

# Financial Management Hints and Tips

Financial Management Hints and Tips is an occasional series of White Papers from Insight Associates and The Outsourced Finance Department aimed at providing practical help to business owners and managers

## BE PREPARED IF YOU WANT TO COLLECT YOUR CASH

The key to effective credit control and getting your invoices paid on time is in the preparation. Get this right and you will stand a much greater chance of collecting your money on time.

Firstly, ensure you have good and robust terms and conditions and that these make your payment terms very clear. To ensure these are binding upon your client, get them to sign a copy in agreement when you first start trading with them, and then perhaps periodically update them for regular clients. Secondly, ensure that your credit terms are reinforced at every opportunity. Whilst they should clearly appear on the invoice, it is also advisable to try and capture this in any correspondence that changes hands earlier in the relationship (for instance for a particular assignment), so that the terms are not a surprise when the invoice arrives.

Finally, be sensitive to the client's own administration processes and procedures. Establish where invoices should be sent, and if they need any supporting paperwork, or if they have to quote any codes, order numbers etc. Quote your bank details on your invoice with clear instructions on how to pay it. Make it easy for the client to pay your invoice!

## Your questions answered ...

**Q** Do my payment terms have to be 30 days?

**A** No, not at all. You can set whatever payment terms you feel are appropriate. Start by asking yourself whether you need to give any credit at all. Indeed why not ask for payment up front or on delivery?

Setting your credit terms is just like any other of your terms and conditions of business - just make sure it is crystal clear at the beginning.

**Q** Should I penalise those who pay late?

**A** You need to ensure that your relationships with your customers are always positive; penalising people is a very negative thing to do. If you follow our tips about preparation then this should never be an issue, but if it does become a problem react quickly and talk in positive terms to your customer about payment.

**Q** What about the late payment legislation?

**A** The Late Payment of Commercial Debts (Interest) Act was introduced on 1<sup>st</sup> November 1998 to encourage purchasers to pay on time by giving businesses the right to claim interest if another business pays its bills late.

However, there is a very firm view that it doesn't work! Forcing an interest bill on your customer is a sure way to lose him. Put yourself in their shoes! Whilst you now have a statutory right of interest, you really should see it as a very last resort.

**Q** Don't I risk losing business if my credit control is too strict?

**A** It is always good to remember the old saying "good fences make good neighbours". If the terms of the relationship are clear from the start then it should come as no surprise to your customer that you expect payment within terms. A good positive relationship with a good customer will have no difficulties with you being strict about your terms of business.

**Q** Should I check out a company before I do business with them and, if so, how do I do it?

**A** If you are giving credit then, as with all business issues, you must consider the risks. Yes, you should certainly do a credit check on all of your customers, and also (which most people forget to do) review them on a regular basis, especially if the level of business is increasing. Also set credit limits and make sure they are imposed.

There are many credit reference agencies to choose from. Much will depend on the volume of enquiries that you will need to do and the information that you feel you need.

**Q** What sort of credit control procedures should I have?

**A** In short, consistent ones! Make sure that someone in your organisation has clear responsibility and authority to ensure you are paid. That person should be an efficient and structured administrator who is well organised and thorough. It is also wise to have a clear credit policy and ensure that your Credit Controller has the authority to enforce it. However, you must make sure that they do not become the sales prevention department. Business is always risky, and credit control is about managing the balance of risk.

If you have any further questions, or would like to learn more about any topic discussed here, please call us on 0800 180 4265

## A little about us ...

Insight Associates is a firm of **Company Finance Managers** specialising in the provision of proactive commercial hands-on financial management to businesses.

Founded in 1992, the firm has extensive experience of building and managing the financial controls, systems and processes needed in any business, as well as managing companies through extensive corporate turnaround situations.

We can give you the financial skills that you need to build and develop your business, or turn it around if the going is tough. We take responsibility for our role within your business, thereby allowing you to focus on where you can add the maximum value.

Our well established and highly developed processes are flexible enough to provide everything from our **OUTSOURCED FINANCE DEPARTMENT**, through to a top level part-time Finance Director role. Our working model is designed to develop long term working relationships with our clients, which we do by constantly anticipating client needs and only ever providing what is needed in the most effective way. We aim to help the client to be able to help themselves.