



## **All Sales Are Gifts Until They Are Paid For**

There are three golden rules in business at the moment: cash; cash and cash!

The businesses that survive the “credit crunch” will be those that are able to manage their cash resources effectively. Those that do not, even though they may be basically profitable, will fall by the wayside.

The cash position of most businesses, no matter how small, can be improved by adequate planning, controlling expenditure, and good credit management.

The latter is vitally important. Giving credit is expensive and you lose money every time a customer delays payment of an invoice. Six years ago, bills in the UK were paid on average 14 days late. Now it’s even worse!

Even before the credit is given you have to consider some fundamental points: -

- Establish the credit-worthiness of your customers by obtaining information from credit rating agencies, requesting trade references or making formal enquiries. Ask for a banker’s reference.
- Set a credit limit for each customer — as a general guide, a good figure would be the expected value of three months sales. Have a policy on orders taking credit over the limit and stick to it.
- Written terms of business are essential, particularly when it comes to enforcement.

When to bill may well be determined by the type of business you are in, and can be on despatch or completion of the work, or at regular intervals - weekly or monthly.

The important thing to remember is that very few customers will pay without an invoice!

The quicker you invoice, the quicker you will be able to collect. Also be aware of your customer’s payment system – if they pay the previous month’s invoices at the end of the following month, a few days delay in sending an invoice could mean a month’s delay in payment.

For example, an invoice received on November 30 will be paid at the end of December, whereas an invoice received on December 1 will be paid at the end of January.

Having made a sale you still need to get the customer’s money into your bank account. It is essential that you establish a system of regular debt reviews.

Send out a statement promptly and follow up as soon as the credit period has ended. Slow follow-up creates the impression that you do not mind very much when the invoice is paid and the customer is likely to be slow in paying.

The longer a debt is overdue, the greater the risk of not getting paid at all. So take immediate action:

- Telephone to see when payment will be made. Back up important conversations with an e-mail, fax or letter and log all calls/correspondence.
- If the invoice has not been authorised for payment find out who is responsible and chase them.
- With larger companies chase before the due date to ensure that the invoice is on their system and authorised. It is no use finding out after the event that you have missed the monthly payment run. This is less of a problem with smaller companies where the payment system is usually less rigid.

It is particularly important to remain in contact with the customer if you think there may be a liquidity problem. Those that shout the most usually get paid first!

Some customers will use disputes to delay and avoid payment. Deal with any disputes promptly as early settlement means earlier receipt of cash. If all else fails consider using a debt collection agency or enforcement.

Don't forget that you are running a business and not a charity.

For more information and helpful templates see The Better Payment Practice Group website at [www.payontime.co.uk](http://www.payontime.co.uk).

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FCA Solutions Ltd, 44 Kelling Way, Broughton, Milton Keynes, MK10 9NW  
Telephone 01908-258823 Fax 0870-770-4377 e-mail [info@fcasolutions.co.uk](mailto:info@fcasolutions.co.uk)