

Collecting cash

Nobody has ever gone out of business because they had too much cash. Cash management and debt collection are not the same. And, if you think debt collection starts once the invoice is past its due date, then you've missed a trick. Most businesses are paying more attention to cash management than ever before.

Credit control

Collecting cash starts with credit control and credit control starts with deciding to whom you'll give credit and on what terms. It doesn't start with getting on the telephone to chase overdue payments. A good credit control system should improve your cash flow and minimise bad debts.

Before you give credit to a new customer ensure they complete a credit application form. As well as including all the basics like business name, addresses, legal status, amount of credit required, the dates of their supplier payment runs, you should ask for the names of the owners, the name of the person you should contact about payment queries and the contact details for two trade references.

This may seem like unnecessary administration but do take up the references – bear in mind how much you need to sell to make up for a bad debt. Get a credit rating report; these are widely available on-line. Decide how much credit you want, and can afford, to give. Set a credit limit and stick to it. If you're concerned that your potential customer may not be in good shape, ask for cash up front or get personal guarantees from the company's directors. Bear in mind how much credit the potential customer has asked for and apply these measures sensibly. Let your sense of how much you would be hurting if your business lost £x act as your guide to the amount of checking and information gathering you conduct.

Given the times in which we live very few people will object to you taking these precautions. If they do, don't give them credit.

Ensure your terms of business and payment terms are clear – print them on the credit application, sales invoices and statements – and ensure they are comprehensive. Do you allow early settlement discounts? Do you apply interest to overdue accounts? Do you exercise retention of title? Ensure that your sales invoices include details to enable customers to pay you by post, BACS or on-line. Having clear sales invoices will minimise the likelihood of errors, delay and

mis-understandings. You may find it useful to have your solicitor review your standard sales invoice format to ensure they are clear and legally competent.

Delivering the goods

Observe the agreed protocols – don't let the absence of, say, a purchase order number hold up your customer processing your paperwork. We'll work on the assumption that you get the order right and both parties have followed their own procedures for purchase orders and despatch. Then, always obtain proof of delivery and ensure your customer is satisfied.

Sales invoices and statements

Send your invoices out quickly – ideally the same day the goods are despatched. Send statements early in the month, every month. Many businesses will not pay an invoice until they receive a statement.

Chasing up

He who shouts loudest generally gets paid first. Chase up overdue debts quickly. Phone calls can be very effective. The key thing is doing what you said you'd do when you said you'd do it. If you say you'll call back on Tuesday, then you must. This helps build up a head of steam and will also send your customer a very clear message – you are serious. Your customers will soon get wise to the fact if you don't follow through. If they do, they'll ignore you!

Delaying tactics

If you're told that "we haven't received your invoice" then send a copy immediately. Most of the other usual excuses – "it hasn't been passed for authorisation", "we can't pay it as it doesn't quote a purchase order number" etc – should be addressed by your credit application form. If you've done your homework at the credit application stage they shouldn't

be able to give you the run around now. Alternatively, take a note of these details and update your records.

If you're told "the cheque's in the post" (I know, it is difficult to say with a straight face)

ask for the cheque number and date of posting. Be wary of round sum payments – these may suggest that your customer is in financial difficulty and is only paying what they can. (Alternatively, if you are in financial difficulty, always pay whole invoices). If you do get a hint that your customer may be in financial difficulty, then escalate your efforts immediately.

If no cash is forthcoming we now move further down the track from routine credit control to debt collection.

Debt collection

If the debts are overdue then stop supplying immediately – don't add to your risk. Send them a 7-day letter; if that doesn't result in cash or an acceptable payment plan then you need to decide if you're going to "go legal". As a last resort, a personal visit to the customer can also be very effective. It also gives you an insight into the condition of their business.

There's not sufficient space in an article of this length to cover the ins and outs of the whole legal process. Appoint a good debt collecting agency or firm of solicitors. They will advise you on the efficiency and efficacy of your options. There are a number of DIY options but, again, take professional advice on these options in the first instance.

The more you know about your debtor and their circumstances the greater chance you have of collecting your cash. This takes us back to credit applications again!

Avoid the hassle

You could save yourself much of this hassle by factoring or invoice discounting. As most factors offer 80% of your sales invoices within 24 hours it will speed up your cash flow. This is not the right solution for every business; much depends on the nature of your debtor book. If you do look at this be sure to go in with your eyes open to the charges you'll be liable for, the length of the contract, the notice period and the costs you'd incur for early cancellation of the contract.

And finally,

I haven't been able to trace the author of the well known saying "The only man who sticks closer to you in adversity than a friend is a creditor." I do know it is a good practice to follow. ■

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