



FACT SHEET NO. 11

CREDIT CONTROL

Cash flow and cash management are essential to business success and survival. A business which is profitable but does not collect money from customers efficiently or effectively may run out of cash itself and hence experience debt problems or insolvency. Additionally, without an effective system of credit control, the business increases its risk of suffering bad debts from customers.



ADVICE

To maintain cash flow and to protect your business interests, you will need to pursue your debts, through the courts if necessary.

What is credit control

Credit control is about the systems, procedures and methods that a business has in relation to providing credit, and the collection of money from customers on an ongoing trading basis. Effective credit control is very important and it does not take too much time or expense to set up simple but effective procedures.

Procedures to help set up an effective credit control system

Design a 'customer credit application form' and agree terms;

Every new customer who wishes to use your credit facilities should complete an application form. You should ask them to provide the following information:

- the full name of the business and whether they trade under any other name;
- registration number if it is a limited company;

- how much credit they are requesting;
- full details of the contact for payment queries;
- delivery and invoice address if different;
- bank and bank account details;
- at least two trade references;
- consent for a credit reference check and bank references to be done;
- details of who owns and who runs the business.

The customer should complete the form in full. This application is very important, as you may need to refer to certain information contained in the form if the customer fails to pay. You should write to each of the trade referees. (See the sample letter at the end of this fact sheet). The bank reference will usually involve a fee.

References, particularly from the bank, will be of use if there have been any particular problems with the account. For example, the bank not paying presented cheques.

The references therefore may show any potential problems. It is collation of information and evidence from a number of sources, which help you make a decision about extending credit to a new customer.

Other credit checks

When considering opening a new account for a sole trader, partnership or limited company, it may be useful to obtain a 'credit check' via a credit reference agency. This would give details of any county court judgments registered against the individual/limited company concerned and details of how long the business has been at the current address.

There are also a number of agencies who will provide analysis of companies, for example Dunn & Bradstreet, Equifax and Experian



INFORMATION

The better payments website www.payontime.co.uk gives information on checking the credit worthiness of potential customers.

You can also obtain copies of a limited company's account and other information from Companies House. These can be downloaded on line or sent via the post for a small fee. See the website www.companieshouse.co.uk

Agree terms and conditions

Before supplying goods and services, get them to agree to your terms and conditions in writing. This will help to give you more protection when needing to pursue payment rather than relying on informal agreements. Areas to cover in terms and conditions include:

- price;
- delivery arrangements;
- payment terms (if this is not included the law set a standard period of 30 days);
- right to charge interest on late payments and claim for debt recovery costs;
- quality.

Typical 'disputes'

Here are some examples of some possible disputes (or possibly excuses) that debtors raise in relation to payment of their debts. Included are also some brief hints as to how these disputes can be avoided.

'I never received the goods'

Make sure you always obtain signed delivery notes from your customers. Alternatively, get some other form of written confirmation (even if it is just a confirmation letter or fax) to confirm that the goods have been received by them. If the dispute goes to court then these documents can be produced to give a strong case.

'Your contract was not with me'

Make sure you know in precise legal terms who or what you are actually trading with. Is it a limited company? If so, you must know its precise name (down to the last letter). If it is not a limited company (i.e. if it is a sole trader or a partnership), what are the names of the proprietor, or the partners in the business? Very often debtors can escape a court judgment against them on the strength of technicalities in this field, and great care should be taken to prevent such problems arising.

'I never ordered the goods'

You should always obtain an official written order from your customer, even if it is the briefest of letters or faxes, to prove that they did indeed order these goods. Again, these documents can be produced in court.

'The goods were defective'

It is often the case that this particular dispute is raised only when you really start chasing for payment. You can take steps to minimise the use of this type of dispute. You should have in place a credit control system for sending out chase-up letters once your invoice falls due for payment, in which you clearly ask the debtor to set out any complaint he has, or any defect that he has found in the goods or services that you have provided. Obviously, if they are given repeated opportunities to do this and fail to do so; later allegations made with regard to defective goods will not be as strong.

You can go slightly further than this by having your customer sign for goods (on the delivery note) confirming that they are in good order. You could insert in the contract a clause stating they must notify you in writing of any complaints within, say, seven days of receiving the goods or services from you.

‘Under the terms of the contract we are not [are not yet] obliged to pay you’

You should try to ensure that you have a set of your own standard terms and conditions that fully protect you and which provide for early and full payment of your invoice in all circumstances. These could be printed on the reverse of your order form. You can ask them to sign to say that they agree with the terms and conditions.

Allocate sufficient time on a regular basis to deal with unpaid invoices

Chasing procedures:

- Telephone the customer after the time for payment has expired and request payment within seven days if possible.
- Telephone the customer seven days later if payment is not received. Advise that a final reminder will be sent if payment is not received within a further couple of days. Advise the customer that the account is on ‘stop’ and that no further credit will be given until the amount due has been paid.
- Send a ‘final reminder’ or ‘final demand’ to the customer, giving them no more than seven days to pay before further action is taken (see the table at the end of this fact sheet).
- Telephone the customer giving them a final opportunity to pay within two days failing which further action will be taken. Ask them if they are experiencing financial difficulties. If this is the case you may consider accepting instalments.

- Consider taking further action.

FURTHER ACTION

County court claim

Before considering action in the county court, you need to consider whether this is likely to get you your money back and if there is any possible defence to your claim. If you do not consider this then you could be ‘throwing good money after bad’.



FACT SHEET

For a fact sheet on ‘Small claims in the county court’ phone Business debtline on **0800 197 6026**

Bankruptcy/winding up proceedings

If you are owed £750 or more then you could consider this option. You would need to issue a statutory demand. The process can be costly so you would need to know what assets the person has and potentially if there are other debts owed by them in order to assess the likelihood of you recovering the money. If you are dealing with a limited company it will be the assets of the company not the director. If you are considering this option **phone us for advice**.

Instructing solicitors or a debt management company

You could consider instructing a third party to act on your behalf to recover the debt. You should consider the points in the table on page 3.

Late payment interest

The Late Payment of Commercial Debts (interest) Act 1998 allows you to charge interest on debts that are paid late. For information on this and how to calculate interest phone us for a free copy of the guide.



REMEMBER

A good credit control system, together with clear terms and conditions and procedures for dealing with supplies will considerably reduce the business's exposure to disputes from debtors and bad debts, in addition to improving cash flow.

Remember: You can always contact us for advice about any difficulty you have in dealing with your debts.

Freephone 0800 197 6026 Website www.bdl.org.uk

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INSTRUCTING A DEBT COLLECTION AGENCY OR SOLICITORS

THERE ARE ADVANTAGES AND DISADVANTAGES OF USING EITHER OF THESE SERVICES. SOME MATTERS TO CONSIDER ARE:

| DEBT COLLECTION AGENCY | SOLICITOR |
|--|---|
| Some can work on a fixed fee or percentage basis or charge an hourly rate of around £16. | Can work on fixed fees etc. Hourly rate usually no less than £50. |
| May not have legally trained staff. | Legally qualified staff. |
| Generally deal with clear undisputed debts. | Have expertise in dealing with disputed matters and coming to agreement with debtors. |
| Often have access to credit reference agencies which is useful to clients. | May not have this facility. |
| Can usually deal with incidental matters such as serving legal documents, tracing debtors, obtaining legal status reports etc. | Will usually instruct an agent to obtain such information and make a charge for instructing them. |
| Will actually visit the debtor's premises and discuss payment if requested. | Would not usually visit the debtor. |
| Can use various methods of debt recovery without the need for legal action. | Will only use legal proceedings, but this could save time and expense. |
| Can often deal with all aspects of court procedures. | Fees can be high – agree them in advance. |

USEFUL ADDRESSES

The Better Payment Practice Campaign

www.payontime.co.uk

Business Link

www.businesslink.gov.uk

Companies House

www.companieshouse.gov.uk

SAMPLE LETTER

USE COMPANY LETTERHEAD PRE-LEGAL LETTER TO SEND TO PEOPLE WHO OWE YOU MONEY

Date _____

To: _____

Dear Sir/Madam

Account No: _____

Overdue amount: _____

Further to previous reminders, the above debt is still outstanding. Please note that unless payment is received by [insert the date] I will have no alternative but to take legal action to recover the monies due. This will involve further fees which you will have to pay.

Yours faithfully

Your signature



REMEMBER

To keep a copy of all letters you send to your creditors.

SAMPLE LETTER

USE COMPANY LETTERHEAD TO BE SENT TO TRADE REFERENCE

Our Ref: _____

Date _____

To: _____

Dear Sir/Madam

Re: [insert company name]

We have received an application for a credit account from the above named company and your name has been given as a referee. Accordingly, we would be most obliged if you would complete the following short questionnaire:

- How long has the customer traded with you? _____;
- What are your terms of payment? _____ days;
- Does the customer generally pay within the time stated? YES/NO
- Would you consider the customer to be a good risk YES/NO

Any other comments? _____

Once you have completed this form please return it in the envelope provided.

Thank you for your assistance.

Yours faithfully

Your signature

REMEMBER

To keep a copy of all letters you send to your creditors.