

Mercian Law

Commercial Debt Recovery Specialists

The importance of reviewing your terms of business

We can all agree that cash flow is essential to all businesses, from sole traders to multinationals. So what can be done to avoid poor cash flow? These should be your initial considerations:

- What is your invoicing process?
- What payment terms do you require?

One system doesn't fit all, it's also important that you review your terms as your business changes. Our best advice is to be as clear as possible with your customers. The best way to achieve this is to have your terms set out clearly in writing before you commence trading with your new customer.

Key Considerations

Invoice Template

If you don't have a standard template, generate one, it makes life simpler rather than reinventing the wheel each time you need to bill a customer. If you don't have a standard, this is what you need to ensure the template details:

- A sequential invoice number
- Your business name (as appears on the certificate of incorporation if Limited), plus any trading name, address and telephone number
- Customer's name and address
- Description of goods and services being invoiced, including date supplied
- Date the invoice
- The net amount being invoiced, any VAT payable, including the rate per item, gross amount payable
- Address for service of legal documents
- VAT registration number if applicable

If you are selling to either an individual or non-VAT registered company in another EU (European Union) country, you must pay VAT. If your customer is VAT registered in another EU country you do not charge VAT, but you must:

- Obtain and show your customer's VAT number, including the two letter country prefix, as well as your own VAT number on the invoice
- Ensure goods are delivered to your customer within three months, and keep evidence of transportation, dispatch note.

The evidence that the goods have been removed from the UK must detail:

- The supplier
- The transporter
- The Customer
- The Goods and their value
- Mode and route of transport
- Destination

If you fail to fulfill the above, you will have to pay VAT at the UK rate.

Terms of Business

As solicitors we suggest that all businesses should really protect themselves and limit their liability with standard terms of business, providing security and peace of mind. However, many businesses trade on a more informal basis with verbal agreements. To be honest this is far from ideal as disputes are more likely to arise.

It is important to get your terms of business right, otherwise it can be more difficult to pursue and prevent bad debts. Mercian Law can assist with the reviewing of existing terms or drafting new ones, from as little as £174 + VAT.

Some standard terms you need to consider are:

- Your fee/ costs
- Delivery arrangements
- Payment terms, the standard is 30 days, you could ask for some, or full payment in advance, or offer a discount for early payment
- Credit Limit
- Interest
- Quality Assurance
- Date Protection
- Liability Limitation
- Jurisdiction

Timing

It is important that your terms of business are served upon your customer at the commencement of the trading relationship, an ideal time is when you provide a quotation, or when an order is placed and you send an order confirmation. We recommend that you supply your customer with a duplicate for them to sign and return to you, this enables customers to discuss with you any issues they have with your terms and conditions before your supply any goods or services.

Payment Terms

Do you offer your customers credit? If so, do you credit check customers?

Customers that do not pay on time will have a significant impact on your cash flow. Therefore, Mercian Law recommends that you try and ascertain as much information about a new potential customer's financial viability, as this will assist you in deciding on what level of credit to allow, or if you require payment in advance.

If your business does offer customers credit, ensure you have an eligibility criteria which is in writing and understood by your employees.

We also recommend that you encourage the customer to pay you electronically, providing you with more certain and faster payment and no risk of bounced cheques.

Depending upon the profit margins you are working with, you may also wish to consider offering customers a discount for early payment. This may result in quicker payment, which in turn improves your cash flow and reduces bad debts. On the other hand the discount will inevitably reduce the cash coming into your company, some customers would have paid you promptly in any event and, therefore, they have the benefit of a discount for nothing. Another concern is that if you discontinue the discount it may offend some customers, who may cease trading with you. Finally, your VAT accounting will become more complicated.

Debt Collection

For any business owner, overdue invoices are very frustrating. In addition chasing payment can be unpleasant, but not grasping the nettle early can have devastating ramifications on cash flow.

Mercian Law recommends that you make it clear on the face of all invoices, the consequences of late payment.

It is all well and good having a collections policy, but action has to be taken and confrontation with customers not shied away from. We do not mean being aggressive, but to contact the customer and seek an explanation as to why payment hasn't been made on time. Is the invoice awaiting approval from someone away on annual leave? Does the customer require additional time due to temporary cash flow problems? How to proceed will very much depend on a case by case basis, just make sure that any compromises are completely understood. The ideal is to be firm yet fair, and don't be scared to follow up.

If all your efforts prove fruitless, it may be time to give us a call and take up the opportunity to receive some initial free guidance on your options and the estimated costs involved in taking further action. Mercian Law provides a comprehensive range of services to help you recover your outstanding debts.

If a former debtor re-approaches you with a request to enter into a new relationship, you don't have to be high handed and dismiss them, ask for an explanation on what has happened since you last worked with them, it may be viable to revive the relationship but on stricter payment terms, like payment in advance.