



Proactive Credit Control

A guide for small businesses

Proactive Credit Control

When you supply goods or services to customers without being paid for them in advance or on receipt, you are offering your customers credit. Credit control is a vital part of your business' operations as it maintains your cash flow by ensuring you receive payment from customers as quickly as possible.

However, collecting those debts on time can be one of the most difficult jobs in business. But proactive and effective credit control can ensure your business stays afloat even in difficult times.

If you fall behind in collecting what's due, your business will struggle to pay your staff and the taxes to the Inland Revenue, which always falls on strict set dates, let alone pay your suppliers.

Here are a few suggestions that could help to implement effective credit controls in your business.

How many days do you want to be paid in?

When you started out in your business did you think, everyone gives 30 days credit so I have to? If you did, don't worry most people start off thinking like that, however, why do we think that?

Why do you offer credit at all? When was the last time you went to Tesco, filled up your basket, got to the checkout and said *"Thanks for my groceries, I'll pay you half now and half once I've eaten them to make sure there's no problems?"*

I certainly haven't done that, so why in business do we assume this is the default way to trade? Think about your business, how many days after raising an invoice have you predicted in your cash flow that you will get the money coming in? If you state 30 days, then set your payment terms as 14 days, in this country the average invoice is paid 15 days late. So by setting 14 day terms, you should get most of your invoices paid within 30 days.

Contracts

Contracts are critical in establishing your relationship early on. A contract should:

- establish who you are
- clarify who they are
- explain how you want to get paid, by what method and detail what credit terms, if any, you are going to give them. If you are based in England and don't specify your credit days, the courts use 30 days as standard, however if you do specify 7, 14, 28 days etc., then yours are binding, providing you haven't signed a different contract and your terms were the last ones received. By specifying the number of credit days you are more likely to get paid on time

- explain the consequences of not paying on time. If you are a B2B business always use the *Late Payment of Commercial Debt (Interest) Act 1998 as amended*. Rather than stating your own percentage interest or administration fees

Credit terms don't have to be confrontational, being polite is really important, but you do need to be clear of the consequences of late or non-payment. Putting terms in place in the initial contract means you are forming the relationship with your customer from a great starting point of trust.

Timely Invoicing

To get your invoices paid on time, you need to raise your invoices on time. Delaying raising your invoices and/or sending out your invoices, means you give your customer a reason to delay payment.

One of the most common reasons for non-payment I hear is *"I didn't receive the invoice for 2 months, so why should I pay in 14 days?"* In fairness you can see their logic. Delaying invoicing gives your customer a reason to delay payment, so don't do it!

Invoice Details

When we talk about invoice details, most people think about:

- Invoice number and invoice date.
- Terms, due date and payment details.
- Your registered and trading details.
- Customer details.
- VAT number (where VAT registered).
- Product or service supplied.
- Net charge, VAT Charge and total charge

But don't forget that...

- Invoice numbers must be unique and sequential.
- Any descriptions on your invoice must mean something to your customer, not you.

For example, Item description "XP2889F" may mean something to you but your customer might ring up and order "Branded Pens with a metal clip". So putting XP2889F on their invoice would lead to confusion over what goods you are charging for.

Also remember to include:

- Customer references/purchase order number.
- Name of individual placing the ordering.
- Consequence of late payment

Always include "Interest will be charged under the Late Payment of Commercial Debts (Interest) Act 1998".

This allows you to charge Bank of England base rate +8% for monies owed after payment terms. However, it doesn't mean you will automatically apply it. It is up to each business when they apply the above. Some people apply it every time an invoice becomes overdue whereas others use it for repeat offenders.

Include survey links in your invoice

We all know that feedback matters. By including a link to a survey in your invoice you are engaging with your customers. The more engaged a customer feels, the more likely they are to engage with you, recommend you and come back to use you again.

Including a link to the survey on your invoice also means rather than sending an email with the subject line "Invoice 75 is attached", which is unlikely to be opened until nearer the due date and immediately tells your customer you are asking for payment, you can use a subject line like "Your feedback matters and it'll only take 3 minutes".

You will be amazed how well this works!

Use interesting Subject Lines

We all know we get bombarded with emails on a daily basis, the trick is to ensure you get your emailed invoices opened. If they don't get opened, they won't get seen, if they don't get seen, they won't get paid or queried and if they don't get paid or queried, you don't have a business.

So how do you get your emailed invoices opened?

It certainly isn't by sending an email saying "Invoice 75 is attached". All that does is tell the customer that the email will demand their attention, it's a bill and they will need to take further action. In other words that subject line is telling them that you want them to do something which will not add value to their business or make them feel great about themselves.

Instead if you do send an email "As one of our most valued Customers: Your feedback is really important to us", immediately you are making them feel great about themselves. You are empowering them to provide you help. Everyone loves being asked for help. People will open the email to see how they can help you, what sort of feedback it is that you want.

So by using interesting subject lines you will get your invoices opened. An opened invoice, is a read invoice. A read invoice is one step closer to becoming a paid invoice.

Getting paid should be seen as customer service, not accounts

If you view getting paid as customer service rather than accounts, you will approach the calls with the right attitude.

By making the proactive calls you are making getting paid all about helping the customer. Who do you think the customer will pay first:

- the company that rings them up and shouts down the phone because they haven't received payment,
- or the customer who rings them up for a chat, remembers little details they've been told and resolves invoice issues before they become a problem?

Think about yourself and the way you prioritise who you pay. Do you pay the shouting people first, or the nice people?

Making credit control about customer service and always saying it's your fault, or your systems fault, not only gets you the honest answer, it also gets you remembered and paid quicker.

Relationship Building

If you think about getting paid as building relationships, rather than asking for money, you are more likely to:

- 1 – Want to make the phone call
- 2 – Look forwards to making the phone call
- 3 – Approach the phone call in the right way

Yes you can have the option of outsourcing these calls to third parties, but you don't need to. Getting paid is about building relationships, since you already have the relationship with your customer, build on it. If you have a credit controller, or a dedicated person who makes these calls, sit them in Customer Service or with the Accounts Managers rather than in Accounts. They can still report to accounts, but they need to be sat with the people who establish the relationships.

If you tie up credit control with Customer Service, you will be firming up the relationships already built with your customers rather than having someone in accounts, who may not understand the importance, the length of time a contract was to win, or what issues that customer is facing since they are more likely to tell the sales person whom they know rather than an accounts person they don't. The key to getting paid is by building relationships formed on trust.

Make proactive calls

1. A couple of days after you've sent the invoice, pick up the phone. Have a chat to your customer about the product or service you provided, make sure they are happy with it, ask for and answer any questions they may have.

Also ask them about their life, we all love talking about ourselves! Make a note of the things that are happening in their life, then during the conversation ask them *"I've emailed you invoice 75, have you received it, or has the spam filter eaten it?"*

If you said *"I've sent you invoice 75, have you got it?"* You are implying someone is at fault and that person isn't you. By blaming the spam filter, you'll normally get a giggle and an honest answer.

If they respond *"I've not seen it"* say you'll send it over now and could they just check to make sure it doesn't get filed as spam as if it does you know you'll need to address it with your IT department. Again you are implying it's you that is going to do all the work. Customers appreciate that.

2. About half way through your payment terms, around the time of the event happening in your customer's life that you noted down in your Proactive call 1, pick up the phone again.

Start by asking them how that event went. Show consideration for their answer and engage them in conversation. Find out what else is coming up for them, their family, the business and again note it down.

Then say *"You told me you'd received invoice 75, have you got any questions on it? Is there anything I need to resolve?"*

By phrasing it like that, you are implying if there is a problem it's your fault, not theirs. By asking that question you will learn:

- 1 – if they've looked at it
- 2 – if there are any issues, you can sort them now not after it's due
- 3 – if there are no problems, it's likely your customer will put the phone down and pay you.

Debt recovery

If there are no disputes concerning the debt and the business is satisfied that a customer is able to pay their invoice but is simply failing to do so, debt recovery action should be taken.

In many cases, the first stage is to refer the issue to a third-party debt collection agency or a solicitor. This type of action is often successful because receiving a letter from a debt collection agency can be enough to show the debtor that the business is serious about taking action to recover the money owed.

If this is unsuccessful, the business may then choose to go to court to obtain a judgement against the customer. This will enable the business, for example, to instruct bailiffs to seize and sell assets in order to clear the debt.

If the customer is a limited company, and has a debt of over £750, the business could threaten to move directly to insolvency proceedings, either by issuing a statutory demand - which, if not paid within 21 days, entitles the business to apply for a winding-up petition - or by seeking the appointment of an administrator.

Hints and tips

- It can be difficult to assess the creditworthiness of start-up firms because they have no trading history and there may be little other information available. It should be possible to obtain the partners' or directors' details through Companies House to check if they have run any other companies that can be credit checked. If there are any concerns over their financial status, the partners or directors can be asked for personal guarantees of payment. However, personal guarantees can be difficult to enforce, so it is important to take legal advice on how to put them in place.
- As well as carrying out credit checks before trading and re-checking at regular intervals, it is possible to subscribe to a monitoring service that will provide an alert if, for example, a customer receives a County Court Judgment (CCJ) or fails to file their accounts on time.
- A solicitor can draw up a Reservation of Title clause (also known as a 'Romalpa' clause) for inclusion in terms and conditions of sale so that the goods or services supplied remain the property of the supplier until all sums due have been paid.

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