

Limit Your Exposure

Late payment is draining the small business sector and making it too weak to lead any recovery. It is a far too common for companies, particularly the large ones, including many PLCs to pay their invoices six months or more after they are due. The sooner these companies sign up for the Confederation of British Industry's Prompt Payers Code the quicker a recovery can begin

Support of this code is one area where the government needs to make a difference by legislation, if necessary in order to provide some assistance to the small business sector. This is particularly so at a time when the small family owned business can ill afford to lose the custom of their larger clients; by enforcing a more stringent collection policy which they may need to, as they are being hampered by the banks increasingly new found reluctance to fund any short-term cash flow difficulties.

But the Plcs are not the only problem; businesses in the UK are on average waiting 80 days and more for their debts to be paid. The cost of offering this credit to debtors can be expensive not only in terms of the costs of financing these sales with what is likely to be an overdraft, but also the other costs involved, such as the extra administration required to monitor an overburdening sales ledger and the increasing possibility of bad debts, as the age of the debt increases. All of this can cost up

to 10 per cent of turnover.

Hence every business requires more than ever the operation of a proper credit control policy, which must first start with the individual who is making the sale. The salespeople have to be the eyes and ears of the business and should be able to advise not only on the debtor's ability to pay, but also whether it is prudent to give additional credit. Clearly bonuses/ commission have to be paid on cash received from debtors and not sales invoiced. A second source of information are credit status reports, these reports can nowadays provide a wide variety of information. For instance, whether the directors have been disqualified or bankrupt, details of mortgages and County Court Judgements, as well as the company's annual accounts and financial ratios.

These ratios can be useful as they indicate the normal length of time before a business pays its debts. Constant monitoring of debtors is required not only of new customers but also your established ones. One computer stationery supplier in the Midlands is finding that customers that it has been trading with for over ten years are now going under.

Credit Control

The second stage in limiting bad debts and getting debtors to pay early is to implement and moni-

tor a proper credit control policy. This requires not only a regular review of the aged debtors analysis, but also a standardised approach to the collection program, which must include invoices, statements, follow-up letters and telephone calls. Calls made on a regular basis are the most effective method of realising debtors, as those who shout loudest get paid first. Finally a plan of action must be ready to be implemented if these procedures do not produce the results.

If your own internal debt collection efforts are exhausted, it may be productive to place unpaid debts into the hands of a debt collection agency. This can be considerably cheaper than the cost of the initial stages of the legal process, particularly as most agencies work on a commissions basis. One intriguing new idea to take before the legal process is the use of a debt collection agency's own standard letter threatening legal action which can be sent by the accounts staff. These letters can be purchased from some collection agencies for a standard yearly charge of between £300 - £400 and can save time and money prior to taking legal action.