

4 Simple Ways to help you avoid the impact of late payment.

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Introduction

Whether the credit crunch is reality or myth, there is no doubt that finance to support business is becoming less readily available, As a consequence, pressure on cashflow is building, and our 'best practice' advice is more important than ever .

Always follow these four simple tips to mitigate the impact of late payment:

1. Know your customer
2. Agree the payment terms before you supply
3. Invoice accurately, clearly, and promptly
4. Don't be afraid to ask for payment - it's your money!

This is an interactive document!

Within this document there are various items that are clickable which allow you access to supporting online resources. Look in the "Interactive Tools" section for calculators, role plays and quizzes. When clicked the tools are opened in a new window, then simply follow the on-screen instructions.

There are also links to various websites throughout the document such as the Institute of Credit Management and ICM Online Services. Click the links to access the extra information.



TIP 1
KNOW YOUR CUSTOMER

Getting your facts right

"A sale is a cost until it is paid for!"

Every 3-4 minutes of every working day a business closes down in the UK due to insolvency.

You therefore should KNOW YOUR CUSTOMERS!! Knowledge is everything (and so are your profits)!

What do you know about your customer base? Are you at risk from potential bad debt? Do you regularly assess the credit status of your clients?

Sales alone are not enough – businesses need cash to survive and until a debt is paid the selling company is multiplying costs thus eroding net profit. The word 'credit' is derived from the latin 'credere' (to trust) and this trust should be based on customer knowledge.

You must look to assess:

- Character - willingness to pay
- Capacity to pay - capability to run business
- Conditions - business and economic situation
- Capital - ability to pay

Who are you dealing with?

Liability is the key word.

It is vitally important from day one to capture the correct liability or legal identity of your customer. If a business is known as 'ABC Widgets' – this is not enough, even if everybody identifies historically with this name.

You must find the correct liability behind the trading name. This is the individual or company that is liable to pay your debt.

The most common forms of liability are:

Sole Trader

'Mr (or Mrs) XXX trading as ABC Widgets'

This is an individual (not a company) who is the business owner. In the event of the failure of the business, the individual faces bankruptcy and is personally liable to pay any losses to creditors. It can be difficult to assess the worth of the person because there is no obligation to lodge annual accounts.

Partnership

'Messrs XXX or The XXX Partnership t/a ABC Widgets'

Partnerships are to be treated similar to a sole trader, but in the event of a partnership failure, all partners are joint and severally liable to pay the outstanding debts. This means you are within your rights to bring an action against any partner to recover your monies.

Limited Company (Private)

ABC Widgets Ltd. - or XXX Ltd t/a ABC Widgets

A company is to be regarded as a 'separate legal entity'. It exists, as a person does, in its own right. It can trade under its own name, have its own bank accounts, sue and be sued. The ownership of the company is with the shareholders whose liability is limited to the value of their shareholding. (A company can be formed with a minimum shareholding of £2)

You can bring no action against a shareholder or director to recover debt, only the company.

Private companies do need to file annual accounts although small companies can file 'cut down' or modified accounts.

Public Limited Company (PLC)

ABC Widgets Plc - or XXX Plc t/a ABC Widgets'

A PLC is owned by shareholders whose shares can be bought by the general public. They are listed on the stock exchange and are subject to stricter reporting regulations than private companies.

A PLC can raise money by public sale of shares and a lot of information is available on these companies both through published accounts and via the internet bulletin boards and financial press / websites.

Finally, if you get the liability incorrect, in the event of a business failure, technically you may have no recourse through the courts to recover your outstanding monies.

This information begins with your credit application form and can be confirmed through various sources.



TIP 2

AGREE PAYMENT TERMS BEFORE YOU SUPPLY

Terms and Conditions

The effectiveness of your company's credit control directly affects your profitability. Any credit extended to customers should be the minimum required in order to win the sale (obviously accept cash wherever possible)!

The terms and conditions of sale apply to every order whether written or verbal and are essentially a legal contract in as much as there exists an offer and acceptance, consideration, and both parties act voluntarily to close the sale.

A part of these conditions of sale are the credit payment terms.

At the point of sale, a clear understanding must exist between buyer and seller. Any ambiguity at this point will allow the buyer opportunity, however feeble, to evade payment at a later date (and will make any attempt at legal recovery action difficult and expensive).

The selling company's payment terms and conditions must be clearly communicated verbally and in writing to remove any confusion.



TIP 3

INVOICE CLEARLY, ACCURATELY AND PROMPTLY

Raising the Invoice

It's essential that you invoice as soon as possible after the goods or services have been supplied. Your customer can't pay an invoice they haven't yet received!

Your invoice should include:

- Invoice date
- Invoice number
- Invoice address
- Customer order number
- Description of goods or services sold
- Net invoice value
- VAT value
- Gross total



TIP 4

DON'T BE AFRAID TO ASK FOR PAYMENT – ITS YOUR MONEY!

Telephone Collection

Planning Your Call

Even before you pick the phone up, you should be prepared for any eventuality, excuse or action:

- Know who you are calling – telephone number / name / position
- Have all the relevant account data to hand (invoice numbers / dates / amounts / order numbers and so on)
- Review your customer contact log to ascertain previous history with your contact. The log should show previous excuses encountered, and how you handled them (if you countered the excuse professionally, it probably will not be used again)!
- Review the age of the debt, and know who to ask for if you need to escalate the call to a higher authority
- Know what you are asking for. What are your call objectives? Are you calling to chase the usual monthly amount, or do you need to resolve any disputed or long overdue debts?

You must be clear about these options *before* you pick up the receiver.

Structuring Your Call

Armed with the above information, if you are still not confident, it is a good exercise to note down or bullet-point the main structure of your call. For example:

- Ask for Mr Johnson in accounts payable
- Introduce yourself and your company and ask when the March account is scheduled to be paid?
- If he says the cheque is in the post, ask for details of the cheque including if it was posted first class, and when it was posted
- Be persuasive
- Use Mr Johnson's name
- Close the call with a promise of payment

These kinds of reminders can be jotted until you are confident enough to 'fly solo'. With experience, call structures will become second nature.

Get Your Facts Right

Ensure you know why you are calling. Double check your ledger balances and account numbers to make certain you are collecting the correct amounts and invoice numbers.

Make Pro-Active Calls

A good piece of advice is to call a couple of days before your amount is due to ensure your customer has all the relevant data to hand in order to process your payment. For example, if your client requires a copy invoice, you can fax one immediately to ensure your payment is received on time. This is a method of removing obstacles *before* your account is actually due.

Keep a Call Log

It is very important to keep a log of all conversations and follow-up actions. The call log should show:

- The date and time of the call
- The person you spoke to
- What was said in the conversation
- Any actions you had to fulfill
- Any promise of payment from your customer including payment dates
- Your call observations

After the call has been made, you should immediately diarise your follow up. For example, if your customer has promised payment by the 15th of the month, ensure you call either just before the 15th to ensure you are on the payment run, or on or immediately after the 15th if you are not paid!

A simple example is highlighted below although most computerised accounting packages have text, or memo boxes to record such information against your customer record.

Credit Control Calls Log

Company:

Date: Name: Message:

Find the Decision Maker

If you are unsure who your payment contact is, do not accept a promise of payment from somebody unless you have their name and position. In your sales department, unless you speak to the person who can make the decision to buy, then you will never make a sale. In the same way, unless you speak to the payment decision maker, you will never get paid.

Use a Persons Name

You will receive a persons attention, and keep it, if your use their name frequently in your conversation. If you do not know the name of your contact, ask for it. If you do not hear it clearly, ask them to spell it. This will give an indication of your professionalism and will enable you to communicate on the right footing. Remember, your call is a negotiation and you need to remain in control.

Be Confident and Persistent

Be polite, professional and confident. You are only asking for money that is owed to you. Your customer ordered the goods in the first instance, you have delivered, and now require payment. It is all part of the same contract and you have a clear legal right to make your call.

Use questions to establish facts and never lose sight of your call objective, to obtain a clear payment promise. Be firm rather than aggressive and never be rude to a customer, always be businesslike and do not use slang terminology. Professional determination will win every time.

Take Personal Responsibility

You call a furniture company to order a new sofa. You arrange delivery for a specific date and time. You take a half-day holiday from work to accept delivery and it does not arrive! How does this make you feel?

Therefore, if during the course of the conversation you agree to do something, THEN DO IT!!

Develop the Call

Open the call with a request for payment, then confirm the payment by asking for the exact amount, invoice numbers, where the cheque was sent, was it sent first class and so forth.

Use questioning to establish key facts. Open questions are useful to mine for information for example "Where was the cheque sent Mr Smith?" Closed questions are good for drilling down to single facts (you can generally answer 'yes or no' to a closed question). An example is "do you agree the balance due is £1000?"

This type of questioning is a vital part of the call process. It will establish any barriers to payment and professionally build customer relationships.

Obtain a Promise

Always obtain a promise of payment or action as soon as possible. If you do not, you have wasted your call.

Closing the Call

After applying the above call techniques you should 'dip for the wire' by closing the call for payment. Remember again to confirm the amount to be paid, the payment date and if it is a cheque, ensure it will be sent first class.

Once you have obtained a commitment, politely thank your client and finish the call.

Other Considerations

There are a number of alternative collection aids to assist in achieving the objective. A visit to collect a cheque is usually a good way to put your customer 'on the spot' when the usual collection techniques are unsuccessful. You can also use your sales team or transport department to collect key payments where necessary. This can be most effective where the threat of suspending supply of goods is used.

Try to communicate the positive side of stopping supply by choosing your words carefully. Mention that you can deliver on a specific day, whilst asking for payment to be collected at the same time.

Never underestimate the threat of withholding supplies or even legal action in order to obtain payment from customers who use too many excuses. Your judgment and experience will tell you whether a customer is 'crossing the line' and sometimes just the threat of legal action and the resultant effect on their credit rating will be enough to secure your payment.

In the same way the mention of 'Collection Agencies' or 'Debt Recovery Agents' can be enough to spring a hardened debtor into action.

The use of the 'statutory demand' is another powerful tool in the collector's bag. It is a document that can be served upon an individual or company giving them 21 days (for an individual) and 3 days (for a company) respectively to respond or you can technically close the business down via bankruptcy or winding up proceedings.

Note: Your debt must be over £750 to issue a statutory demand.

If a customer actually can pay, they will generally respond to this threat immediately.

Finally, the above 'harder' options should only be used as a last resort. In the course of everyday business, your confident and persuasive telephone technique should prove to be successful.

Tip: It is good practice to 'smile' when speaking to customers on the telephone. Silly as this may seem, it does actually work! In the same way, you can sometimes inject a level of urgency into your call delivery by standing up whilst speaking.

Interactive Tools

Roleplays

Select a roleplay below by clicking on the title below. Watch and listen to the scenario presented and click the answers as required.



• The cheque's in the post

• Making the call

The following ICMOS Calculator makes it easier to identify the cost of credit impact on net profits. By simply typing in your profit margin, cost of borrowing and credit days overdue, the software will calculate the impact of profit erosion over time. You can then analyse variable targets until a realistic view is achieved.



Calculator

Profit Erosion Calculator

Simply type in your total sale value, net profit, cost of borrowing and credit days overdue, the software will calculate the impact of profit erosion over periods of 30, 60 and 90 days and any other 'Days Overdue' figure that you wish to input. Click to access the calculator.



Test your knowledge of the topics covered. Simply click on the name of the quiz below to pit your wits against the computer!

• Collection Techniques

• Risk Assessment

ICM Online Services



icmOS Lite is a streamlined version of the full icmOS system. It majors on Credit Risk Assessment and Collection Techniques and includes calculators, quizzes, questionnaires, factsheets and roleplays bringing these topics to life.

[Click here for more information](#)



Our system delivers a Virtual Learning Environment which is comprehensive, structured and cost effective. It is an open platform learning system comprising key benchmarking and tracking tools. These allow credit managers to set targets for their teams, track real-time progress, evaluate training needs and deliver departmental and personal assessments.

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Credit Management Matters is an online portal designed to help you get paid with tips from the UK centre of excellence and links to resources brought to you by leading industry professionals.

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