Your Essential Credit Management Handbook

What's Inside?

How to tackle late payment excuses
Common credit control strategies
Invoicing mistakes to avoid

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Amid all the challenges that businesses face on a daily basis, getting paid on time has arguably reached number one on that list.

Scarcely a week goes by without another piece of research highlighting just how late customers are paying and how much time and effort is being invested in credit management with little return.

And despite a whole raft of strategies at businesses' fingertips, our experience as a commercial debt collection agency shows that it is proving difficult for credit controllers to identify which represent the most productive and cost-effective.

We've probably heard more excuses for late payment than most, having worked on behalf of businesses across a whole range of sizes and sectors to recover aged debt.

Yet we also know which approach works best to bring positive conclusions to often complex cases.

That's why we've decided to put this expertise to use and produce this credit management handbook, which covers a range of tips and advice to help businesses through the order-to-collections process.

We hope that it will help you in your fight against late payment.

Alex

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CHAPTER 01

Before the sale

Making sure your business receives the money it's owed in full and on time begins as soon as an order is placed, something too many businesses fail to realise. This chapter looks at some important steps your business should take before you accept any new orders.

12 common credit management strategies

As much as businesses wish there was, there is no silver bullet or panacea when it comes to credit management.

Different customers and sectors will respond better to some strategies than others, while some simply won't pay on time regardless of your credit controllers' efforts.

What businesses can do, however, is have a clear picture about the different strategies that could be used based on different eventualities.

This not only provides the best chance of getting paid, but also reduces the impact of late payment on the business's all-important cash flow. Here, we look at some of the most common tactics employed by British businesses.

1 Constant reminding

Whether by phone, email, letter or in person, there are always ways to contact your customers to remind them of the invoice.

The secret is to contact them at the most opportune moments. Check out our credit management timeline on **p.14** for some of the key touch points.

2 Suspending work/services

This is quite an extreme step to take, but it can prove extremely effective. By refusing to trade with a particular customer – usually one which has a track record of paying late – you're forcing their hand to either clean up their act or go elsewhere.

Though the latter option seems counter-productive, you have to ask yourself how valuable a customer they are if they don't pay on time. For more reasons why not supplying bad customers makes perfect business sense see **p.35.**

3 Credit reports

Credit reports are an excellent tool to gain a picture of a prospective or existing customer's creditworthiness prior to offering them credit terms.

The outcome of the report can be used to determine the length of terms to supply, whether a deposit should be taken up-front or whether you should trade with them at all. View **p.12** for more information on credit reports.

4 Suspending customer credit facilities

By refusing to extend credit terms to a customer, you remove the risk of them not paying at all.

This decision can be based on your previous experiences with that customer, or perhaps an unfavourable credit report being obtained.

However, it can lead to your business being less competitive and lead to that customer looking elsewhere.

5 County Court Judgments

Although it can be an expensive process, legal proceedings are available to businesses wishing to take a strong stand against a late paying customer.

The threat of court can sometimes be enough to encourage payment, but it can prove to be a stressful, drawn-out and costly method.

6 Visiting debtors in person

Unfortunately it can be quite easy for a customer to ignore phone calls, emails and letters requesting payment.

Sometimes it can therefore be worth knocking on their door to request payment and have a face-to-face conversation to demonstrate how valuable their prompt payment is for your business.

7 Applying statutory late payment interest

Businesses have a legal right to charge their customers statutory interest and late payment compensation should they miss a payment deadline.

This can compensate your business for the impact late payment has on your cash flow and additionally cover the cost of employing a debt collection agency to recover the full amount. Visit **p.22** for more information.

8 Written credit policy

More commonly used by larger businesses, a written credit policy can be a great way to ensure your team

goes about its credit management in a structured, effective and consistent way. We look at whether it's essential or excessive on **p.9**.

9 Early settlement discounts

In many cases it can be more beneficial financially to be paid a smaller-than-quoted sum if it means payment is received after seven days instead of 30.

Any customer taking advantage of the offer also means that's one less account your credit control team has to worry about. For more information, see **p.19**.

10 Invoice finance

The nature of trading on credit terms means there will always be a cash flow gap between providing a service and getting paid.

Invoice finance enables businesses to access up to 90% of their invoice value within 24 hours of an invoice being raised, while facilities can also incorporate a sales ledger management service and bad debt protection.

See **p.40** to read more about how invoice finance can help your business bridge the cash flow gap.

11 Credit insurance (bad debt protection)

Bad debt protection can also be provided on a standalone basis. By safeguarding your cash flow against late payment or protracted default, if affords you peace of mind when trading on credit – particularly for larger contracts. To find out more about how credit insurance could protect your business see **p.36**.

12 Outsourcing

Chasing customers for payment can be an arduous task. As a result, some businesses choose to instruct a debt collection agency to recover unpaid invoices which are proving difficult and time-consuming to chase.

Other businesses choose to outsource all or part of their credit control function so that they can concentrate on running their company. Check out **p.37** for more information about this option.

A written credit policy: Essential or excessive?

Amongst the many different credit management strategies that businesses are using and considering implementing to protect their cash flow against late payment, a written credit policy doesn't feature highly.

Our research suggests that fewer than one in five SMEs have a formal policy in place, though they are much more commonplace amongst larger companies. But used correctly, credit policies can make a big difference to being paid on time.

What is a credit policy?

A credit policy is essentially a set of rules that dictate the procedures that staff should follow when trading on credit terms. It ensures a co-ordinated approach to credit control across the company and will be based on past experiences and best practice so that it's as relevant to your business as possible.

In truth, credit policies will vary considerably from business to business. Ranging from a few small paragraphs to several pages that are aimed at either the credit control department or the whole business, both formats can be argued for and against.

The important thing is to get it right for your business.

What are the key benefits?

Biggest of all is that a credit policy will ensure a consistent approach to credit management from every staff member and across each customer. It means that every customer will be offered the most appropriate credit terms and contacted at the right times, whilst ensuring that the credit control team understands what action to take at different stages of the order-to-collections process.

This helps to increase efficiency within the department as staff can get on with their jobs rather than seeking the opinions and approval of other team members and managers. It also removes bias, brings continuity when new staff are recruited and forms a key part of the training collateral.

Whereas some company policies can be regarded as rigid, inflexible structures however, credit policies can be much more fluid and evolve continuously according to new experiences, trends and industry developments. The end result will be that customers will pay faster and your business's cash flow will be improved.

To combat late payment, too often we are seeing businesses only react when it's too late. By taking the necessary steps up front, a more proactive approach can put your business back in control.

How to use your credit terms to your advantage

Keeping your company competitive is a crucial part of running a business.

Business owners often invest a lot of thought and research into setting prices for products and services.

You probably reviewed the competition, conducted market research surveys and then monitored how well they have been selling before adjusting the prices accordingly.

It's all part of putting your business in pole position within your marketplace and being attractive to potential customers and clients.

But when it comes to considering credit terms, the level of investment is often much lower. How much thought went into deciding your credit terms, and how often do you review them?

Many businesses are missing a trick when it comes to their credit terms. They're a major component of keeping your business competitive, but they can also be fundamental to maintaining a healthy cash flow.

Recent research we conducted indicated that the vast majority of businesses give their customers between 15 and 30 days to pay, as the following table demonstrates:

Credit terms offered					
Pro forma	1-14 days	15-30 days	31-60 days	61-90 days	Don't know
3%	8%	79%	7%	1%	2%

This is understandable. It gives your customer time to pay and for any disputes to be raised and resolved, without causing too much of a cash flow gap between paying suppliers, providing a service and getting paid for it. But how is this working for you in practice?

There are two key considerations here. Are your competitors offering more favourable terms than you are? And how are your credit terms impacting your cash flow and credit management performance? Unfortunately there is a fine balance between the two.

When customers are taking too long to pay, businesses will often look at how they can improve their credit management processes.

But many fail to review their credit terms. We therefore delved deeper into our research to assess what impact, if any, credit terms can have on getting paid.

Delay (days)	Credit terms offered		
	1-14 days	15-30 days	31-60 days
No delay	14%	10%	16%
1-14	27%	21%	28%
15-30	45%	51%	44%
31-60	14%	15%	8%
Over 60	0%	3%	4%

What does this mean for your business?

As would be expected, businesses that offer the shortest credit terms will typically be paid sooner.

It also demonstrates that, regardless of the credit terms you offer, approximately one in two invoices is paid between 15 and 30 days late.

Generally speaking, the research indicates that if your cash flow dictates you need to be paid within 45 days of providing the goods or service, you have an 86% chance of doing so if you offer credit terms of up to 14 days. This compares to just 31% for those offering 15-30 day terms.

Adjusting your company’s credit terms

By spending some time reviewing how your credit terms are working, you might be able to spot some trends and try adjusting your credit terms in order to improve your cash position.

The important thing to remember when doing this is that no two businesses are the same.

You need to take the time and effort to find out what works best in your industry so that you can make the right choices for your company’s requirements.

How well do you know your customers?

With late payment and bad debts commonplace in the current climate, it's becoming increasingly important to know your customer before committing to offering credit terms.

There will always be a risk in taking on a new client, but there are ways you can limit the risk by collecting key information.

How to gain the necessary information

The first step is therefore to obtain all the necessary business information, including their full trading name, legal status, registration number, address and the key contact details of the management and contact responsible for accounts payable.

An effective way of doing so is by sending an application or account opening form for completion, which could also detail your business's terms and conditions of trade.

As well as this, there are a few more important questions you should be asking such as: Are they paying other suppliers on time? How are they performing financially? Do they have a good credit rating?

Without this information you won't know whether they are capable of paying you.

Fortunately you can use the information gained from this form to ask a credit expert to check the credit risk posed to your business through the extensive range of credit rating services on the market.

Online credit checks can be completed in a matter of minutes. This process is particularly important when taking orders from larger customers, where late payment can carry heavy consequences.

Importantly, it offers peace of mind knowing that customers are likely to pay on time and, should their credit score be low, you can therefore demand full or partial payment up front, decline their order, or at the very least take extra caution when performing credit control.

With the unbalanced nature of the current economy at the forefront of many people's minds it is vitally important to credit check not just new customers, but to check them throughout your relationship as things can change overnight.

The pros and cons of credit reports

The pros of credit checks are plentiful, namely reducing the risk of bad debt and cash flow issues, recognising when to request full or partial payment up front and knowing who you are talking to by obtaining accurate information.

The biggest deterrent associated with performing regular credit checks is the cost involved, as it's an upfront fee that must be paid before you enter agreement with the customer or accept new orders from an existing one. However this can be overcome.

For example, you could absorb the cost of the reports into your pricing structure with the client. You can also work with credit reference agencies to buy credit reports in bulk – so to reduce the cost.

But most importantly, credit reports effectively pay for themselves as the risk of running up late payments and bad debts could cost your business more than by fulfilling this credit control procedure.

Therefore, the cost is offset against the impact a bad debt would have on your business's finances and its cash flow.

Spotlight: Credit circles

Does your business benefit from participation in a credit circle? Have you ever considered tapping into this resource?

If not, you're in the majority but potentially missing a trick when it comes to safeguarding your business against late payment.

Essentially they are a means for businesses to share important creditor trends with fellow companies – typically other members of a trade association – in order to access instant information on the creditworthiness of customers.

Members belonging to credit circles tend to meet regularly to share their

experiences, but commonly post information online in the interim so that any unusual and instant changes to a customer's payment habits can be taken into account when making credit decisions.

In a climate where the financial health of businesses can change overnight, this can be a highly useful resource and complementary to the use of credit reports.

Credit control timeline: Key steps

One of the most important but frequently overlooked elements of the credit control process is the process itself.

By clearly setting out a day-by-day strategy from the moment the order is placed until the invoice is paid, your accounts receivables team can adopt a co-ordinated and professional credit control procedure.

Once you have agreed the timetable with all the relevant people in your company, the next task is to ensure that the necessary levels of training are provided so that all stages are adequately completed and meticulously stuck to at all times.

Stages can include invoicing the day the order is fulfilled and courtesy calls or letters that politely, but firmly, remind the customer of their obligation to pay.

Should the invoice not be paid after a certain time, it may be beneficial to pass the debt over to a specialist commercial debt collection agency.

Below is an example timetable based on credit terms of 30 days, but it should be adapted to your business's experiences and needs:

Day 1: Send invoice immediately
Once your services have been provided send an invoice immediately. Any delay you make will give the customer an excuse to put off making a payment.

Day 14: Courtesy call
Put in a courtesy call to check receipt of the invoice and to confirm when payment is due.

Day 31: Courtesy call
As soon as the invoice goes overdue call the customer to remind them of the due date and check when they expect to pay. It's possible it was a simple mistake.

Day 37: Send a letter
Explain in a letter that payment is overdue and that they are being charged interest on the debt under the Late Payment of Commercial Debts (Interest) Act 1998.

Day 43: Send a high impact letter
Send another letter explaining that the debt will be passed on to a debt collection agency in seven days if the debt is still unpaid.

Day 50: Hand the debt over
Now that you have exhausted your in-house efforts it's time to pass the debt over to a commercial debt recovery agency so you can concentrate on newer invoices.

CHAPTER 02

After the sale

Arguably the most critical phase of the credit control process is the period between the sale and the date the invoice is due. To increase your chances of success this chapter covers important steps to follow.

10 common invoicing mistakes

Everyone makes mistakes. We're only human after all. But a mistake on an invoice could lead to disputes on payment and be costly for your business.

Here are 10 common invoicing mistakes and how you can avoid them...

1 Not invoicing straight away

As soon as your goods or services have been provided send your customer an invoice. Any delay you make will give your customer an excuse to stall payment.

It can be beneficial to send the invoice via email with a read receipt request.

This is faster than sending via mail or fax and will allow you to see when it has been opened.

2 Getting customers' addresses wrong

When you have lots of customers it can be easy to mix up addresses but this mistake could be costly for your business. In the best case scenario you'll be left embarrassed and there may be a delay in payment.

Worst case scenario you could end up breaching your contract by divulging your client's private information to another party. This simple mistake could cost your business a large amount in legal fees.

3 Addressing the invoice to the wrong person

Often when dealing with large companies the person you are corresponding with is not the person in charge of paying you.

Make sure when sending the invoice you address it to the most relevant person. If you're not sure who this is, ask, or you could face a long wait for your payment.

4 Not displaying credit terms prominently

Sending an invoice is pointless if you don't tell the customer when they need to pay by.

Always include your credit terms in a prominent position that your customer can clearly see.

Better still, provide an exact date that payment must be received by. This will reduce the chances of your customer missing the deadline date.

5 Not offering/detailing a range of payment methods

It's always good to give customers a choice when it comes to making a payment. So, where possible, try to offer a range of payment methods and make sure these are clearly stated on your invoices.

6 Getting the figures wrong

Always check that you have got your numbers right. Any mistakes, no matter how big or small, could lead to disputes and delays in payment.

Even something as simple as accidentally using the wrong currency mark could result in a company failing to pay.

7 Adding on undiscussed fees

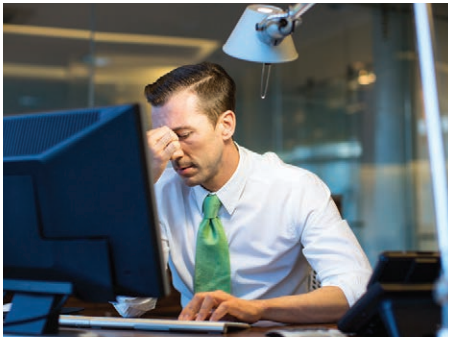
Similarly, do not be tempted to add on undiscussed fees. Customers do not like surprises and added fees are likely to anger your customer and could lead to them refusing to pay the outstanding balance.

If you need to bill for more than originally discussed speak to the customer first. Do not just assume they will be happy with any extra fees you wish to charge.

8 Not proofreading

Not only do mistakes look unprofessional and reflect badly on your business, but they could lead to disputes on payment.

A lot of the common invoicing mistakes mentioned could have been avoided if the invoice was checked for grammar, spelling and mathematical mistakes. Never send out an invoice without checking it first, it could save you a lot of embarrassment in the long run.



9 Not following up

Once the invoice is sent do not assume that your customer has received it and will pay accordingly.

This is not always the case. Follow up with a courtesy call to check that they have received your invoice and their intentions to pay.

10 No back-up files

It is essential to keep back-up files of all invoices – not only for your own reference, but also in case there is a dispute with payment.

You never know when you might need to refer to these so make sure they are stored in a safe place and that you have a back-up just in case.

Are you making it easy for your customers to pay?

There are a number of reasons that customers may choose not to pay on time.

But one of the ways your business can make it easier for your customers to pay is to address the payment methods you offer. After all, the easier it is for your customers to pay, the fewer excuses they'll have not to.

There are a range of payment methods your business can offer but some will be more suited to a particular sector or customer base. Typically, the more options you offer the more likely it is you will receive payment on time and in full.

Our research suggests that the most common method of payment accepted by SMEs is BACS, which is popular among businesses and customers alike as it increases the speed in which the money enters your account and reduces the administrative burden on your customers.

Cheques also remain a popular method of payment, even though they must be posted, take time to clear, are prone to human error and leave businesses open to common late payment excuses such as 'the cheque is the post'.

Debit and credit cards are used by a much smaller number, but they make the payment process easy and are convenient for your customers.

Also, if you're having trouble getting a customer to pay up, you can take a card payment over the phone, making it harder for them to stall with excuses.

Additionally, for contracted customers that pay the same amount on a monthly basis, your business may want to consider allowing payment by standing order.

The most important thing to remember is that, whichever payment methods you choose to accept, your invoices should include all the information your customers may require when making payment.

This includes your business sort code and account number, your company address and who cheques should be made payable to.

When trading overseas, it is also important to make sure that your IBAN and BIC are included on invoices to allow foreign customers to pay. Also make sure that, if you are billing in currency, you are able to accept currency payments into your account.

Early settlement discounts: The benefits

Sometimes it can be more beneficial to your business to be paid the majority of an invoice's value early than it is to receive the full amount outside of terms.

Early settlement discounts therefore provide an incentive for customers to pay up promptly, ensuring you get the money you're owed within terms and reducing the cash flow gap between paying suppliers and getting paid.

Although this would lead to a slightly lower profit margin, depending on the impact it has on your credit control the discount could become part of your business's pricing structure going forward.

The discount percentage needn't be excessive, nor apply to every customer, just enough to encourage those that are notoriously poor at paying on time.

Typically, early settlement discounts are approximately 2.5% for customers who pay within stated credit terms.

Again, this incentive must be clearly stated on every invoice and the figure your customer would be saving by paying early should also be stated prominently.

Alternatively, you could consider entering all those businesses that pay inside a week, for example, into a competition, which would also improve your customer relations.

How to use your Terms & Conditions to limit aged debt

It might be well known that the likelihood of recovering an invoice in full diminishes rapidly the longer it remains overdue, but businesses are too often finding that they have little power to affect this process despite their best efforts.

Aged debt remains a significant challenge for SMEs, not just because it represents money that hasn't come into the business, but also due to the amount of time and resource that must typically be invested into its recovery.

What many fail to realise is that your Terms & Conditions of sale are a powerful weapon, particularly as paperwork is integral to the collections process whether conducted in-house, through a debt collection agency or in the courtroom.

Four steps to optimise your Terms and Conditions

1. Ensure that the customer's signature is obtained before the point of sale, confirming their acceptance of your T&Cs. Nowadays, simply referring them to a webpage isn't enough.

2. To help avoid disputes, which can be used as a stalling tactic by customers, request notification within a set period of the delivery or provision of the goods or services.

3. Should a credit report indicate the customer isn't in the best shape financially, consider requesting a personal guarantee from the director to protect you in the event they enter insolvency.

4. Ensure your T&Cs state that you have the right to charge late payment fees for having to outsource the collection of the invoice to a debt collection agency.

CHAPTER 03

Beyond terms

Once credit terms have been exceeded, it's vital to move quickly to recover the debt and protect your cash flow. This chapter explores ways that you can minimise the impact on your business.

Charging statutory interest: The basics

The UK was one of the first countries to try to clamp down on the challenges posed by late payment of commercial debts.

The Late Payment of Commercial Debts (Interest) Act was introduced in 1998 to enable small businesses to claim interest for late payment from large businesses with 50 or more employees.

In 2000 and 2002, the statute was extended to permit any business to charge interest on any debt that exceeds credit terms, ultimately encouraging prompter payment by customers.

It was also extended in 2013 to take into account new rulings under the EU Late Payments Directive.

An interest charge of 8% plus the Bank of England Base Rate, accruing daily, can therefore be levied as soon as the debt can be classed as overdue, whilst businesses are also eligible to claim debt collection costs of at least £40, depending on the value of the debt:

Value of debt	Compensation
< £999.99	£40
£1,000.00 - £9,999.99	£70
> £10,000.00	£100

Also, under the EU Directive "reasonable costs" can be charged to further

compensate for the costs of recovering a late payment.

If there is no agreed credit period, then the Act sets a default period of 30 days after which interest can run.

This default period does not constitute a statutory credit period.

Where no credit period is agreed in a contract, the principal debt will still become due from the moment the goods are delivered or the service performed.

The 30-day default period starts running from the latter of the following actions:

- The delivery of the goods or the performance of the service by the supplier; or
- The day on which the purchaser has notice of the amount of the debt.

In B2B contracts, payment terms for prices that are fixed in the contract may not exceed 60 days from delivery of the invoice, or delivery/acceptance of the goods/services - whichever is latest.

However, parties can agree longer payment terms in business-to-business transactions, but only if they are not "grossly unfair" to the supplier.

Meanwhile, the terms for public sector companies may not exceed 30 days.

It is important that your terms and conditions and invoice detail your credit control process, which should reference your right to charge interest under the Late Payment of Commercial Debts (Interest) Act. Whether you decide to enforce these charges in the event of late payment is up to you.

It can be beneficial to notify your customer in writing of your rights and intention to do so if the debt remains unpaid in seven days, but each debt should be treated on a case-by-case basis.

If charges are applied, notify your customer in writing and send a new invoice that itemises the revised amount they owe you.

Reluctance to charge

Less than one in five businesses charge interest on late payment despite having the right to do so, according to our research.

The most common reasons given by businesses for not charging interest were that customers would just ignore it and the potential risk of losing customers.

It can be hard to strike the right balance when collecting money from customers, especially where there is a long standing relationship or you are hoping for repeat business.

However, it's important to remember that you aren't doing anything wrong.

Don't let customers making threats to take their custom elsewhere deter you from pushing for payment and adding on interest that you are rightfully owed.

Especially with persistent offenders, charging interest may act as a deterrent in the future.

Although it's a hard line to take, it is also worth weighing up whether you want to retain a customer that continually fails to pay on time.

Successfully collecting late payment interest

As well as collecting overdue invoices our team also regularly recovers late payment interest to further help businesses who have been stung by late payment.

After chasing a customer in house for eight months our client, Cryer & Stott Cheesemongers, sought the assistance of our experts to help retrieve their money.

Despite continued failure to pay in the past, the introduction of Hilton-Baird Collection Services encouraged the customer to pay up and the debt was settled in full within one month, in three separate instalments.

Cryer & Stott Cheesemongers' director, Clare Holmes, said: "Listening to the customer's stalling tactics was frustrating and we were beginning to lose patience but the team at Hilton-Baird were really professional and were quickly able to retrieve what was rightfully ours.

"As well as this, they also secured statutory late payment interest and compensation for us on top. We were really impressed with the results."

7 elements of quick dispute resolution

Unfortunately, when trading on credit terms, there will be times when your customers dispute an invoice.

Whether it's because they don't agree with your prices, there's a mistake on the invoice or they claim the service wasn't complete, the way a dispute is handled can impact the speed at which you get paid.

If any disputes are identified, it is important to ensure they are resolved as quickly as possible and the cash flow impact mitigated.

There are a number of ways this can be achieved:

1 Ask for part payment

A common mistake when dealing with disputed invoices is trying to resolve the issue first.

Customers that dispute all or part of an invoice may be doing so to bide some time, so to avoid falling into this trap ask them to pay the undisputed part before attempting to resolve the dispute.

This will not only indicate whether it's a valid excuse for late payment, but also ease the cash flow pressure on your business that's caused by the delay.

2 Don't be afraid to confront the issue

Many business owners find the process of chasing customers for payment daunting and they let the fear of upsetting their customers stop them from pushing for payment.

But it's important to face the problem head on as the longer you wait the harder it is to collect payment.

Most invoice disputes can be handled by a simple conversation and need not be daunting at all.

3 Speak to the right person

When a dispute is identified make sure you are talking to the person in

charge of paying the invoice. Having the appropriate contact within the customer's business on file will speed up this process.

Make sure you collect this information prior to sending out the invoice so that there is no delay when a dispute arises.

4 Be prepared

Handling disputes automatically becomes easier if you have facts and evidence to hand.

Keep a record of all correspondence and invoices so that you can prove what you are owed and why.

It's likely that with this information your dispute can be resolved more quickly.

5 Remain professional

Unfortunately, the nature of disputes means that sometimes it can get ugly. But regardless of your client's behaviour it's important to always remain professional and mature.

Be objective and firm. Understand the client's situation and don't forget to be rational. Calmly address the issue, and offer a solution if needed.

6 Think ahead

Debts belonging to customers who repeatedly dispute invoices should be made high priority and paid particular attention to.

To protect yourself in future transactions ask for full or partial payment up front from those you are suspicious of.

7 Feedback

If the disputes turn out to be genuine, then ensure that constructive feedback is given to the department/person responsible for the dispute so that other customers do not end up with the same issues in the future.

How to deal with 5 common late payment excuses

There are so many excuses a customer can use to stall on paying what's owed.

But there are ways to diplomatically find out whether they are telling the truth.

1 "We haven't received your invoice"

First, confirm whether this is the only reason the invoice hasn't been paid. Then, send a copy invoice immediately. Where possible send invoices via email or fax as posting will cost money and further delay the process.

To avoid this late payment excuse always call your customer immediately after sending the invoice to confirm receipt.

2 "I'm disputing part of the invoice"

Before you attempt to resolve the dispute, first ask that the undisputed part of the invoice is paid immediately.

This will not only indicate whether it's a valid excuse, but also ease the cash flow pressure on your business that's caused by the delay. Then focus can be shifted to resolving the dispute.

3 "Our systems are down"

This is an example where it can be useful to offer a range of acceptable payment methods. Access to internet banking may well be difficult for them, but there's no excuse for your customer not to send a cheque in the meantime. If they resist, they're probably not telling the truth.

It's also advisable to ask whether these are common problems. If so, they might know how long it usually takes for them to be fully operational once more.

4 "My director is on holiday"

This is a common excuse, but it's rare that a company director tasked with approving payments wouldn't make any provisions in their absence, particularly with regards to wages and utility bills.

The first thing to do is to ask what these provisions are, and then reaffirm the importance of your invoice and your relationship with the business.

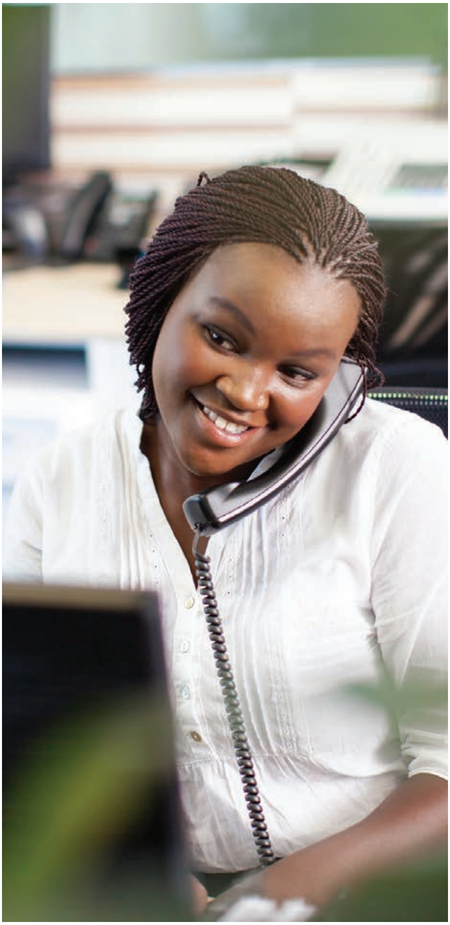
5 "The cheque is in the post"

Initially, ask for the cheque number, postal date and check that they have your correct company address. If your cash flow is particularly tight ask them to pay by an alternative method.

To avoid this late payment excuse altogether in the future, don't offer payment by cheque as one of your acceptable payment methods – particularly given how long a cheque takes to clear.

Your options when a debt becomes overdue

Once an invoice exceeds its credit terms, the pressure's on as the likelihood of collecting the debt in full decreases as the debt grows older. It's therefore vital to know your options when it comes to chasing overdue debts.



1 DIY

Firstly, if you have a dedicated credit control team in-house you may want to utilise this resource to chase the debt.

The key benefit is that your team will already have a good understanding of your customers and will be able to maintain the relationships they have built.

It also allows you to remain in control at all times so you will know what is happening, and allow you to update your cash flow forecasts accordingly.

However, chasing customers for overdue debts can be a time-consuming process that will drain valuable time and resource from your business.

As well as this, especially in small businesses, it's not always viable to have someone dedicated to credit control in-house as employees are fixed costs and the business will need to account for additional overheads that go beyond basic salaries.

Similarly, in small businesses with low staff numbers, the person in charge of credit control may have other responsibilities and tasks to achieve.

This often means that the time needed to dedicate to debt recovery may not always be available.

2 Outsource

If you feel you have exhausted all of your in-house efforts another option is to outsource the debt for collection.

Specialist commercial debt collection agencies excel at the recovery of particularly outstanding debts, dedicating the time and attention to each individual debtor that you may no longer be able to afford.

Their name alone will add further weight to your collections process, often enabling the collections company to play 'bad cop' to secure payment whilst you retain your 'good cop' role, protecting customer relationships.

The cost of employing debt recovery experts can be offset against the risk of losing your money altogether, while most collection services are success-only, which means you don't pay unless your money is recovered.

It can also be balanced against the resource that would otherwise have to be diverted from your own team's credit control, which could then lead to other debts being neglected.

Also, prices vary depending on the value and age of the debt, so it often pays to get debt collection companies in early on to minimise costs and maximise your cash flow.

Outsourcing debts can be a daunting process and many business owners worry about losing control and trusting another company to protect their brand and customer relationships.

The key is finding a debt collector that will respect your brand as much as you do.

Also, by introducing a debt collection agency as part of your normal credit control process you can ensure that the agency complements your in-house collection efforts while putting focus on your debtors to help you get paid on time.

3 Go legal

Whilst some customers will respond to the debt recovery techniques employed by your business or a commercial debt collection agency, others need a firmer approach to persuade them to settle outstanding invoices.

This is where legal proceedings can have the best impact.

However, due to the time-consuming and costly nature of going down the legal route this is often considered as a last resort.

And more often than not customer relationships will be damaged if this route is taken.

But you must ask yourself if you want a customer that consistently fails to pay on time.

Whilst often seen as the most expensive approach to recovering unpaid invoices, legal charges vary depending on the size of the debt involved and the action taken.

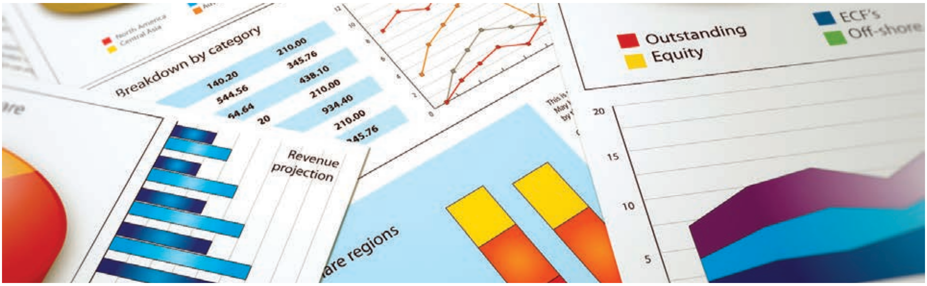
Sometimes a letter before action is all that is needed to get the customer to pay or at least open a dialogue about the debt with the customer.

But, if this is not successful, the ensuing proceedings can be time-consuming and there is no guarantee that you will get what you are owed.

For these reasons it is important to evaluate each individual debt and pick the course of action that will best maximise its recovery.

The legal system can be complex and, with a lot of legal jargon to understand, can be off-putting for many businesses.

By employing a good company to start the legal proceedings on your behalf you will have the added benefit of experts that can offer sound, practical support.



How to adjust for late payment

A fundamental element of credit control is to know precisely when an invoice exceeds its credit terms.

Without this knowledge, debt recovery will not begin on time and your credit control process will lose its efficiency.

Once it's clear that a debt is going to exceed its credit terms, there are two things you must consider. If the second is the best way to go about recovering that debt, the first is of more immediate concern: your cash flow.

Without that expected revenue coming in, the company may not have sufficient funds to satisfy the money going out of the business to pay bills or suppliers, making it imperative that you're aware of what's going in and out of your company at all times.

By updating your cash flow forecast, you will promptly be aware of any impending gaps in the business's cash flow, thus allowing you to take a number of steps to ensure you don't become the one being chased for outstanding debts.

Whilst you could perhaps request an extension to the business's overdraft or ask other customers for early payment, perhaps the most obvious solution would be to request temporarily longer credit terms with your suppliers.

Most will be understanding and let you settle the debt at a later date, particularly if you are a loyal customer and always pay on time. But what's vital is that you let suppliers know as early as possible to give them the time to assess the cash flow implications an extension would have on their business.

Another option would be to request earlier payment from another customer – perhaps at a slightly discounted rate as an incentive.

Updating your cash flow forecast when an invoice exceeds its terms therefore puts you back on the front foot, ensuring there are no nasty surprises.

Could you claim bad debt relief on unpaid invoices?

If you sell VATable goods or services to a customer you normally have to pay the VAT element to HM Revenue & Customs (HMRC).

So when a customer fails to pay, you are left counting the cost of the non-payment – including the VAT element of the invoice that you have already paid – which can have a serious impact on your cash flow.

Fortunately, something called bad debt relief allows businesses to claim back the VAT paid.

This process is often very straightforward, provided you follow the right procedures and keep accurate records.

To be eligible to claim bad debt relief, there are a few conditions:

- The debt must be more than six months old and less than four years and six months old
- It must have been written off from your VAT accounts and transferred to a separate bad debt account
- It can't have been paid, sold or passed across to a factoring company
- The items must not have been sold for more than the normal selling price

If you claim bad debt relief and you later receive payment or part payment, you must pay back the appropriate amount to HMRC via your VAT Return.

This is just one way by which businesses can recover some of the costs involved when their customers don't pay.

If your business has a high level of bad debt and your turnover meets the requirements you might find it easier to account for VAT using the cash accounting scheme.

Using this scheme, you will only have to pay VAT to HMRC when a customer pays you, rather than when you invoice the customer.

CHAPTER 04

Ongoing

Discover what you can do behind the scenes to ensure efficient and effective credit management.

How incentivising sales staff can reduce late payment

While the right mix of credit management strategies will help to limit the threat of late payment, it's also worth considering how your sales teams are incentivised.

For many businesses, calculations are made when an order is placed. This is great for your sales staff and their morale, but is it the best approach for your business?

Ultimately, a sale isn't a sale until payment is received and, with late payment still so prevalent, this saying must assume a greater importance.

Overtrading is a very real risk, so consider incentivising sales teams once payment has been received instead.

This ensures that your staff will be focused on those customers most likely to pay and that the right steps are taken to check their creditworthiness before credit terms are offered.

This ultimately protects your business and its finances.

It will also help to instil a coherent approach throughout the business, with staff targeting the bottom line rather than sheer sales figures.

Why not supplying bad customers makes sense

Aattracting customers is a challenge in itself, so you probably think we're crazy for suggesting you should stop supplying some of them.

But, when those customers are coming between you and a healthy cash flow, they are potentially no longer worth the money they spend with you.

Whilst ending customer relationships is arguably a last resort, implementing a stop list for the worst offenders can be beneficial.

Once on the stop list businesses should be informed and not supplied with any further goods or services until all outstanding invoices have been settled. If after this you continue to supply the customer, consider asking for a deposit or up-front payment.

Still not convinced? Here are four benefits of implementing a stop list.

1 Prevent late payment

Persistently late payers are never going to clean up their act if you keep letting them get away with it. Refusing to supply the worst offenders can be a great way to stamp your authority and protect your business from late payment going forward. If they value your services and want to continue doing business with you they'll have no choice but to adhere to better payment practices.

2 Protect cash flow

As soon as an invoice exceeds credit terms it begins to impact on your cash flow. Without money coming in on time your business may fall behind on payments of its own, racking up high levels of interest and putting strain on your day-to-day business activity. Taking a tough stance on late payment protects your cash flow and ultimately your business's future.

3 Save time and resource

Chasing overdue payments can consume a significant amount of time and resource that some businesses may not be able to afford to waste on persistently bad customers. By implementing a stop list and preventing late payment you remove the need to invest resources into chasing your worst offenders.

4 Improve morale

Dealing with the constant excuses of persistent late payers can be hard work – even for the best credit controllers. By removing or improving the practices of your negative customers your employees will benefit from not having to put up with their excuses.

Safeguarding your cash flow against late payment

Late payment puts significant pressure on businesses. Therefore, it can be beneficial to protect your cash flow, and ultimately your business, by acquiring credit protection.

Credit insurance protects a business's cash flow from the repercussions of late payment and bad debts by safeguarding the business from non-payment through insolvency or protracted default.

In the event an invoice becomes aged or a customer enters insolvency proceedings, the credit insurance company will ensure that you get paid for any goods or services you have supplied, subject to a designated credit limit.

Policies can be tailored to meet your specific requirements, with whole turnover credit insurance protecting your entire debtor book and selective cover insurance allowing you to select individual invoices or debtors you would like the cover to be provided against.

Whilst offered as a standalone facility, credit protection can also be provided through invoice finance facilities that additionally release up to 90% of the invoice's value within 24 hours of its issue to cover the cash flow gap often associated with trading on credit.

Home or away? The benefits of outsourcing credit control

With late payment rife and its impact causing significant strain on the cash flows of companies of all sizes, an efficient and effective credit management process has never been more important.

Credit control plays a crucial role in a business's success, so outsourcing all or part of this function can be daunting, but it can have many benefits.

1 Results

First and most importantly, tapping into the expertise of outsourced credit specialists can help to reduce the number of debtor days and therefore boost cash flow.

The focus and experience an outsourced provider can bring will often result in an improvement in collections.

Most businesses that trade on credit terms find it tricky to plug the cash flow gap between paying suppliers and getting paid by customers.

Dedicated, focused collections effort will keep cash circulating through the business which can help fund day-to-day tasks as well as business growth.

2 Added expertise

Credit management is what an outsourced credit control agency does day in and day out to get results for its clients, meaning knowledge, experience and performance to rival in-house capabilities.

Likewise, not all companies have the capacity or requirement to employ adequate in-house resource so, often, existing staff members will take on the task even if it's not necessarily in their area of expertise.

Outsourcing can take this strain away from employees and they will therefore have more time to dedicate to what they know best.

Certain credit control agencies have expertise in chasing particularly complex debt or a specialisation in particular industry sectors. This can improve results and is worth checking out if considering outsourcing either credit control or debt recovery.

3 It could be more cost-effective

An employee is a fixed cost that can be a big undertaking for a small business with fluctuating revenues and order books.

With permanent staff, a business has to account for overheads that go beyond their basic salaries including training, holiday pay, pensions, management overheads and even desk space.

Outsourcing reduces and even removes these costs and also lets you ramp effort up or down to adjust to demand in a way that's not possible with full-time employees.

5 myths dispelled

1. It's expensive

When you consider the costs associated with an employee, bringing in the help of the experts can actually be more cost-effective. Plus, outsourcing lets you ramp effort up or down to adjust to demand and the expertise and focus of an outsourced agency will often mean that money is collected more quickly which will improve your cash flow.

2. It's only for big companies

Small businesses are increasingly recognising that credit control is not their expertise and a third party is likely to have better results. By fully outsourcing this function, you could free up time to concentrate on your business and still get paid.

3. It takes away control

A good credit control agency will work with your business to create a solution that's fully tailored to your needs. So whether you're looking for a fully-outsourced service or just assistance with your in-house efforts, you can remain in control at all times.

4. Customers won't like it

Services can be provided on a fully confidential basis and include a dedicated local phone number and email address so that it appears to be an extension of your company in all aspects.

5. It will damage my brand

The key is finding a company that will respect your brand as much as you do and will provide a service that complements your brand and nurtures your relationships with customers. Requesting a dedicated credit controller ensures that they know your business well enough to maintain relationships.

Improving performance

The challenges

We were approached by a business to improve their credit control performance, allowing them to focus on fulfilling customer orders without having to worry about incoming payments.

The nature of the business and its customer base meant credit control was a challenging task, given that their high volume of low value invoices were typically raised to customers in sectors which are notoriously difficult to secure timely payment from.

Our service

We created a bespoke solution for the client where we acted as an extension of their team, talking to customers throughout the credit period to keep our client's invoices front of mind whilst preserving their all-important customer relationships.

Tangible results

Since instructing Hilton-Baird, our client has seen significant improvement in their cash flow. Within three months, we successfully reduced their overall debtor days by 24% and brought many notoriously bad payers in line with our client's terms, allowing them to continue to trade with them in confidence.

Funding solutions that optimise your receivables

While improved credit control can provide a number of benefits to businesses suffering from late payment, specialist finance can also be beneficial to help bridge the cash flow gap that arises from trading on credit.

Instead of waiting weeks for payment, with funding solutions such as invoice finance, your business can access the capital tied up in your sales ledger.

Invoice finance releases up to 90% of an invoice's value within 24 hours, allowing businesses to free the cash that's essential to fulfilling new orders, meeting day-to-day commitments and securing early settlement discounts with suppliers.

The two main forms of invoice finance are factoring and invoice discounting.

Whilst factoring can additionally provide credit management support, invoice discounting lets you retain control of your sales ledger, solely providing the working capital that would otherwise be tied up as an asset on the balance sheet.

Either solution will ultimately allow you to focus on growing your business.

Why use invoice finance?

Quick cash flow boost
Access up to 90% of your sales ledger value within 24 hours of the invoice being issued

Security
Can include credit protection to protect against debtor insolvency or protracted default

Flexibility
The amount you can access grows along with your business giving you greater flexibility

Stability
Unlike an overdraft, invoice finance solutions cannot be recalled on demand

Additional expertise
Can incorporate credit control to reduce in-house overheads and improve collection times

Tailored to your needs
It's possible to fund single invoices rather than your entire sales ledger

Bridging the gap

The time delays often associated with trading on credit terms can mean that businesses struggle to meet their own commitments whilst they wait for payment.

In these situations our sister company, Hilton-Baird Financial Solutions, use its market expertise to introduce suitable funding solutions to bridge the cash flow gap.

For example, Southeast Construction & Recruitment Ltd urgently needed to find a funding solution when two key debtors changed the credit terms they impose on their suppliers from 7 to 60 days.

Hilton-Baird quickly matched the company with some suitable funders before helping the business secure a £50,000 recourse factoring facility.

Managing Director, Steve Marney, said: "The team at Hilton-Baird were prompt and efficient. We were really impressed with the speed at which we could get a facility in place – they recognised and related to our situation and worked with speed and efficiency to get us up and running on our new facility.

"We're now able to meet our commitments, without worrying about when our clients will pay."

CHAPTER 05

Additional assistance

With late payment increasingly common, credit management can be a challenging task. This chapter explores how we could help your business improve its processes and get paid faster. Plus, familiarise yourself with some of the dect collection terminology you might come across with our helpful glossary.

A fresh approach to debt collection

Get paid sooner with the UK's *outstanding* debt collection agency

About Hilton-Baird Collection Services

Established in 2001, Hilton-Baird Collection Services provides a range of commercial debt collection services including confidential credit control and ongoing debt recovery solutions to SME and corporate businesses.

Tenacious, meticulous and thoroughly professional in our approach, our service is second-to-none and we always endeavour to surpass all expectations to bring positive results to challenging situations.

As members of the Credit Services Association and authorised and regulated by the Financial Conduct Authority you can feel safe knowing that your business is in the hands of our professional and knowledgeable team.

Hilton-Baird Collection Services is part of the Hilton-Baird Group of companies, one of the UK's fastest growing providers of cash flow solutions for businesses.

Hilton-Baird
Collection Services

Confidential credit control

Conducted on an entirely confidential basis, our outsourced credit control service dedicates time and attention to your business's credit management to remove the time and resource burden whilst allowing you to focus on your core business.

Debt recovery

If you have an invoice that's particularly old or highly-valued, we assume responsibility for its collection to reduce the impact it has on your business. We can also provide an ongoing debt recovery service to collect any debts that reach a certain age.

Mediation

Before escalating a case to court proceedings we always try mediation. This enables us to use our knowledge and reputation to bring positive conclusions to often complex cases pre-legally, whilst preserving customer relationships and adding value.

Legal collections

In the event you need to take the legal route to recover an unpaid invoice, our experienced team will work with you throughout the process, from the issuing of a Letter Before Action to enforcement.

GLOSSARY

A

Accounts payable
All monies a business owes a creditor for the provision of its goods or services.

Accounts receivables
All monies a business is owed in return for the provision of its goods or services.

Administration order
A court order that allows a county court to administer all your payments to creditors. Applicable if you have at least one County Court or High Court Judgment against your business, combined debts of under £5,000 across two or more creditors, and cannot afford to pay the full amount each month. One payment is made to the court which splits this sum between each creditor on a pro-rata basis. Additionally prevents creditors from taking further action against you.

Administrator
A licensed Insolvency Practitioner, appointed by the court under an administration order, to ensure the proposals in the order are carried out. The administrator will then propose a plan for approval by all the company's creditors.

Advance billing
When an invoice is raised before the goods are delivered or service commenced.

Adverse credit history
A business with an adverse credit history has a poor record of settling debts within agreed credit limits, making them undesirable to offer credit to.

Aged debt report
A document detailing the balances a business is owed from each customer, split either by the invoices' issued dates or due dates.

Arrears
A legal term for overdue debts.

Assignment
The process whereby a company sells a debt to another company.

Audit
A business review service that assesses various aspects of a business's operations, such as their financial accounts and sales ledger performance.

B

Bacs
Bankers' Automated Clearing System: the process by which funds are transferred electronically from one bank account to another, taking three days to clear.

Bad debt
Money that is owed to a business that's considered irrecoverable.

Bad debt relief
Reclaiming the VAT paid to HM Revenue & Customs for the sale by writing off bad debts of more than six months.

Bailiffs
A person employed by the court to remove non-essential belongings from a debtor's property and auction them, with the money going towards settling an overdue debt.

Bailiff's certificate
A certificate awarded by the court to a bailiff who is deemed a 'fit and proper person'. This should always be available for inspection when carrying out their work, including their photographic identity, the judge's signature and the court seal.

Balance sheet
An annual statement that gives a business's financial position, detailing all assets and liabilities at a given date.

Bankruptcy
A legal process where an individual is declared insolvent and therefore unable to settle any outstanding debts. Any remaining assets are transferred to a trustee and sold to settle debts, with any remaining arrears written off.

Business health check
An external assessment of a business's performance in key areas, including financial performance, funding facilities and credit control processes.

Business restructuring or turnaround
The reorganisation of a business's structure in order to make it more profitable.

C

Cash flow
A measure of a company's immediate financial health that is calculated by cash receipts less cash payments over a specific period in time.

Certificate of satisfaction
A certificate from the court to signify that a County Court Judgment has been paid in full.

CHAPS
Clearing House Automated Payment System: a telegraphic transfer by which funds can be processed and cleared on the same day for a small fee.

Charge for payment
A document served in Scotland that requires a debtor to settle a debt in full within a given timescale – usually 14 days. Similar to County Court Judgments in England and Wales.

Company registration number
A unique number given to a business when it is registered with Companies House.

Company Voluntary Arrangement (CVA)
If a limited company is declared insolvent, it can apply for a CVA through an insolvency practitioner (IP). The CVA itself is a document that contains a proposed schedule to pay creditors what they are owed. If 75%, in

GLOSSARY

terms of debt value, of the company's creditors agree to the CVA at a meeting arranged by the IP, the company can continue trading, with the scheduled payments made through the IP until they are fully paid off.

Compulsory liquidation
When a business is liquidated by request of the court.

Concentration
The percentage of a business's sales ledger value that is accounted for by a particular client.

Consumer Credit Act 1974
An Act of Parliament that regulates the credit services industry in England and Wales.

Contractual payments
A business's monthly credit commitments that were agreed upon signing the credit agreement.

County Court Judgment (CCJ)
A judgment issued by the courts that requires a debtor to settle a debt within a certain time frame. If the amount is not paid within one month, the CCJ will be placed on the debtor's credit record for six years.

Court claim form
A formal document sent by a creditor to inform the debtor that they have begun legal proceedings against an unpaid debt. The debtor then has 14 days to respond; failure to do so will automatically result in a County Court Judgment being registered.

Credit control
The process that describes the seller's efforts to collect payment from a customer for goods or services that have been supplied on credit terms.

Credit insurance
Protects businesses from late payment of commercial debts due to insolvency or protracted default, where the insurer assumes the risk and pays the client a percentage of the sales ledger value in such an event. Subject to designated credit limits, credit insurance can either be provided as a standalone product or incorporated into various cash flow solutions, such as non-recourse invoice finance.

Credit management
The task of managing a business's order-to-

collections process, allocating enough time to each individual invoice in order to recover debts within the agreed credit periods.

Credit period
The time during which a debtor is contractually obliged to pay for the goods or services purchased.

Credit rating
Calculated using a business's financial history, current assets and liabilities, a credit rating essentially indicates to a potential seller the customer's ability and likelihood of settling a debt within agreed credit terms.

Credit reference agency
Companies that provide information to lenders and businesses, upon request and for a small fee, regarding the credit rating of companies they are considering offering credit to.

Credit reports
A document supplied by credit reference agencies that details a business's credit history, including vital company information, their credit rating and whether or not any County Court Judgments have been registered against them in the past six years. Available on request for a small fee, credit reports assist lenders and businesses when making a decision regarding whether or not to offer credit to a potential customer.

Credit terms
The conditions by which a purchaser of goods or services are contractually obliged to adhere to when buying on credit. These terms state the agreed time frame inside which the buyer must pay, as well as the financial charges that will be levied in the event of late payment.

Creditor
A person or business that is owed money.

Creditors Voluntary Liquidation (CVL)
A procedure in which a business's directors choose to bring the business to an end by appointing a liquidator to liquidate all of its assets. This is different to a compulsory liquidation, which is forced upon an insolvent company via a winding up order.

Creditworthiness
A term used to describe the ability of a business to make payments on time when offered credit terms.

D

Days Sales Outstanding (DSO)
The average number of days it takes for a business to recover monies in full after a sale has been made, indicating the efficiency of their credit control processes.

Debt
The total value of the money owed to a creditor.

Debt collection agency
A specialist company that dedicates time and resource to recover debts on behalf of its clients.

Debt relief order
A form of insolvency that clears a debtor's debts of under £15,000, if unable to pay them. Considered a last resort as it greatly affects the business's credit rating.

Debt restructuring
A process that allows businesses to reduce and negotiate its debts to make the terms of repayment more

GLOSSARY

manageable, thus boosting the liquidity of the company.

Debtor
A person or business that owes money to another.

Debtor book
See 'Accounts receivable'.

Debtor days
See 'Days Sales Outstanding'.

Default notice
A formal letter sent to a debtor upon defaulting on a payment, explaining that they have failed to meet their contractual obligations when purchasing goods or services from them, as set out in the credit terms, and that further steps shall be taken in order to recover the monies owed. These notices will be held on the debtor's credit record for six years.

Direct debit
An instruction given to a bank for them to collect an amount from another bank account on a given date. Unlike standing orders, direct debits can be used for varying amounts.

Dispute
Arises when a debtor queries all or part of an invoice.

E

No terms.

F

Factoring
An invoice finance facility where a funder releases cash against the client's sales ledger within 24 hours of an invoice's issue, freeing up capital to boost its cash flow. The factor further provides a dedicated sales ledger management service to recover the debts on behalf of the client. There is also the additional option of a non-recourse facility that incorporates debtor protection, thus protecting the client from debtor non-payment.

Financial Conduct Authority (FCA)
The regulator of the UK's financial services industry.

Forward dating
Any invoice that's dated later than the delivery of the goods or commencement of the service, affording the purchaser longer credit terms.

Fraud
Deceiving a person or business with inaccurate information in order to gain a competitive advantage.

G

Guarantees
A legal commitment to pay a debt in the event the business fails to do so.

H

Her Majesty's Revenue & Customs (HMRC)
The administering body responsible for the timely collection of consumer and business taxes.

I

Informal arrangement
Term used to describe the agreement that the debtor will make reduced payments to its creditor without the assistance of a third party.

Initial writ
A document that raises a court action in the Sheriff Court.

Insolvency
A legal process where a business is declared insolvent and therefore having insufficient funds to meet a business's credit commitments.

Insolvency Act 1986
The statutory legislation governing insolvency law and practice in the UK.

Insolvency Practitioner (IP)
A person who is fully licensed and qualified to deal with insolvency proceedings and insolvency law.

Insolvency Rules
The Insolvency Rules 1986 provide the working procedures for the Insolvency Act 1986.

Insolvent
Any business or individual with insufficient funds to meet their credit commitments, i.e. when total liabilities exceed total assets.

Interest rate
The rate charged on the value of the money being borrowed, usually displayed as an annual percentage.

Interim order
A court order that prevents bankruptcy whilst a debtor is preparing a voluntary arrangement to its creditors.

Invoice
A form issued by a seller that itemises the goods or services provided, and at what cost.

Invoice discounting
An invoice finance facility, typically provided on a confidential basis, where a lender releases cash against a business's sales ledger within 24 hours of an invoice's issue to free up capital and boost the client's cash flow. Unlike factoring, the client retains control of their credit management. There is also a non-recourse option that incorporates debtor protection to protect against debtor non-payment.

Invoice finance
An umbrella term for a funding solution that releases capital against a business's sales ledger to boost the client's cash flow, such as factoring and invoice discounting. Facilities can be tailored to a business's individual cash flow requirements.

J

No terms.

K

No terms.

GLOSSARY

L

Late Payment of Commercial Debts (Interest) Act 1998

An Act of Parliament, later revised in 2002, which allows businesses to charge interest on debts that have exceeded their credit terms. Interest is 8% plus the Bank of England Base Rate, whilst firms are additionally eligible for compensation ranging from £40 to £100, depending on the invoice value. Claims can be made at any point during the six years following the invoice's due date.

Letter before action (LBA)

A formal letter sent to a debtor informing them of the creditor's intention to begin legal proceedings if an overdue debt remains unpaid in seven days typically. Also known as a 'seven-day letter'.

Liquidation

A process whereby all the business's remaining assets are sold off to pay its creditors before the business itself is dissolved. Any excess monies are distributed among the company's shareholders.

Liquidator

A licensed Insolvency Practitioner appointed to liquidate, or dissolve, a company.

M

No terms.

N

Nominee

A licensed Insolvency Practitioner appointed to oversee a company voluntary arrangement.

Non-recourse facility

An optional part of an asset based finance solution which provides debtor protection to shield the company against debtor non-payment through either insolvency or protracted default, subject to designated credit limits.

O

Order-to-collections process

A company's credit control procedure between the moment an order is placed and the moment the invoice has been paid in full.

P

Preferential creditor
See 'Secured creditor'.

Proof of debt
A document filed by the creditor to the Insolvency Practitioner that details the value of the debt owed in the event of a compulsory liquidation.

Proof of delivery (POD)
A method of confirming receipt of the goods supplied to the debtor, and that the products are in good condition.

Protracted default
Non-payment of debts after six months.

Proxy
A document that authorises another person to attend a creditors' meeting on the creditor's behalf.

Proxyholder
A person who attends a creditors' meeting on the creditor's behalf under a proxy. The proxyholder may or may not have discretion as to how he or she votes.

Q
No terms.

R

Receiver
A person appointed by a secured creditor to take control of the debtor's assets.

Receivership
A procedure by which a creditor gains security against a debtor's assets in order to obtain payment for the goods or services provided.

S

Sales ledger
See 'Accounts receivable'.

Secured creditor
A creditor that's entitled to receive payments in priority to unsecured creditors when funds are distributed by a liquidator or administrator. To qualify as a secured creditor, you must have a charge over a specific asset or alternatively a debenture over the assets of the business.

Set aside judgment
If you are a defendant and were unaware of any claim being made against you until following the judgment, you can apply to set aside judgment. If agreed, it will stop the Claimant from being able to enforce judgment.

Small claims
Court procedure used for the recovery of debts with a value of less than £3,000.

Statutory demand
A formal notice requiring the debtor to pay an outstanding debt, either in instalments or in full, within 21 days. Failure to do so will lead to a winding-up petition.

Summary cause
Court procedure used for the recovery of debts with a value of between £3,000 and £5,000.

Summons
A document used to raise court action when a creditor is suing its customer for an unpaid invoice.

Supervisor
A licensed Insolvency Practitioner appointed to supervise the implementation of an approved voluntary arrangement.

GLOSSARY

T

Terms and Conditions (T&Cs)
The terms of trade that are agreed upon purchasing goods or services.

Token payments
Small payments made to creditors when a debtor is unable to settle a debt within the agreed credit terms, signifying their intent to pay when possible.

U

Unsecured creditor
Any creditor that holds no preferential rights, therefore placing them behind secured creditors in the queue to receive monies owed when funds are distributed by a liquidator or administrator.

V

No terms.

W

Winding-up
See 'Liquidation'.

Winding-up petition
A legal document presented to the courts seeking a court order for a business to be placed into compulsory liquidation.

Working capital
The immediate cash a company has available to spend on assets and its day-to-day operations. This is calculated by deducting current liabilities from current assets.

X

No terms.

Y

Year-end accounts
The financial documents that must be submitted to Companies House at the end of a business's financial year, including a balance sheet and profit and loss account.

Z

No terms.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