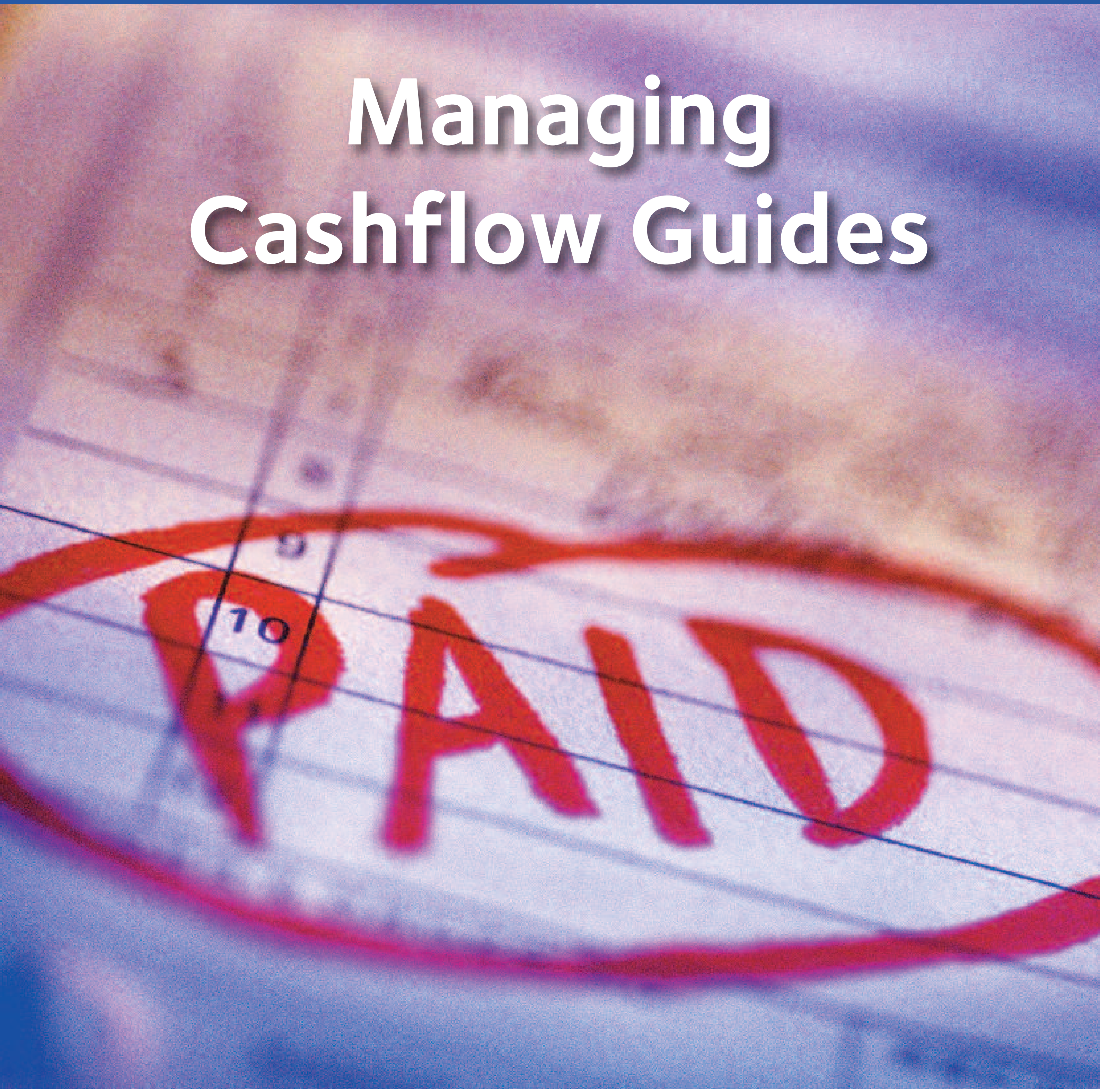
Managing Cashflow Guides



2. Payment terms

ICM Institute of Credit Management
Empowering the credit profession

BERR Department for Business Enterprise & Regulatory Reform

Cashflow is critical to business survival but all too often the day-to-day challenge of running a business, particularly a smaller business, can mean losing sight of some of the skills for successful cashflow management. This series of guides, developed in partnership with the Institute of Credit Management, is part of a series of initiatives providing practical support to help businesses help themselves through these difficult times. They are designed to provide straightforward and speedy advice with simple checklists and top tips. I hope you find them useful.

Peter Mandelson
Secretary of State for Business

If payment fails to arrive for goods or services you have provided, your cashflow can be under real pressure. Cashflow keeps business in business and – if you think you are being paid on one date and your customer has a different date in mind – you could be in trouble! Making assumptions is dangerous and formally agreeing payment terms in advance is vital.

Can you answer yes to all these questions?

- Do you discuss and agree payment terms with your customers (and with your suppliers) before you accept (or place) an order?
- Do you confirm the agreed payment terms in writing before you accept (or place) an order?
- Do you negotiate payment terms with your suppliers that allow you longer to pay than the terms on which you are paid by your customers?
- If the answer to the question above is no, do you have finance or a finance facility in place to bridge the gap between the time you pay and the time you get paid?
- Do you produce, and then regularly review, a cashflow forecast to ensure that everything is under control and there is nothing waiting to surprise you?
- Do you have standard payment terms in place and a policy within your organisation saying that they cannot be changed unless properly authorised?
- Is the payment due date clearly shown on all invoices?
- Do you have a strategy in place for dealing with requests from customers who suddenly and unilaterally demand a longer time in which to pay?
- Do you include your right to make late payment and interest charges on your contracts and invoices?

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Five Top Tips

1. Set out and agree payment terms in advance and in writing. It's better to know what to expect than to leave things to chance and wonder why the money hasn't arrived later.

2. Watch out for any wording in documents from your customer that changes the agreed payment terms. If you accept their order, you might also be accepting their changed payment terms. If their documents contain terms that are different to yours and you fail to challenge them, their terms will take precedence.

3. Whenever you write about payment terms, and on your invoices, include the words: "We will exercise our statutory right to claim interest (at 8% over the Bank of England base rate) and compensation for debt recovery costs under the Late Payment legislation if we are not paid according to our agreed credit terms." Even if you don't intend to do so, it can be a useful deterrent against late payment.

4. Raising a further invoice for interest and late payment charges is an excellent way of gaining your customer's attention and raising the profile of your outstanding invoices.

5. If your customer unilaterally tells you they are going to take longer to pay in future, you will have to decide how important their orders are to your business. If they're claiming the extended payment terms for invoices already raised, you should demand payment under the previously agreed terms for goods or services previously supplied.

The Guides in this series:

1. Knowing your customer
2. Payment terms
3. Invoicing
4. Treating suppliers fairly
5. Credit insurance
6. Factoring and financing options
7. Chasing payment
8. When cash runs short
9. When all else fails
10. When your customer goes bust

For tips on getting paid and advice on best practice in credit management, call the Institute of Credit Management on **01780 722 911** email **tech@icm.org.uk** or visit **www.creditmanagement.org.uk**

For further information and advice on starting up, running and growing a business, call Business Link on **0845 600 9006** or visit **www.businesslink.gov.uk**

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