

How small businesses can cope with cashflow problems

Expert knowledge means success

Contents

1. Introduction
1. Survival is painful but many businesses fail due to shortage of cash
2. Getting customers to pay
2. Cash Management Checklist
4. The Better Payment Practice Campaign
4. Looking for more in-depth advice?
5. Business Debtline
5. How does your business measure up?
6. Further Information

Note: This publication has not been updated since it was last published. Some of the hyperlinks may have changed and may need updating. In addition, some of the information in this publication may be out of date.

Introduction

As a small business owner/manager, if you take a moment or two to review the problems of the past year and the upcoming challenges for the year ahead, there's one word that will spring to mind. It's only a small word but it often spells big trouble for many businesses:

Cashflow

Ensuring that bills are paid on time is good business practice in which both buyers and sellers have a part to play. Late payment eats into profits. Your net margin will be reduced if invoices are not paid on time and ultimately this may threaten the viability of your business. The longer a debt remains unpaid the greater the risk that it will never be paid.

For many small business owners and managers, cashflow problems will have had the greatest impact on their success or failure. Cash is a keyword for small businesses – lack of it can mean disaster even if the order book looks healthy. This publication provides some solutions to the problem of shortage of cash.

Survival is painful but many businesses fail due to shortage of cash

Inevitable questions arise for businesses that seem to be surviving even though the survival process is painful:

- "How much cash should be set aside for income tax, capital gains tax and tax on profits?"
- "What about paying bonuses and dividends?"
- "How do I make cash available to pay for new stock which I will need for when the market picks up?"

According to Debt Help UK, half of the UK's small businesses fail within the first three years because of cash flow problems. They either run out of money or run out time. More information is available at their

website: <http://www.debtsolver.co.uk/>

There are many ways you can improve your cash position without having to borrow from a bank or finance house. By implementing just a few of the ideas below, you could find yourself in a very different position this time next year.



- Carefully monitor your cashflow and keep an up-to-date record of available funds and cash in the bank – an account with online facilities will enable you to keep a very close eye on things and of course transfer funds when necessary.
- Ensure that your customers understand and adhere to your payment terms from the outset (as in "Terms of Business" etc) and make sure that you have a good debt collection system for chasing overdue accounts.
- If you need money for the business on a long- or medium-term basis, don't borrow short-term. There are established sources of finance for purchasing fixed assets such as cars and machinery - don't pay for these out of a bank overdraft. Bank overdrafts are intended as working capital for the business. Instead, go to a finance company and pay for these fixed assets via hire purchase or leasing. That way, your working capital funding to finance stocks and receivable and payment of creditors, will still be available.
- If you're buying business property, consider raising some or all of the finance through a home mortgage - if there's sufficient equity in your home. Domestic mortgage interest rates are usually much cheaper than commercial mortgages and the repayment term can be longer - both of which will help your cashflow situation.
- Think about invoice discounting or debt factoring using a factoring company. It can be far cheaper than an overdraft.
- Use up your losses for the current year – for example, if you have paid Corporation Tax in past years and your company makes a loss this year, ask the Inspector of Taxes to agree to a tax rebate.
- Talk to your bank – your business is important to them. Negotiate better bank and interest rates, look at ways to earn interest and as a last resort be prepared to move to a more "understanding" bank.
- Talk to your suppliers to negotiate extended terms where appropriate and holding back on payment where justified.
- Use your pension scheme to your advantage – as an alternative means of security for a loan. You can, in some cases, take cash back from the fund

(but watch your liability to tax), or sell assets (such as freehold property which your business owns) to your pension fund. Alternatively, your pension fund can borrow money! But make sure the assets are sound and that the fund will still be liquid and strong enough to meet pension arrangements.

- Delay VAT liabilities: Sell your goods on a sale or return basis only accounting for VAT when goods are paid for, invoiced or otherwise indicated. Or move to cash accounting if your turnover is less than the current cash accounting limit.
- Keep your company profits below the threshold limit for small companies to make sure that you pay tax at the lowest tax rate for small businesses.

Getting customers to pay

Many small business owners complain that they wouldn't have a cashflow crisis if only their customers would pay on time.

Obviously good credit control will help improve collections from customers.

Nevertheless, in many cases the best that business owners can achieve is to get customers down to a 60-day payment cycle. If the business is expanding, the problems start to compound - many businesses that have to pay for supplies and wages before they get paid by the customer, find that their cashflow problems actually get worse as they make more profit on paper. There's a saying that captures the mood of this situation:

"Turnover is vanity, Cash is sanity".

The solution to this situation may well be factoring or invoice discounting. It's a clear advantage to be able to send a copy of the sales invoices to the Factor and collect 75% to 80% of the face value immediately with the balance coming to you when the Factor gets paid in full by the customer.

Factoring or Invoice Discounting can:

- Improve the credit rating of your business
- Provide cash for expanding the business
- Help meet payroll and tax deadlines
- Increase your purchasing power
- Generate more sales
- Provide finance for marketing
- Enable you to take advantage of discounts and other buying opportunities.

Some factoring arrangements provide for the Factor to take over the administration of your sales ledger. This means that issuing statements and chasing delinquent customers for payment will be undertaken by the Factor - releasing valuable time for you to manage and expand your business. Call us for further details about factoring and invoice discounting.

Cash Management Checklist

If you want to get your credit management right, you'll need to have the right procedures in place. Getting an order isn't the end of the sale - getting paid for what you sell is what you should be trying to achieve. Did you know that, in most cases, 20% of customers account for 80% of turnover? Find out who your 20% are and keep particular track of them.



Card processing help for small businesses

The Forum for Private Businesses (FPB) and Accept Cards Ltd (ACL) have been helping small businesses by providing mobile credit/debit card terminals on a short-term basis, rather than the usual deal of 12 months at a time.

Members of the FPB already accepting cards make an average saving of 30% on the processing costs, with no joining fees (typically £150-£200) for switching acquiring bank. Members of the FPB new to cards make an average saving of £465.

Benefits include low rates for cardholder-not-present transactions, independent advice on all areas of card processing and the choice of a wide range of processing banks. Other options include a zero minimum monthly service charge and either static, portable or fully mobile terminals with flexible rental terms. Source: FPB press release:

www.fpb.org/news/2288/The_Forum_of_Private_Business_and_Accept_Cards_Ltd_help_businesses_make_the_most_of_Christmas_trade.htm

The following questionnaire is not exhaustive, but it will help you to evaluate your procedures and practices and spot any problem areas that exist.



Order Stage	ALWAYS	SOMETIMES	NEVER
Are credit checks taken on all new customers?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Do you set a credit limit for all customers?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Are regular credit checks taken on your main customers?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Do you have detailed Terms of Trade?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Do you make Retention of Title clear?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Are payment terms agreed in writing?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Do you always use your own Trade Terms?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Does each customer have an account number?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Before Delivery			
Do you confirm and record the following details:			
The customer's order number?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Identity of the company you are trading with?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The name of customer's payment contact person?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The correct contact address?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Phone/fax number and e-mail address?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Customer's VAT number?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Company registration number (if Ltd)?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The date when payments are due?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
When customers usually pay their bills?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The most appropriate way for you to be paid - credit card/BACS/cheque?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
At Invoicing			
Do you check the accuracy of all invoices?			
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Do you include the following on your invoices:			
Your company name and incorporation number?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Your bank details?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Terms and Conditions of Sale?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The customer's correct details?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Payment address?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The customer's order number?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The delivery date?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Unit price and volume/rate per hour?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Your VAT number, amount and rate?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Total amount due?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Due date for payment?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Payment terms?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Discounts given or due for prompt payment?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Invoicing Disciplines			
Do you deliver an invoice within 24 hours of delivery of the goods or service?			
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Do you check that delivery corresponds with the order to avoid invoice disputes?			
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
For large orders, do you confirm receipt of invoice?			
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Do you issue detailed monthly statements?			
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Getting Paid

Do you know when each debt is due?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Do you contact major accounts before the due date of payment to ensure there are no disputes and that payment will be made on time?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Do you chase overdue payments within 7 days of being due?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Do you conduct an aged-debt analysis each week?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Do you prioritise your collection activity and chase the highest values first?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Do you have a system for chasing debts due - for example, standard letters, visits, calls, faxes, e-mails and referring to solicitors or a debt collection agency?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Credit Dispute Management Systems

Do you have documented procedures including timescales for handling and resolving disputes?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Do you use any system for measuring the success of your credit control function?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Do you have a regular monthly review to identify problem accounts and define courses of action?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

When Customers Default

Do you always stop supplying when payment has not been made by the agreed date?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Do you put the matter in the hands of a solicitor or debt collection agency?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Do you pursue claims through the Courts?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

If you haven't answered "always" or "yes" for at least 75% of the questions, then think about your credit management practices carefully. More help and advice is available from the Better Payment Practice Group.

Contact the British Chambers of Commerce on 020 7565 2000 for details of your local BPPG seminar or look at the BPPG Website at: <https://payontime.co.uk/> (or call them on 0870 150 2500 for a copy of the Better Payment Practice Guide.

The Better Payment Practice Campaign

The Better Payment Practice Group (BPPG) was formed in 1997 as a partnership between the public and private sectors. Its aim is to improve the payment culture of the UK business community and reduce the incidence of late payment of commercial debt. They have published some very helpful information on this subject. Using the Late Payment of Commercial Debts (Interest) Act 1998 as a catalyst for change, the BPPG is implementing a major campaign to raise awareness of the issue. This is being reinforced by practical help to the business community in improving credit management and payment practices and thereby helping to reduce the problem of late payment.

Looking for more in-depth advice?

The Institute of Credit Management, the largest professional credit management organisation in Europe runs conferences, seminars and workshops in credit management across the country. They can also design and run tailored in-house courses to cater for specific needs. To obtain details, go to their website at <http://www.icm.org.uk/> or telephone 01780 722907.

The CSA (Credit Services Association) have provided a booklet on the effective use of debt recovery agencies. For a copy of this booklet telephone: 0191 2132509 or visit their website at: <http://www.csa-uk.com/>

The Credit Protection Association

An online service to curb the antics of late payers is provided by the Credit Protection Association (CPA), an established provider of credit management services.

The impetus for the service was a study which found that among the worst defaults were building firms and wholesalers, whose cheque-in-the-post excuses often resulted in the bankruptcy of their cash-strapped victims. A quarter of all the UK's 40,000 annual business failures are currently attributed to the problem.

But according to the Federation of Small Businesses, if anything the time taken to pay by many large companies has lengthened, largely because of the unwillingness of small creditors to alienate major customers.

The CPA website www.cpa.co.uk provides a number of online services, for example a Debt Link service which allows businesses to submit details of outstanding invoices electronically. It also kick-starts a three-letter cycle to the debtor from the CPA, a method which the association claims has an 84% success rate in resolving late payment problems. Debt Link "moves overdue invoices from the bottom to the top of the pile to be paid."

According to figures from the latest business omnibus from BACS, the automated payments clearing house:

- outstanding payments owed to SMEs had leapt by £2.6 billion to a massive £18.6 billion!
- The average amount outstanding to a SME at any one time is £30,000
- Almost a third of SMEs questioned claimed **they'd go bust when** faced with an amount owing of up to just £20,000
- Almost one fifth of SMEs now employ a dedicated person to chase overdue invoices
- The average SME loses around 17 days per year on this onerous task.

Other services available at www.cpa.co.uk include Status Link which provides instant access to guaranteed business status reports and Companies House information, Verify Link which immediately locates and identify individuals and companies and Legal Link which provides Commercial legal advice 24 hours a day.

Business Debtline

On 12 July 2000, the then Small Business Minister Patricia Hewitt launched the Business Debtline, a telephone Helpline aimed at helping small businesses facing debt problems. The service provides telephone counselling and step-by-step comprehensive guidance on dealing with business debts.

The service was set up by Birmingham Settlement who provided similar services within the Birmingham area. It is now part of the Money Advice Trust, a charity recognised by both the government and private sector as a leading organisation promoting free, independent money advice.

The Debtline telephone number is 0800 197 6026, and calls can be made between the hours of 9am to 5pm, Monday to Friday. Further information is available at the Business Debtline website at: www.bdl.org.uk

Many businesses face a debt crisis at some stage in their life. The Business Debtline provides expert counselling and advice so businesses can overcome their financial difficulties and prosper.

How does your business measure up?

If some of your customers have gone on holiday without settling their outstanding bills, your cash flow may be suffering. Even experienced business people sometimes fall into the trap of measuring their success in terms of sales rather than cash collected. With research suggesting that around 25% of all insolvencies in Europe are due to late payment, making sure you get paid on time is as important now as it ever has been. The following 10-point checklist is a good starting point to ensure that you stay on top of your credit control and cash flow management.

How does your business measure up?	YES	NO
1. Do you send your invoices out on time?		
2. Do you have an application form for credit for all customers?		
3. Do your terms and conditions state that payment must be "received by" a particular date rather than "payment within X days"? This protects against the "cheque is in the post" scenario.		
4. Do you check customers' purchase orders to ensure they are not trying to get you to trade on their terms rather than your own?		
5. If you are not paid within a reasonable time, do you ask why not? If there is a problem, customers are unlikely to tell you unless you chase them.		
6. Do you try to remove your debtors' reasons for not paying? This will require whoever is your credit controller to wear their 'customer services' hat.		
7. Do you deal with queries straight away and are you firm but fair?		
8. Do you send out statements, follow up letters and final demands promptly?		
9. Do you follow these up with a letter from your solicitor? The cost is minimal and the threat of legal proceedings often does the trick.		
10. Do you stop supplying further goods until you have received payment for the previous ones?		

If you can answer 'yes' to all of the above, you almost certainly don't and won't have a cash flow problem as a result of late payment.

Further Information

Obviously, the above points are only aimed as a guide to try and help you improve the cashflow position of your business and they are not a substitute for professional advice.

This guide is for general interest - it is always essential to take advice on specific issues.

We believe that the facts are correct as at the date of publication, but there may be certain errors and omissions for which we cannot be responsible.

Important Notice

© Copyright 2019, Martin Pollins, All Rights Reserved

This publication is published by **Bizezia Limited**. It is protected by copyright law and reproduction in whole or in part without the publisher's written permission is strictly prohibited. The publisher may be contacted at info@bizezia.com

Some images in this publication are taken from Creative Commons – such images may be subject to copyright. **Creative Commons** is a non-profit organisation that enables the sharing and use of creativity and knowledge through free legal tools.

Articles and information contained herein are published without responsibility by us, the publisher or any contributing author for any loss howsoever occurring as a consequence of any action which you take, or action which you choose not to take, as a result of this publication or any view expressed herein. Whilst it is believed that the information contained in this publication is correct at the time of publication, it is not a substitute for obtaining specific professional advice and no representation or warranty, expressed or implied, is made as to its accuracy or completeness.

The information is relevant within the United Kingdom. These disclaimers and exclusions are governed by and construed in accordance with English Law.

Publication issued or updated on: 15 April 2012

Ref: I81

