



The Bigger Picture



we need to talk about...

Keeping cash flow healthy and managing bad debt

We've all heard the excuses, "we've lost your invoice", "the cheque is in the post", "our accounts system is down today". Chances are, if you are told something along these lines when you chase for payment, your customer is experiencing some kind of financial difficulty. Nicola Cutler, a solicitor in the commercial dispute resolution team at Bath law firm Withy King, advises on how to keep cash flow healthy and manage bad debt.

Now more than ever, it is important that your credit control systems are in shape. With the economy recovering, trade and new business is growing and although many businesses are being increasingly proactive when it comes to addressing outstanding debts and late payments, cash flow and credit control can still be a big problem for businesses.

Many people find talking about money and chasing debt uncomfortable and fear pushing customers away. However, it's your money and you are entitled to be paid on time.

Getting paid

The UK has legislation in place to protect companies against late payers and companies of all sizes are being encouraged to sign up to the Prompt Payment Code which aims to promote

best practice between organisations and their suppliers.

However, in order to protect your business you should also ensure that you have adequate credit control procedures in place to minimise the need to take legal action to recover money owed to you.

Having a clear credit control strategy and an automated approach to cash flow is crucial and can achieve noticeable results quickly. By instilling a strong credit control culture backed up by clear processes and procedures, and sticking to them, businesses would see a huge difference in their ability to get paid on time.

Have a system

So what should you be doing to improve cash flow and avoid those bad debts? Firstly, you don't have to have a dedicated credit control team. If you

have a clear policy on debt collection and ensure that everyone in the business who deals with invoicing and finances knows of, understands and applies the policy consistently, debt management will improve from day one. Your policy doesn't have to be complicated. As a start, always ensure that you know your customer and carry out credit checks on new customers or seek a reference from other suppliers. Ensure both sides are on the same page when it comes to your payment terms and make it clear before you start trading with a new customer when you will be invoicing and when you expect to get paid.

Ensure invoices are sent promptly and make it easy for customers to pay. Online transfers and direct debits are quick and easy to set up. Try to avoid customers paying by cheque which can slow the whole system down.

By improving your business's cash collection processes, sticking to the procedure and addressing potential

bad debts before they get out of hand, our experience is that your customer relationship will improve as a result of everyone being clear about what to expect.

Taking advice

If you just can't get a customer to pay and there is no obvious reason why they are not paying, then there are various ways to go about recovering the money.

The Late Payment of Commercial Debts legislation provides businesses with the ability to claim fixed compensation from £40 to £100 for late payments in business-to-business contracts. It also gives businesses the ability to demand interest, currently at 8.5%, on late payments.

Depending on whether your customer is a business or an individual there are then different methods of formally demanding payment for substantial or persistent unpaid debts and you should seek professional advice.

FOUR THINGS YOU SHOULD THINK ABOUT IF...

you're looking to improve your credit control system

Credit checks

Credit checks can be carried out quickly and relatively cheaply by a range of online providers. Key things to look out for are unsatisfied judgments, average days to settle debts and whether the debtor company has any cash in the bank. You can also pay to download accounts filed with Companies House.

If your customer is not a limited company it will be more difficult to find out about their financial status and it is not possible to credit check an individual without their permission. You should take account of this increased risk when considering credit limits for such customers.

Review your terms and conditions

It is vital that your terms and conditions are in good order, clear and relevant, and that each customer has signed them and understands that they are incorporated into your supplier contract. Both you and the customer should keep a signed copy on file in case any difficulties arise in the future.

Invoice promptly

You can't chase a debt that isn't yet contractually "due and payable". Even if you have concerns about the invoice being paid, ensure that the invoice is still sent as usual. If you are genuinely concerned about the customer's ability to pay, then you should consider whether you should still be working for them.

Get advice

Despite all your efforts, there may be occasions where a customer just won't pay. There are a range of services available to assist you with debt collection and there are no benefits in delaying taking more formal debt recovery action. Equally, there are services available to take on debt collection on your behalf so as to allow you to focus on other aspects of your business. Withy King will explain the options and discuss those suited to your business and specific circumstances.



Nicola Cutler is a solicitor in the Commercial Dispute Resolution team at Withy King in Bath. She regularly advises on debt recovery as well as corporate and individual insolvency. For advice on debt recovery or insolvency issues, or any other commercial dispute, please contact Nicola on 01225 730 100, nicola.cutler@withyking.co.uk or @Cutler_Nicola on Twitter.