

DEALING WITH BAD DEBT

HOW TO AVOID AND MINIMISE NON-PAYMENT

One of the UK's largest independent
funding specialists



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PROTECT YOUR BUSINESS FROM BAD DEBT

Cashflow assured

Each year UK businesses lose thousands of pounds because of poor payment practices, with the transport and construction sectors particularly prone. An unpaid invoice can mean the difference between a successful month and a dangerous financial shortfall.

According to R3, the insolvency industry trade body, 65,000* businesses have had to negotiate payment terms with creditors and 33,000* businesses are struggling to pay debts when they fall due. At least one fifth** of UK corporate insolvencies are caused by late payment or the insolvency of another company.

Payment delays can present a real business risk, placing pressure on cashflow and restricting the capacity to expand. Even when a business is thriving, it can take just a few unpaid invoices to create significant issues. Getting debts paid promptly and agreeing reasonable payment terms remains critical for all businesses in all sectors.

Our guide provides proactive steps a business can take to reduce the risks posed by late payment or the failure of another company and reduce the number of 'debtor days' down to more manageable levels.

FINDINGS OF OUR LATEST SME CONFIDENCE TRACKER, Q2 2017 SHOWS:

MORE THAN A THIRD OF SMEs SUFFERED FROM A BAD DEBT IN THE PAST 12 MONTHS, AN INCREASE OF 5% FROM Q1 2017

THE AVERAGE AMOUNT WRITTEN OFF AS BAD DEBT HAS CONTINUED IN AN UPWARD TREND SINCE Q2 2014

UK BUSINESSES HAVE TO WAIT AN AVERAGE OF 37 DAYS FOR INVOICES TO BE PAID, A SLIGHT INCREASE FROM Q1 2017

FIND OUT MORE
You can find out more about Bad Debt Protection at www.bibbyfinancialservices.com/bdp

*R3 13/12/2016 **R3 22/08/2016

FORECASTING BAD DEBTS

A government paper in 2015 revealed that small businesses spend on average 130 hours a week chasing late payments and that 34% of companies have used external finance to cover gaps in cashflow caused by overdue payments.

You can never guarantee that every single customer will pay a bill on time, but there are things you can do to keep late or missed payments to a minimum.

Anticipating the likelihood and potential level of bad debts will mitigate some of the risks and the time spent dealing with debtors. These steps can be used to identify the nature of any potential credit problems and minimise any cashflow issues.

Know your customers – Run credit checks on all new customers before offering credit terms and set appropriate credit limits. A simple credit check online could save valuable time, and money, in the future. This should be an ongoing process as even the most reliable payers can have a change in circumstances.

Meet basic requirements – Avoid taking on customers who fail to meet your basic requirements. Whenever you're given little contact information, prospective customers are hard to reach or they fail to sign a contract, see this as a sign that they will be more hesitant to pay.

Create relationships – It's much harder to not get paid by people who know you and your business. Regularly check a customer's satisfaction for your products and services, and also discuss any approaching invoices due.

Effective credit control – Implementing a credit control process does not need to be complicated and can ensure payments are received on time. A structured approach can help reduce the threat of overdue payment.

Clear payment terms – Make your payment terms clear and consistent from the start and advise customers about any late payment charges to save disputes. Consider including payment terms on statements, invoices and in the terms and conditions of business.

Bad debt provision – Determine a likely level of bad debt for a particular time period. A provision for bad debt will anticipate the likelihood of debtors failing to make payment – essentially, it's an estimate of the potential liability for taking sales on credit. Where possible, set aside cash to meet any particular shortfall in the event of a bad debt.



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KEEPING YOUR CASHFLOW HEALTHY

Small businesses are highly dependent on healthy cashflow and the consequences of late payment can have a huge impact. Therefore, managing cashflow and enforcing credit control is essential to protect your business from the effects of bad debt.

Here are a few steps you can take to offset the risk of bad debt for your business and manage your debtors effectively.

Invoice quickly and accurately – Send invoices on time. E-invoicing can speed up the invoice issuing process as well as provide a record that it has been sent. Using technology, such as quality credit control software to automate manual processes can also enable a pre-emptive approach to payment delays.

Keep track of your figures – If you don't know who owes you money, you don't know what is owed to you. Go through your debtors lists monthly and invest in good accounting software that you can access online. Make sure you keep it updated so you'll be able to tell at a glance who owes you money and how much.

Make payments simple – A straightforward process can ensure that customer payments are made easily, and preferably online or by direct debit.

Send prompt reminders – As invoices become due send reminders, starting with an email. If there's no response within two business days, follow up by phone. Be proactive about this and keep copies of all communications. Don't start new work or supply more goods to someone who owes you money.

Consider bad debt protection – For peace of mind and to safeguard against non-payment, bad debt protection provides reassurance that any debts will be protected in the event of customer insolvency or inability to pay. Credit control and sales ledger management services can also help identify potential issues before they become a problem.

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EFFECTIVE CREDIT CONTROL

No matter how small or big your business is, you must ensure you have good risk control in order to improve your company's cashflow and increase your profit level. Setting up an efficient and effective credit control system is an essential part of reducing the risk presented to your business by bad debt. You should achieve a balance between ensuring that your business receives payments in a timely manner and keeping your customers happy.

Responsibility – Appoint a single member of staff or small team to be responsible for credit control. This ensures that such matters will be handled promptly and efficiently. Create a credit policy that covers accepting new customers, the changing status of existing customers, exceptions to payment terms, changing credit limits, suspending accounts and using third-party enforcement.

Involve your sales team – Your sales team will have a valuable insight into customers' behaviour and should be able to identify which are at risk; reviewing new customer information is key, but monitoring your existing customers is equally important.

Procedures – Put procedures in place for current and new customers. All new customers should be credit checked as a matter of course to minimise risk. It is also prudent to set low credit limits when first beginning a relationship with a customer. It's important that you chase debts after they've become due. Monitor and establish how different customers pay their invoices.

Payment – Set out your payment terms in writing and make sure that all customers are aware of them. Send out invoices promptly, either on a certain day each month or within a defined timeframe after the provision of services or products. When sending out products, it is always best to send the invoice at the same time if you haven't taken advance payment.

Reach an agreement – If your customer has a genuine reason for not making a payment, it may be possible to reach an agreement without the need for legal action that could result in the termination of the relationship.

Persistent debtors – If a customer continues to default on the money they owe, and you're spending more time chasing them than their business is worth, you should consider concluding your business with them.

A stop list – Create a list of customers you do not want to give more credit to. This can be for various reasons, but it is an important document to create to safeguard your business. Update the list regularly and circulate it to appropriate employees. Do not supply any more goods to these customers until they are taken off the list and all invoices paid. Always inform late payers that they are 'on stop'.

Bad debts will impact your cashflow, making it difficult for you to pay your debts and manage your business effectively.



 **FIND OUT MORE**

You can find out more about Bad Debt Protection at www.bibbyfinancialservices.com/bdp



SUMMARY

Bad debt affects a large number of businesses in the UK, irrespective of size or sector. Our guide aims to provide a practical source of help to enable you to take preventative measures and reduce the risk of late payment. Due diligence and effective credit control are paramount to understanding your customers and ongoing monitoring can help you to identify the signs of bad debt before any problems arise. The key aspect is to deal with bad debts quickly and to take action to recover debts as soon as possible.

For more information on how we can protect your business from bad debt, visit: www.bibbyfinancialservices.com/funding/additional-features/bad-debt-protection

ABOUT BIBBY FINANCIAL SERVICES

Bibby Financial Services has been supporting businesses of all sizes since 1982. We are a trusted financial services partner to over 7,000 businesses in the UK and have built a reputation for consistently delivering high levels of client service. We don't just fund your business, we believe in it.



OUR PRODUCTS AND SERVICES

We help businesses unlock working capital for a range of scenarios, including cashflow funding, new equipment purchase, growth and expansion, management buy ins and buy outs, refinancing, corporate restructuring and mergers and acquisitions.

Our range of financing options includes:

- Invoice Discounting
- Factoring
- Lease Finance
- Export Finance
- Stock Finance
- Trade Finance
- Specialist finance for the construction and recruitment sectors
- Foreign Exchange