into trouble because ghd can look at media reports as well as financial information. The team uses Creditsafe reports when pitching for business as well as checking out prospects and customers' ongoing credit limits.

Ultimately, the system gives the team confidence that it has the timeliest information about the companies that it's dealing with. Negative changes to ratings can give a signal that things aren't going well with a particular company and that future payments will be difficult to secure.

Revisiting credit limits

You need to revisit credit limits on a regular basis (see Part II). In addition to consulting third-party credit reports, you can build a more detailed picture by factoring in your own payment data. This active ledger management lets you develop a stronger reviewing process based on a combination of payment performance, the value of individual customers to your business and risk profiles as shown by CRA reports.

REMEMBER



A relationship with a customer isn't a one-off transaction. It starts with a credit check at the beginning of a contractual relationship but involves a constant review of payments against agreed terms & conditions.

Reinforcing control processes

Well-run companies are on the alert for any slippage in payments and have a clear view of who is on which terms and when payments are due. They also have a clearly outlined policy on how to follow up on late payments.

How long are you prepared to wait before you send a legal letter or engage a firm of bailiffs? That decision will depend on the quality of your relationships with customers and the value of the outstanding invoices, but it's vital to have an agreed policy in place.

Recognising red flags

The easiest way to manage credit control is to use a calendar or software package that lists invoice due dates and missed payments. These red flags give you the data needed to compile a list of companies to chase for payment.



Have a system for resolving disputed invoices promptly. Customers tend to withhold payments until the smallest of queries are resolved.

Creating a legal contract

A big problem that SMEs create for themselves is to take on customers without establishing a legally binding contract. Perhaps businesses are willing to take this risk because they're keen to acquire new revenues in a difficult market, but it does not pay off in the long run.

Including VAT in your invoice

Creating an invoice isn't just about getting your company's information right; you have to remember to collect VAT as well. Figure 3-1 shows a sample invoice that includes VAT.

According to HM Revenue and Customs,

"If you're registered for VAT and you're selling goods and services that are taxable for VAT, you will need to make a VAT calculation. If you advertise prices exclusive of

VAT, you'll need to work out how much VAT to add. If you advertise prices inclusive of VAT, you'll need to work out how much VAT to record in your VAT account."

{Company Name}
{Company Address}

{Date}

{Invoice No:.....}
{Invoice Date:.....}
{Due Date:.....}

INVOICE

To: {Client Name}

Fees

[Description of services / products]	£XXX
VAT@ 20%	£XXX
Total	£XXX

Payment terms

Payment within 30 days via money transfer only to the following account:

Company Name	xxx
Sort Code	xxx
Account Number	xxx

We look forward to hearing from you in due course.

Yours faithfully,

Credit Control
Company name

Figure 3-1: Don't forget to include VAT in your invoice.



The current rate of VAT is 20 percent. Table 3-2 from HM Revenue and Customs shows how to calculate the VAT that you need to charge. (For a rate of 20 percent, you can also work out the VAT-inclusive figure by multiplying by 1.2.)

Table 3-2 How Much Standard Rate VAT to Charge

<i>Item</i>	<i>Amount</i>
Price excluding VAT	£100
VAT rate	20%
VAT (20% x £100)	£20
Price including VAT	£120

You must pay the VAT you collect to HM Revenue and Customs. (See www.hmrc.gov.uk for more information.)

Chasing Debts at Year End

March and April have become a battleground for finance directors as they chase debts. Creditsafe research finds that over half of UK businesses have their financial year end either in March or April. This means that companies will be chased for payment of invoices and outstanding debts harder over these two months than at any other point in the year as companies seek to reduce their liabilities.

One in five companies that use strategies to improve their balance sheets at year end place the most emphasis on chasing outstanding debts. However, 1 in 20 businesses stop paying supplier invoices entirely toward the financial year end, which results in finance departments locking horns over unpaid invoices. For this reason, it pays to start chasing slow payments earlier in the year instead of waiting until year end.

In the months before year end, 11 percent look to pay only essential bills, such as to utility providers or HM Revenue and Customs. A further 10 percent reduce the amount of invoices they pay to maximise the appearance of their cash reserves. Forty percent of firms limit spending on non-essentials, such as corporate entertainment, facilities and infrastructure, as they prepare to file their accounts.

Part IV

Taking Action When You Don't Get Paid

In This Part

- ▶ Dealing with late payments
 - ▶ Bringing in the big guns
-

It's happened. One of your customers won't pay, despite numerous invoices and phone calls. Although you may feel like your hands are tied behind your back, you can take several steps to increase your likelihood of receiving payment.

Keeping Channels Open

If a client does fall behind with payments, you should take the following steps:

- 1. Pick up the phone and call them immediately.**
- 2. If your client informs you that he can't make a payment, then set up new payment terms and make sure that he abides by them.**
- 3. Get the new agreement in writing.**



If a customer persistently pays you late or makes excuses, consider whether you're prepared to continue supplying it on credit terms. It may be better to lose an order, or even the customer, than supply goods that aren't paid for and lead to bad debts (which means you lose both the goods and the money that you should have been paid).

Being Persistent

Don't be afraid to continue calling in order to secure payment or at least get an up-to-date picture of when a payment will arrive. There is nothing personal about asking for the money that you're owed: It's a contractual arrangement that has been breached.

And when cash is tight, it is the persistent company that continues to press for payment that is front of mind and will potentially get paid first.

Enforcing Stringent Timescales

Many small business owners don't want to chase overdue payments in case they upset their customers. But getting paid is crucial to business success, so you must enforce your trading terms. If your terms for a customer include a 7-day payment period, then make a polite call on the seventh day if the payment has not arrived.



You can't afford to keep clients who can't pay. Help yourself by being organised: Send your invoices out on the same day each month. If you sell products, send the invoice with the goods and follow up with a monthly statement clearly detailing what has to be paid by when.

Following Through on Threats

Ensure any threats of suspensions of delivery of product or service are acted upon and that you're being consistent across the business. Failure to follow through on any threats that you make will result in delays in current and future payments because a customer or supplier won't believe what you're saying.

Always be polite and professional: Do what you say you're going to do when you say you're going to do it.

Taking Legal Action

Have a cradle-to-grave approach to customers: Know when your customers become debtors and ensure that you have a collections process to deal with payment defaults. Too many businesses sit on bad debt because they act too slowly and are nervous about instructing debt collectors.

You can start by sending letters on your own. Figures 4-1, 4-2, and 4-3 show sample letters for recovering debts.

If you've exhausted all methods of ensuring payment and you're getting nowhere, then you should appoint a collection agency or bailiff, work with a *factor* (a third-party organisation that buys the debt and secures the payment in return for a percentage of the invoice value), or submit your claim to the County Court. It's better to get some money from your creditor for your product or service than get absolutely nothing. However, it's best to wait three months before employing this drastic measure as you may find that a customer's circumstances change for the better. Build a hierarchy of debts on the basis of your experience with your customers so that you can decide who to chase first using legal means.

Do your research: No matter which route you choose, try to find external agents that understand your business and are happy to work according to challenging service level agreements (SLAs) set up by you.

Working with bailiffs

A bailiff's job is to collect money that the courts have decided are owed by one organisation to another or, in some circumstances, owed directly to the courts.

There are costs associated with bailiffs, and engaging them to deal with customers may well put an end to any amicable relationships you have built up with them over the years.

Don't be afraid to use bailiffs at the right time.



{Company Name}

{Company Address}

{Date}

{Account Reference:.....}

{Contact Number:.....}

{Direct Email:.....}

REMINDER NOTICE

We write with reference to your Creditsafe Business Solutions Limited contract.

Our records show that we have yet to receive payment(s) due in respect of the above account.

Document Date	Document Type	Number	Due Date	Original Amount	Remaining Amount
XXXX	XXXX	XXXX	XXXX	£XXX	£XXX
Total GBP				£XXX	

Please forward us a cheque or postal order made payable to Creditsafe Business Solutions Limited for the overdue arrears within the next 7 days.

Alternatively, should you wish to settle the arrears by way of BACS our bank details are as follows:

XXXX

Sort Code

XXXX

Account Number

XXXX

Please accept our apologies if this reminder reaches after your arrears have been settled.

Yours faithfully,

Credit Control

Figure 4-1: A standard invoice template.

{Company Name}
{Company Address}

{Date}

{Account Reference:.....}
{Contact Number:.....}
{Direct Email:.....}

URGENT REMINDER NOTICE

We write with reference to your Creditsafe Business Solutions Limited contract.

Our records show that we have yet to receive payment(s) due in respect of the above account.

<u>Document Date</u>	<u>Document Type</u>	<u>Number</u>	<u>Due Date</u>	<u>Original Amount</u>	<u>Remaining Amount</u>
XXXX	XXXX	XXXX	XXXX	£XXX	£XXX
				Total GBP	£XXX

If we do not hear from you within the next 7 days we will arrange for your services to be suspended pursuant to clause 3.3 of our Standard Terms.

If you wish to avoid such action then please forward us a cheque or postal order made payable to Creditsafe Business Solutions Limited for the overdue arrears within the next 7 days.

XXXX
Sort Code **XXXX**
Account Number **XXXX**

Please accept our apologies if this reminder reaches after your arrears have been settled.

Yours faithfully,

Credit Control

Figure 4-2: A standard reminder letter template.

{Company Name}

{Company Address}

{Date}

{Account Reference:.....}

{Contact Number:.....}

{Direct Email:.....}

NOTIFICATION OF LEGAL PROCEEDINGS

We write with reference to your Company name contract.

Despite our endeavours to resolve this matter there remains an outstanding balance on your account.

Document Date	Document Type	Number	Due Date	Original Amount	Remaining Amount
XXXX	XXXX	XXXX	XXXX	£XXX	£XXX
				Total GBP	£XXX

We have now passed your account to our legal representatives to commence County Court proceedings to recover the outstanding arrears, together with interest and costs.

Please accept this letter as the formal notification of the commencement of legal proceedings.

If you wish to avoid such action then please forward us a cheque or postal order made payable to Company name Limited for the overdue arrears within the next 5 working days.

Alternatively, should you wish to settle the arrears by way of BACS our bank details are as follows:

XXXX

Sort Code

Account Number

XXXX

XXXX

We look forward to hearing from you in due course.

Yours faithfully,

Credit Control

Figure 4-3: A standard notification of legal proceedings template.

The most common type of bailiffs are certified bailiffs who work for private firms, but some court bailiffs also work for Her Majesty's Courts and Tribunals Service government.

Most certified private bailiffs belong to an association, such as Bailiff Advice Online (www.bailiffadviceonline.co.uk) and the Civil Enforcement Association (CEA) (www.civea.co.uk). A *certified private bailiff* is the last port of call if a Magistrate's Court fine is ignored, an arrangement defaulted, or contact cannot be made with the debtor.

A bailiff has power of entry regarding a magistrate's warrant. He's allowed to climb over fences, walk in any unlocked door or enter through a window (according to the bailiff's discretion). A bailiff can clamp or remove a debtor's vehicle and take goods up to the value of the fine – including further charges and fees added by the bailiff.

County Court Bailiffs are civil servants employed by the county courts where they're based. They enforce county court orders and the orders made at tribunals that have been transferred to the county court for enforcement.

Factoring debt sale

Factoring provides a fast prepayment against your sales ledger. It allows organisations to increase their working capital and improve cashflow by selling unpaid invoices to a factoring company at a discount. The principle behind factoring is that it's better to get paid 85 percent of the value of invoices than nothing.

Factoring is offered to businesses trading with other businesses on credit terms and isn't normally available to retailers or to cash traders. Factors can be independent or subsidiaries of major banks and financial institutions.

You may need to place credit limits on your customers in order to limit the amount of invoices that need factoring. After signing an agreement, the factor will typically agree to an immediate advance of up to 85 percent of approved invoices – with the balance to be paid when the debtor pays the debt. The initial payment is usually made available within 24 hours.

More information is available from www.businesslink.gov.uk.

Going legal: County courts/CCJs

County courts are sometimes referred to as the small claims courts. They deal with civil matters, such as claims for debt repayment, including enforcing court orders and return of goods bought on credit; disputes over contracts, unpaid debts and negligence claims. County courts deal with all monetary claims up to £50,000.

A *county court judgment* (CCJ) orders a defendant to pay a sum of money to the claimant. CCJs are recorded on the Register of County Court Judgments for six years and can affect a defendant's ability to borrow money.



Taking a case to court should not be undertaken lightly and will involve making a payment into the court, which will consider your case but will expect to see that you have taken all reasonable steps to secure the payment by other means.

If the defendant can't or won't pay their debt to you when they're served with a notice by the court (within 14 days from the date the copy was posted to, and received by, the defendant), you can ask the court to give you a CCJ. This is served on the defendant and will affect his ability to trade even when the payment is cleared.

You can find more information about County Courts at www.justice.gov.uk.

Part V

Ten Great Resources

In This Part

- ▶ Discovering more great information
- ▶ Making the most of online resources

You can find a lot of great resources online in your quest to guarantee payment. In this chapter, Creditsafe gives you ten useful websites you won't want to miss.

Institute of Credit Management (ICM)

www.icm.org.uk

ICM is Europe's largest credit management organisation. It represents the profession across trade, consumer and export credit and all credit-related services.

Credit Management Association (CMA)

<http://creditmanagementassociation.org>

CMA is a nonprofit association that helps credit, collection and financial decision-makers get the information and support they need to make fast, accurate credit decisions. In addition, CMA assists insolvent companies with workouts or liquidation through cost effective alternatives to bankruptcy.

Confederation of British Industry (CBI)

www.cbi.org.uk

The CBI, the UK's premier business lobbying organisation, provides a voice for employers at a national and international level.

Institute of Directors (IoD)

www.iod.com

The IoD is a nonparty political organisation that represents the interests of business. Members include CEOs of large corporations as well as entrepreneurial directors of start-up companies.

British Chambers of Commerce (BCC)

www.britishchambers.org.uk

The BCC is the national body for a network of Accredited Chambers of Commerce across the UK. It directly serves not only its member businesses but the wider business community.

Federation of Small Businesses

www.fsb.org.uk

The Federation of Small Businesses is the UK's largest campaigning pressure group promoting and protecting the interests of the self-employed and owners of small firms.

The Business Information Providers Association (BIPA)

www.bipa.uk.com

BIPA is an association of the five principal Commercial Credit Reference Agencies in the UK. Its role is to facilitate economic growth through the promotion and protection of statutory publicly available data used by Credit Reference Agencies (CRAs) in the UK.

Forum of Private Business

www.fpb.org

The Forum of Private Business is a proactive business support organisation focused on the growth and profitability of small businesses. It offers a comprehensive package of member services to help businesses make money and save money.

Smallbusiness.co.uk

www.smallbusiness.co.uk

SmallBusiness.co.uk provides useful resources, products and services for small business owners and start-ups. It offers free online advice in the form of news articles, guides, tips and features that can point you in the right direction to start and run your own small business.



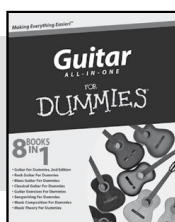
FOR DUMMIES[®]

A Reference for the Rest of Us![™]

MUSIC



978-0-470-97799-6

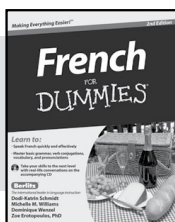


978-0-470-48133-2



978-0-470-49644-2

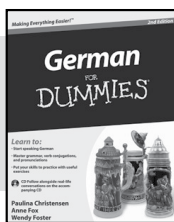
LANGUAGES



978-1-118-00464-7

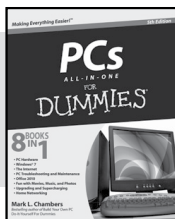


978-0-470-68815-1

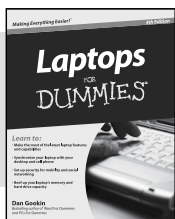


978-0-470-90101-4

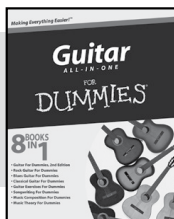
COMPUTER BASICS



978-0-470-61454-9



978-0-470-57829-2



978-0-470-53483-0

Available wherever books are sold



WILEY

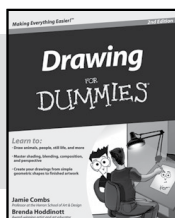


A Reference for the Rest of Us!™

ARTS & CRAFTS



978-0-470-75857-1

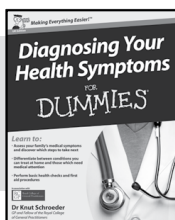


978-0-470-61842-4

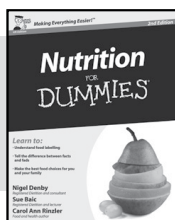


978-0-470-28747-7

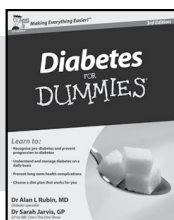
HEALTH



978-0-470-66096-6



978-0-470-97276-2

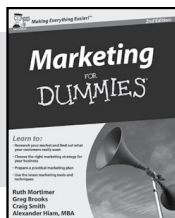


978-0-470-97711-8

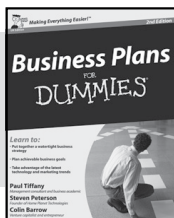
BUSINESS



978-0-470-97810-8



978-0-470-74179-5



978-0-470-74717-9

Available wherever books are sold



11_32812

WE ARE NOT JUST A CREDIT CHECKING COMPANY.

WE ARE A BIT MORE INTELLIGENT THAN THAT.

Despite the fact that we are Europe's most used provider of credit information, what we offer goes far beyond a credit rating and red and green light. Our data, website and rating model is the most up-to-date on the market and offers a wealth of business intelligence and insight in just a few easy clicks.

In fact, it's so easy to use that you can put it in the hands of other departments, not just finance.

Whether it's the sales team checking out potential customers, the marketing team generating a list of prospects or the MD checking out an acquisition target, Creditsafe offers invaluable business insight.

It's simply a more intelligent way of doing business.

For a free company credit report please visit
www.creditsafeuk.com/free-report

For 100 free marketing prospects please visit
www.creditsafeuk.com/free-prospects

Alternatively if you would like to talk to us
please feel free to call us on **0800 0778759**

www.creditsafeuk.com

creditsafe
simply smarter

Your indispensable guide to getting paid on time

Want to change the way you work to improve operational efficiency and reduce business risk? This book can help. Find out why getting paid on time is important, not only for paying the bills, but also to help build a stronger business for the future.

Packed with concise and effective tips, *Getting Paid For Dummies* is your one-stop shop to enable you to improve your cashflow and get your finances in order.

- ***It's all about the money*** – discover simple but effective tips for keeping the financial wheels in motion
- ***Know your limits*** – understand and make the most of credit limits
- ***Getting serious*** – know when and how to take legal action
- ***Digging deeper*** – find the best online resources to help you

Creditsafe is the most used provider of Company Credit Reports in the industry with five Creditsafe Reports downloaded every second across Europe. Launched in Norway, Creditsafe now has offices across Europe, employing over 500 people and supplying more than 50,000 customers. Creditsafe aims to change the way business information is used by providing high-quality data in an easy-to-use format, allowing everyone in an organisation to make smarter business decisions.



Open the book and find:

- How to set credit limits with your customers
- Tips for stopping late payments in their tracks
- The right professionals to contact for help
- The rules and regulations you need to know
- How to improve your credit rating

Go to Dummies.com
for videos, step-by-step examples,
how-to articles or to shop!



For Dummies®
A Branded Imprint of



ISBN: 978-1-118-34083-7
Not for resale