Get paid!
A guide for owners and managers of small businesses

As of November 2011, Britain's small and medium-sized enterprises (SMEs) were owed £33.6 billion in overdue payments and had to wait, on average, for about two months to get paid by other businesses. Half of all SMEs struggle with overdue payments and many cannot survive the cashflow problems that they create.

As part of the government's 'Get Paid' campaign, ACCA (the Association of Chartered Certified Accountants), Experian, the Forum of Private Business and the Institute of Credit Management (ICM) have prepared a 'quick guide' for owners and managers of small businesses trying to avoid or manage late payment. These tips summarise a series of interviews carried out by Professor Rebecca Boden and Dr Salima Paul and sponsored by ACCA. As such they come straight from the horse's mouth: from businesses big and small, suppliers and customers, business owners and managers as well as professional credit managers. The research report, entitled *Getting Paid: Lessons for and from SMEs* will be published by ACCA in March 2012.

LESSONS FROM AND FOR SMALL BUSINESSES

1. Don't make credit management subordinate to sales
Make sure the incentives you give to your sales team take credit into account – sales people who are paid a bonus or commission regardless of whether you ever manage to collect are more likely to leave you with bad debts to sort out later. Do not allow income generators to overrule or sidestep the people in charge of credit management. Make sure credit managers (whether they have this title or not) get involved in your sales early on, and that they report to the very top in your organisation. In very small businesses the sales and credit roles may not be distinct, but even as a sole trader you should still try to think twice about each prospective sale: once wearing a 'sales hat' and once wearing a 'credit hat'.

2. Treat credit management as an enabler of sales, not an obstacle.
The moment you or your business start to treat credit management as a handbrake on sales it will begin to lose credibility and influence, and bad debts could be the result. The role of credit management should be to help you figure out a set of conditions under which you can say 'yes' to selling on credit to each individual customer. Knowing as much as possible about the creditworthiness and payment habits of your customers, through a strong relationship and the use of credit information, can even help you win business by rewarding prompt payers.

3. Develop a well-defined credit policy and stick to it.
Your policy doesn't have to be hundreds of pages long, and with very small businesses it doesn't even have to be written (though it helps if it is). Your policy does, however, have to be clear about when you are willing to give credit, how much and who to, as well as when exactly you will consider a payment to be overdue. Your policy must be known to all of your staff dealing with customers and you

must make sure to notify your customers of your terms in writing each time, before the sale is completed. When the business environment changes, don't be afraid to review your policies; it's much better than letting them become out of date and disused.

Of course, you won't always have as much of a choice as you want. Be aware of what is common practice in your sector, and of the payment terms your customers are used to. Most businesses treat big and valuable customers differently and that's fine, as long as you still have policies for those, instead of reassessing your tolerance as you go along all the time. Policies can help your credit manager (who may just be yourself, when wearing your 'credit hat') assert themselves and avoid being dazzled by tempting but risky new orders.

4. See the big picture

If you sell on credit, you are, to some extent, a banker, and it's not a bad idea to think like one. Thinking like a banker means dealing with credit not as a corollary to sales but as part of your cash conversion cycle – your goal should be to balance as much as possible the amount and timing of cash coming in and going out of the business. You need to keep track of these flows; if you're offering more credit than you receive, then the cash conversion cycle is leeching money off you.

Remember, giving credit is as much a part of your business as getting orders; a profit on paper may quickly turn into a loss after you add to your costs the cost of financing your working capital, chasing up late payments, and absorbing non-payment. Try to have a good idea at all times of what that cost is.

5. Be organised about invoicing and collections

Entrepreneurs think a lot about selling, but very few want to think about invoicing and collecting debts. Yet it is the invoicing and collections process that turns promises into cash; don't leave it to chance. Set up a routine for invoicing and collections (including polite reminders before the money is due) and stick to it. If you decide to outsource your collections process (and that's a decision not to be taken lightly), then it's best if you only outsource the execution, not the design of this process; don't rely on third parties to set your policies or invest in getting to know your customers.

Some customers will look out for signs of disorganisation and use them to determine which suppliers they can get away with paying late; individuals may even use your lack of organisation in order to rationalise in their own minds the fact that they're paying you late. Make sure you don't present yourself as the easiest or most deserving target.

6. Know your customer

Not all late payment proceeds through unanswered calls or promises that 'the cheque is in the post.' Make sure you understand your customers' payment process and the systems they use, and if possible get to know the individuals dealing with invoices. Ensure your invoices are designed to fit into their way of working. Some customers, especially large ones, will have no incentive to streamline their processes precisely because a convoluted payment process will allow them to pay late. Don't become a victim of this practice; get the details of how payment works, look into their reputation among other suppliers, and adapt accordingly.

7. Know your rights

The law gives you as a supplier the ability to charge interest on overdue payments; you can calculate this using an online tool hosted on Business Link. Of course, charging valuable customers a punitive rate of interest is easier said than done. Most businesses never make use of this right unless their customers are failing businesses or if the relationship with a customer is damaged beyond repair. But it's still useful to clarify, in writing, that you reserve the right to charge interest. Some suppliers even do this automatically when debts become overdue, and invoice their customers for the additional interest right away. The point of this is rarely to actually receive the extra money, but rather to jolt customers into paying on time.

8. Invest in professional credit management

With credit management, having good staff – trained and possibly formally qualified in this area – really does make a difference. As soon as you are able to, make sure finance or credit staff receive training in credit management, or that you hire staff who already have. Not all of your competitors have access to such expertise, but every one of them deals with credit issues and bears the costs associated with bad debts and late payment. You will therefore be investing in a source of competitive advantage.

DO YOU WANT TO FIND OUT MORE?

- The ICM has developed the Managing Cashflow guides, co-published by BIS and ACCA. These are available on the ICM website.
- Alternatively, you can access all ICM guides in a single file on the ACCA website.
- The Forum of Private Business have prepared a guide on managing debt, which can be found on their website.
- A premium Credit Control Guide is also available to Forum members from the Forum's website.
- Experian offers a series of guides for small businesses, with advice on, among other things, checking the creditworthiness of suppliers, improving cashflow and improving your credit score.
- Finally, as part of a series of videos with Apprentice star and former Enterprise Champion Lord Sugar, BIS has prepared a brief video called 'Getting Paid On Time'.

ABOUT US

ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants. We aim to offer business-relevant, first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management We support our 147,000 members and 424,000 students in 170 countries, helping them to develop successful careers in accounting and business, with the skills required by employers. We work through a network of over 80 offices and centres and more than 8,500 Approved Employers worldwide, who provide high standards of employee learning and development.

Experian is the leading global information services company, providing data and analytical tools to clients in more than 80 countries. The company helps businesses to manage credit risk, prevent fraud, target marketing offers and automate decision making. Experian also helps individuals to check their credit report and credit score, and protect against identity theft. Experian plc is listed on the London Stock Exchange (EXPN) and is a constituent of the FTSE 100 index. Total revenue for the year ended 31 March 2011 was US$4.2 billion. Experian employs approximately 15,000 people in 41 countries and has its corporate headquarters in Dublin, Republic of Ireland, with operational headquarters in Nottingham, UK; California, US; and São Paulo, Brazil.

The Forum of Private Business is a proactive, not-for-profit organisation, providing comprehensive support, protection and reassurance to small businesses. We add value to businesses through the collective voice for members in local, central and European government, and the provision of tailored solutions that promote business success.

The Institute of Credit Management (ICM) is Europe's largest credit management organisation and the second largest globally. The trusted leader in expertise for all credit matters, it represents the profession across trade, consumer and export credit, and all credit-related services. Formed over 70 years ago, it is the only such organisation accredited by Ofqual and it offers a comprehensive range of services and bespoke solutions for the credit professional as well as services and advice for the wider business community.