



Presents:

Your guide to...

Getting paid



Your guide to getting paid

The problem with getting paid?

It may be obvious that any business must get paid for what it does. However, most small businesses (and large ones for that matter) have problems getting paid.

This is particularly so where a business is in the service sector.

Often the problem is not that customers don't want to pay, but that small businesses don't generally have the right procedures and processes in place.

On top of this there are psychological reasons why small business owners don't like chasing for money. They can be very close to the delivery of the product/service and fear chasing for payment would get in the way of that delivery.

There is also the very British reserve about talking about money at all.

This guide will hopefully give you the tools to ensure your company is not one of the thousands which go under each year purely because they aren't debt collecting effectively.

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First things first

When you have done work for a customer, to the requirements of the contract, you are entitled to be paid for that work.

It is important you remember this in all your dealings with your customers.

I had a client a few years ago who was owed a large sum by a long term client. I suggested that they needed to chase for the outstanding money as it was well overdue. My client resisted saying:

'I don't want to chase for the money because they are a good customer and put a lot of work our way'

At that point I questioned their logic. What about this customer was good? That they allowed my client to do a lot of work for them, but weren't paying for it? That type of 'good client' can soon put a company out of business!

Firstly, GOOD clients pay as agreed in the contract – a good client is not one who bitches about the agreed price and then fails to pay promptly.

Secondly, business people should expect to be paid for a good job done, so there is nothing to be coy about when it comes to asking for what you are legally and morally entitled to!

Resist the urge to be impressed by potential customers who can put a lot of business your way. Be impressed by customers who pay.

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Invoicing

One of the biggest problems with getting paid is that small businesses are often very slow to invoice for the work they have done.

When clients receive bills a long time after they have received the service, a message is sent out that the supplier is pretty well off and so doesn't need the cash quickly (or the invoice would have been sent more promptly). Consequently it is more likely that the payment will need to be chased.

The time when it is easiest to get paid is directly after you have completed the work. At this point you are fresh in the customer's mind and, as long as they are happy with what you have done, this will be the time they will feel most obliged to pay you.

The longer you wait to ask for payment the less likely you are to be paid.

Customers are even more likely to be pay if you present the invoice yourself and, as your payment terms should be 'payment on receipt of invoice' ask to be paid there and then (see payment terms below for how to manage payment terms).

→ Tradesmen

Asking for payment from customers whilst you are on site is particularly effective for tradesmen.

I have had various trades do work in my house, which I would have been more than happy to pay for on the day. However, they have insisted on furnishing me with an invoice (which they have not got with them) and then giving me 30 days to pay.

Now, although I would have been happy to pay there and then, I am not going to pass up the opportunity to pay later that they insist on giving me! This means they have the cash in their bank 30 days later than they could have done.

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If you are supplying against a quote make sure you have the invoice with you to present to the customer before you leave.

If the invoice able amount is based on how long you are on site, ensure you have an invoice book with you so you can write out an invoice on site.

→ Service providers

If you charge for a fixed rate job

Many service providers wait until a job is complete before invoicing their customers. In the case of a small job, costing a small amount of money, this may not cause any problems. However, where a job is worth thousands of pounds, the supplier can find themselves struggling – especially if they have had to pay outside companies.

If you are in this situation negotiate payment on a monthly basis, or at defined completion points, wherever possible. Ideally agree with your customer that you will be paid by standing order over the life of the contract.

If you charge by the hour

The most difficult situations are where service providers charge an hourly rate and bill once the job is complete – accountants and lawyers are particularly guilty of this. In this scenario the customer is often unsure what the total bill will be. They know the hourly rate, but have difficulty assessing how long the job should take.

By invoicing at the end of the job these suppliers not only experience cash flow difficulties, but also leave themselves open to rejection of the bill, because it is higher than the customer anticipated. The service provider then has to discount their bill to keep their customer happy.

To avoid this scenario it is best to offer fixed fee contracts wherever possible. You can then encourage your customers to pay by standing order over the period of the contract. This has the advantage that payment is regular, but also that you have agreed up front the total bill. If they cannot afford it, it is better to know before you do the work!

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If you insist on charging on an hourly rate make sure you give your client the clearest indication you can of how much your bill will be - and ensure you are within this amount. Invoice them regularly - not at the end of the contract.

Credit

The first question to ask yourself is 'Am I a bank?'

Unless your business is in the banking sector you should give credit with caution and only when absolutely necessary. Many small businesses give their customers 30-60 days to pay their bills just because they think that is how business is done. This is foolish and reckless.

Even the banks are reluctant to lend money at the moment, so why would you?

Some businesses don't even think about the payment terms they are giving. It is in your customers' interest to delay payment as long as they can (especially at the moment when many businesses are finding managing cash flow difficult) so if you are not clear on payment terms you cannot be surprised when payments don't come through.

How to manage credit

→ Payment terms

Always start from the position that you expect payment on receipt of invoice. Let your customer request credit and negotiate with them over what payment terms are acceptable. Unless there is a commercial case for giving your customers time to pay their bills, do not do so.

It is important the terms of business sent to each customer, and subsequent invoices, state the agreed payment terms. In law, the agreed payment terms are deemed to be those on the last document to be issued – by either party – before commencement of the work. So make sure you read any purchase

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order thoroughly to check your customer is not trying to sneak in higher payment terms than you are happy with.

Having clear payment terms won't necessarily mean that your customers pay immediately, but it does mean that you are able to chase for outstanding payment at the earliest point.

→ Credit checking

If you are giving credit to a new customer ensure that you have done a credit check *before* you agree to work for them. This will give you the best chance of finding out if your customer is able to pay. There are various credit checking agencies you can subscribe to including Dun and Bradstreet and Riskdisk.

It is worth saying that the information held by these agencies can be out of date and incomplete. Although they will have current information on CCJs etc. they will not have information on how quickly the company pays its smaller suppliers.

For this reason it is worth keeping your ear to the ground. The local business network will often pick up news of a struggling business before any formal agencies do.

If you have any concerns about your prospective customer's creditworthiness **DO NOT WORK WITH THEM!**

Finally, even regular customers can get into trouble financially, so do credit checks on them periodically, especially if the level of work is increasing.

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Debt chasing

Once you have decided on your payment terms, ensured that both you and your client understand what is to be delivered and paid for your services, there is still the possibility that a client will let you down and not pay.

Your debt collection policy might be:

- Agree contract value and payment terms before work starts.
- Do a credit check on all new customers (and existing ones if necessary) to check their creditworthiness before work starts,
- Send your invoices out promptly.
- If you are giving credit phone to check payment will be on time, just before the payment is due. You should check that there is no reason for the customer not to pay – if they are unhappy with the work for instance. If there is a problem with the work sort it out before you chase again for payment.
- Once the payment is late send a letter reiterating your payment terms and requesting payment by return.
- Two weeks later phone to chase the payment if it is still outstanding
- Two weeks after that send another letter indicating that further action will be taken if payment is not forthcoming in 7 days.
- If you still have no luck it is likely that you will have to go down the legal route.

→ The psychology of debt collection

The most likely reason for non-payment is that the client is strapped for cash and you are not seen as the first payment priority for them. This is a difficult position to be placed in for any service provider. However, you must stand firm and by doing so you may well move yourself up the payment list – especially if the client is looking for further work from you.

Many service providers get lulled into doing more work for a non-paying client, because they believe that if they insist on being paid they won't be given further work. Do not get into this way of thinking.

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Firstly, the surest way of getting paid for work done is to stop working until payment is made.

Secondly, if the client is bad at paying, why would you want further work from them? Concentrate on using your limited time to work for a client who will pay!

If a client is unlikely to use your services again, you are in a psychologically stronger position. You may well not be so reticent in sending tough letters demanding payment.

The worst case scenario is that you have to take your client to court. If you need to go down the legal route it is very important that you understand what your rights are and how best to proceed. Engaging a professional will help ensure that the court finds in your favour.

Don't be coy about collecting money owed to you. As long as you have done the job required, and to the standard agreed, you are entitled to be paid!

→ Subcontracting out

If doing your own debt management is causing you sleepless nights you might want to consider employing a third party to do it for you.

If you go down this route it is more important than ever that you have clear contracts with your clients. You also need to agree procedures for your debt collector to follow.

There are several alternatives:

- If you have a bookkeeper you may find they are happy to do your debt collection for you. This may be the cheapest option and in most cases having someone regularly chasing debts will be enough to bring the money in.
- You can use a formal payment collection service. They take the hassle away completely but will be a more expensive option.

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- Some call answering services also offer debt collection. They will either be paid on a per invoice basis or as a percentage of the amount recovered. This can be a good middle route cost wise.

And finally...

Remember where we started.

As long as you have done the job required, and to the standard agreed, you are entitled to be paid. Any customer who does not respect your right to be paid is not the right customer for you!

To recap:

- Agree clearly with your client the exact terms of the engagement; both in terms of job to be done and fee to be paid.
- Bill as soon as the job is complete.
- Be clear on your payment terms and give as little credit as possible.
- Be professional! If money is owed to you do not be coy about chasing for it.

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