

A business guide to getting paid



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The impact of Covid-19, the lockdown, and the following return to business with increased uncertainty mean that it's more important than ever to ensure that you are getting paid.

This guide has been designed to support you when dealing with your accounts receivable and to ensure you are getting paid as much as possible. It focuses on key processes that can reduce your business's exposure to credit risk – including your Terms of Trade, how you conduct credit checks, how you bill and accept payment from customers, how you automate invoicing and payments, and how you manage your accounts receivable.

Your credit management strategy should focus on:

- ✓ Reducing the amount of financial risk your business is exposed to
- ✓ Increasing the likelihood of your business being paid on time
- ✓ Reducing the chances of cashflow disruptions caused by late payments and bad debts.

A credit management review should focus on assessing how you have provided credit to your customers in the past, acknowledging the weaknesses in your current systems, and improving your processes so that your business is more sustainable going forward.

A blurred background image of an office desk. It shows a person's hands typing on a laptop, a calculator, a keyboard, and some papers. The lighting is warm and the focus is soft, emphasizing the text overlay.

You must have robust Terms of Trade in place before offering credit to your customers.

Your Terms of Trade depict the terms and conditions of a sale and form a contractual relationship between buyer and seller. It's important to be as specific as possible to guarantee that your customers know their rights and also ensure that you maximise your margin and profit, therefore maximising your cash position.

With that in mind, it is not enough to simply send your customers the Terms of Trade – they must acknowledge, in some way, that they have read and accepted them before they first buy from you. You can make changes to the terms as you

go, but it is essential to inform your customers and get their confirmation if you do so – otherwise any changes to your Terms of Trade may be unenforceable.

Some of your terms will likely need to be updated to reflect changes in your business practices as a result of Covid-19's impact. Pay special attention to your payment and delivery terms, and to how these may need to be altered.

When reviewing your Terms of Trade, make sure they cover:

1. Delivery (how, when, cost, late delivery)
2. Installation
3. Limits on liabilities
4. Warranties
5. Details of each party
6. Payment terms and late payment implications (interest on late payments, cost of pursuing debt)
7. Personal guarantees from company Directors or Trustees of a Family Trust
8. Price and matters that impact price (tax, estimates vs quotes, variations)
9. Reservation of title
10. Risk and insurance
11. Other relevant items (indemnities, governing laws, force majeure, privacy, credit checks...).

After reviewing and updating your Terms of Trade, share them with your customers, highlighting key changes. You must continue to enforce your Terms of Trade at this time. Don't let your customers avoid paying you, as this will have a material impact on the sustainability of your business – cash is the oxygen it needs to survive.

If you need help developing robust Terms of Trade for your business, get in touch with us. While any updates will not apply to current accounts receivable, they will provide clear terms for customers to adhere to in the future.

Billing

It is essential to invoice your customer immediately after supplying the products or services. The time between delivering and receiving payment should be as short as possible.

You can utilise online billing software, such as Xero, to invoice customers. Clearly identify the amount due, due date and payment options on each invoice. Make it as easy as possible for the customer to pay – direct debit, direct credit, online payments or credit card.

We recommend including a statement on all invoices and statements acknowledging the impact Covid-19 will be having on your customers, such as:

“We understand that financial pressure is inevitable over the coming months and we will do all we can to support you through this. However, we do want to stress that, as a business, we have been facing the same financial pressures as you, so your immediate attention to this account is appreciated. To this end, if you are not in a position to pay an invoice in full, we ask that you communicate this early by calling us so we can work together and discuss your options. Thank you in advance for your co-operation and support.”

Payment Terms

Review your current payment terms. Consider:

- ✓ **Shortening your payment terms (e.g. from 20th of following month to 10 days after invoice)**
- ✓ **Offering additional payment alternatives (e.g. credit card, direct debit, online payments)**
- ✓ **Offering a small discount for prompt payment.**

The best-case scenario is for customers to pay on receipt of invoices. However, many businesses will be struggling with cashflow right now and you may need to offer them additional flexibility, for example:

- ✓ **A partial payment within the next week with the remainder paid at an agreed future date**
- ✓ **An instalment arrangement to spread payments over a specified timeframe (e.g. 6-12 months)**
- ✓ **Use of a fee funding or invoice funding service.**



Automation of billing and payments

Invoicing directly from your accounting software may enable faster payments. Xero allows customers to pay their bill directly from their invoice, using credit card, PayPal or Stripe – make sure you have enabled this option if using Xero.

Create invoice templates and set up automated email reminders. Remember: contact with the customer should be made as soon as their invoice becomes overdue (so do not set the first reminder email to go out 7 days after the invoice was due). In fact, you can send a first reminder several days before the invoice is due for payment.

If you have customers you invoice regularly, set up repeating invoices to automate this process and guarantee that invoices are always sent.



You need to have a debtor management process in place to ensure overdue accounts are followed up as soon as they become overdue. Your process should cover:

- ✓ Exactly when debtors are to be followed up (e.g. the day after payment is due)
- ✓ How often debtors are to be followed up
- ✓ Alternative payment methods available
- ✓ Use of “copy” invoices or an “overdue” invoice layout for customers who need to be rehabilitated
- ✓ Use of one-off payment terms or special pricing terms based on current debt.

Review your debtors

See that your debtor information is up to date and that all payments have been reconciled. For each debtor, you should be clear on:

- ✓ How much is outstanding
- ✓ When the account was due
- ✓ Whether there has been any variation to the payment terms
- ✓ Who the contact person is
- ✓ If it is a business, who authorised the work
- ✓ Details of the work done.

When this information is at hand, prioritise the follow up of your debtors, starting with those most overdue. Remember that some businesses will be more affected by the repercussion of Covid-19 than others, so be mindful of this when following up and requesting payment.

Record all contact with debtors

Ensure you have a process for recording all contact you have with your customers relating to overdue payment requests. Record specific details in your CRM or Practice Management system, including:

- ✓ Time and date of contact
- ✓ Contact method (e.g. phone call, email, letter)
- ✓ Outcome of contact (e.g. agreed to

pay X amount on X date, entered into instalment arrangement, message left on mobile phone...).

Schedule all required follow up in a diary. For example, if a message is left on the customer's phone, schedule a follow up call for the next day. If the customer agrees to make a payment on a specific date, set aside time in the diary to check if the payment has gone through on that date.



Initial contact

As mentioned above, customers with overdue accounts must be followed up as soon as they become overdue. Ideally, that will be the day following the due date.

Since there is currently an increase in the flow of emails, it is easy for your payment request or reminder to get lost amongst the flood of messages, or even to be deleted. For that reason, we recommend you make your initial contact via phone call.

Use our phone scripts to make the initial call to the customer as soon as possible after their account becomes overdue. It's important to plan what you will say and how to respond to what the customer says. The script encourages you to show interest in how your customer is doing and act with empathy during these difficult times – and then, respectfully, position a request for payment.

Empathy, straightforwardness and professionalism are key.

Privacy considerations

If the customer does not answer the phone and you need to leave a message, it is fundamental to understand the laws surrounding privacy.

If leaving a message on an individual's landline, you must not leave any information about the debt owed. You may only leave your name and contact details.

If leaving a message on an individual's mobile phone, you can mention the debt only if the person's voicemail message states their name.

If contacting a customer through a company, only mention information about the debt if you are calling their direct extension, not the company's main line.

Remember: it only takes one time and an angry customer to turn a simple call into a major problem if you don't abide by privacy rules.

Subsequent follow up

If the customer hasn't paid by the date they had agreed on, follow them up immediately with a phone call. Find out why they haven't paid and discuss alternative arrangements. Give them another chance to settle their debt. Remember to remain empathetic, but gain commitment to ensure payment is made.

If the customer still fails to pay, weigh your options. If they genuinely can't make a payment, consider accepting a part payment as full and final settlement of their debt. It is important to maintain the relationship you have with your customers in the future, and taking enforcement action against customers at this time may cause irreparable damage to that relationship.

Referral to an external debt collection agency

It might be reasonable to refer certain customers to an external debt collection agency if they repeatedly fail to pay or respond to your requests for payment. If a customer is unable to make payment, however, it may be pointless to do so. In addition, you need to consider the potential damage you may do to your brand if you appear to be behaving aggressively in such extreme times.

ADDITIONAL STRATEGIES TO MAXIMISE PROMPT PAYMENT



Implement the following strategies to encourage prompt payment:

- ✓ Be upfront from the beginning, explaining “how we do it here”
- ✓ Quantify prices in advance
- ✓ Invoice regularly
- ✓ If the work required spans a period of time, consider progress billing
- ✓ Provide payment options
- ✓ In the case of a service provider, consider agreed fees
- ✓ Follow up debts systematically and frequently
- ✓ Articulate the value of the work provided
- ✓ Build a strong relationship with the customer.

HOW AN EXPERT ACCOUNTANT CAN HELP



Many successful businesses have utilised the services of a consultant to help them improve their business strategies and profitability.

An experienced business advisor or accountant will provide an objective point of view along with professional expertise. Delegating some of your day-to-day business activities will free up your time to concentrate on the important business issues that help you improve profitability and cashflow.

Q2 Ltd doesn't just do accounting. We help business owners like you understand the financials so that you can make better decisions and achieve your goals. Our cashflow improvement training helps maximise your resources by systematically working on and surpassing the seven causes of poor cashflow.

In short, our accounting, coaching and

advisory services help take a business from average to extraordinary.

To succeed in business you must get the basics right. You will need experienced business advisors who can help you understand your numbers and make practical business plans to improve profits and cashflow.

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