PART FIVE
Cash flow and working capital

strong relationships, lasting rewards

In the current climate, many SMEs claim to have found it increasingly difficult to access the finance that their business needs to expand. And many banks have had to review their approach to risk which may have resulted in a reduction in lending.

But Santander Corporate Banking stands out from the crowd. In the nine months up to September 2010, the bank increased its lending by 27%.

Some of the fastest-growing, most exciting SMEs in the UK now bank with Santander. They are attracted by its progressive attitude to finance, and just as importantly, its belief that banking is a partnership.

"We're really keen to work with growing businesses in the UK, and we're putting our money where our mouth is," says Steve Pateman, who as Head of UK Corporate and Commercial Banking is responsible for Santander's overall strategy for SMEs.

"Competitive funding is important, but businesses value advice, consistency and service just as highly. That's why we aim for tailor-made solutions, not 'off-the-shelf' products."

Relationship banking: The personal approach

Every client at Santander Corporate Banking has a personal Relationship Director, based at a local banking centre, who gets to know the growing business inside out, and help select the right products.

Lindsey Rix is the Divisional Managing Director for London & the South-East. She manages a team of experienced Relationship Directors, and is clear how they work with SMEs.

"Our priority is to listen and talk to our clients," she says. "We need to understand their business, their strategy, their goals and aspirations."

This, she says, means that every solution is bespoke. "We take the time to understand our clients' needs and prospects, and we want to be with them for the long term. So when we advise on products, it's driven by their needs - not ours."

The same goes for product development at Santander. If you're a growing business, read on for an overview of the solutions designed to meet your needs.

Start here: Current accounts

The starting point for any growing business is a high-quality **current account**, around which to structure the daily flow of funds.

Most businesses need both access to a high-street branch, and a sophisticated online service. The Santander Corporate Reward Current Account lets you bank through over 10,500 Post Office® branches around the country, more locations than any other bank. Meanwhile, in addition to the support of your dedicated Relationship Director, there's also 24-hour online banking.

The Corporate Reward Current Account offers the potential to earn highly rewarding credit interest and full merchant acquiring through our payment solution provider, Elavon Merchant Services, with extra rewards if you use the integrated solutions.

Fees and charges are fully transparent, so you're never hit with any nasty surprises. We also aim to be competitively priced on any transaction you make.

And most importantly, you'll always have access to your Relationship Director to help with any problems or questions.

Banking on success: Deposit solutions

Managing **deposits** can be complex for a growing business, with the need to balance competing return, risk and liquidity requirements.

Santander Corporate Banking offers a full set of deposit products to meet any combination of these needs. Whether you want the security of fixed-rate Time Deposits, or the flexibility of instant access in the Corporate Bonus Account, we'll provide clear, straightforward advice.

In addition, you have the security of knowing your deposits are with a Standard & Poors AA-rated bank*. Marcelino Castrillo Garcia, Managing Director of Products, advises growing businesses: "Demand both solvency and strength from your bank. Quality is key and Santander UK plc has enviable credit ratings, offering peace of mind and a profitable home for your deposits."

* Source Bloomberg 06/12/2010

Santander
CORPORATE BANKING

"The message is clear – we want to begin a partnership with you, and we're very much open for business"

Your Relationship Director will help you choose the best deposits for your needs at any one time, navigating you through the money markets.

Unlocking hidden value: Invoice and asset finance

Invoice finance unlocks the hidden value in your sales processes. This could be cash to pay suppliers early and earn discounts, or it could be the ability to borrow when purchase orders are raised, giving your business a helpful injection of working capital.

The best solution depends on your business. Dave Totney, Head of Invoice Finance, says: "We start by developing a clear understanding of your business and where you're heading. Then we help you drive efficiencies by using cash to purchase efficiently or pay early."

Either way, Santander's online Client Access system puts you in control of your cash, letting you draw down the appropriate funding as and when you need it.

Then there's **asset finance** - borrowing against the value of your equipment, plant and vehicles. This spreads the cost of expensive equipment over its working life.

Again, Santander designs this around your business. Mike Oxby, Head of Asset Finance, comments: "Companies are complex - you can't just pull the right asset finance solution off the shelf. Instead we work with you to find it, whether it's hire purchase, financing lease, operating lease or full fleet management."

With Santander, you can also refinance assets you've already bought, releasing capital back into the business. But whether new or old, asset finance is crucial - it lets you pay for equipment while it's earning money for your business.

Further afield: Expanding overseas

Trading internationally can be complex and daunting, sometimes even for those who've been doing it for years. But our team of experts can help you through the process of **trading overseas**.

Naturally, we offer letters of credit, documentary collections, bonds and guarantees, import/export loans and of course, foreign exchange.

And, just as importantly for a growing business, with Santander you benefit from a high-profile international brand, known all around the world.

Open for business

This is just a selection of the Santander Corporate Banking solutions available to SMEs. "The message is clear - we want to begin a partnership with you, and we're very much open for business," says Steve.

So what type of SME is Santander looking for? Attitude is the key factor, according to Steve: "I want to work with businesses who want to be successful, who want to develop their business, who have an idea that they want to turn into a reality.

"And if that describes you, we'd love to help."

To find out more, contact our specialists today:

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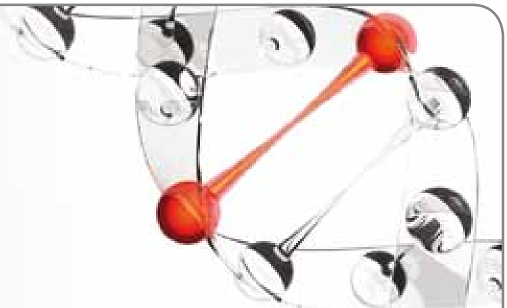

Alternatively to speak to a Relationship Director in your region visit 'Contact Us' at www.santandercb.co.uk

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5.1

Cash flow management: an essential tool for business survival

Unpredictable cash can be as disastrous as no cash at all. ***Gareth Jones*** at Mazars discusses the rules for business survival

'Cash flow management' is a phrase that has different meanings to different people. This can often lead to business owners being given misguided advice concerning cash flow management. Every business needs to make sales to be successful but it is not merely the making of sales and collecting of debt that will ensure a business's future.

Cash flow is essentially the difference between cash received in the business's bank account and cash going out of the business over a specific timeframe. However, most businesses have a particular cash cycle. For example, you should know that payments for Crown debts may be monthly (payroll taxes) and some quarterly (VAT). Terms and conditions on payment of sales invoices may require you to be paid within 30 days of an invoice being raised. Although most cycles can be estimated it is not always possible to know exactly when all receipts will land in the bank as you will be reliant on customers paying on time. This has been particularly difficult in the current economic climate as customers have tried to extend their cash flow resources by paying later.

An important cash flow management strategy is to take time to understand the cash flow cycle – what areas are predictable, which ones are not. This should be part of any company's risk management. The importance of cash is paramount. It is widely known and often understood that you can survive in the short term without profit, but certainly not without cash and simply generating sales does not ensure that the business is profitable. Therefore, the cash handled by a business must be monitored through proper cash flow management.

Many growing businesses note that cash flow is a big headache in striving for business success. Lack of available cash can weaken a business and even lead to business failure. Cash that flows unpredictably can be as disastrous as no cash at all.

Effective cash flow management addresses both short-term and long-term planning. Managing cash flow is really nothing more than managing information. Cash flow management is critical to all businesses, but is probably most critical for businesses whose trading can be seasonal and unpredictable.

Short-term cash flow management strategies rely on record-keeping systems that provide quick and accurate access to income and expenditure transactions. Important information for cash flow management can be obtained from a variety of sources including procedure manuals, bank statements, cash flow forecasts, reports on debt collection and trade payables. Routine cash management reviews must keep a close eye on debt collection, sales and deliveries, status of invoices, receipt of payments and depositing of payments. The best cash flow management strategies usually result from systems that are fully understood by the individual in charge of this process.

Cash flow management does not need to be complex to be effective. It does, however, have to be performed. There is no magical solution to managing cash flow. Although a computer and proper software program may expedite, simplify and standardize financial information, the information must be studied and monitored in a way that allows for adjustments to be made in the business's activities. Cash flow can be as simple as ensuring that you have enough sales, at a profitable price. The complexity of cash flow, however, seems to arise in the often-overlooked time lag element. Higher than expected sales at a price exceeding costs is worthless if you can't pay your supplier invoices during the time it takes for the product to be made and sold.

It is vital to the survival of any business that cash flow management is planned. This can be delegated to one of the finance team as part of their ongoing responsibilities. Once a strategy has been adopted to manage the cash flow this must be monitored on a regular and frequent basis to ensure that changes in the cash cycle are anticipated. These procedures and the results should be reviewed and managed by a different, more senior individual. Often in smaller businesses the business owner will utilize their accountant in the review process. There are some key standout actions that will help with planning your cash flow management:

1. **Collecting debts due via credit control procedures**

   Overdue customer accounts will significantly affect the cash flow of a company. One way to address this problem is to keep credit current and at a minimum. This is often a bigger task than it may seem. Keeping in touch with customers will allow you to identify if there are any issues sooner rather than later. Caution should be taken when credit is first extended to customers. Consider giving discounts (although these need to be considered in your overall profit margin analysis) for advance payments as an incentive for payments made by the due date.

2. **Look to cut excess overhead costs**

   In order to understand where payments are being made it is important to understand what the overhead cost base is in the business. Good spending discipline should keep unnecessary costs to a minimum, but good cash flow management should help to virtually eliminate excess overheads.

3 **Keep a close eye on stock levels**

A business needs enough stock to fill orders in a timely manner, but adequate sales are needed to minimize stock levels. Stock includes finished products held for future sales as well as raw materials held for future production. Both types of stock represent cash that has been spent but that has not yet generated a return. It is fundamental that stock levels are monitored in line with the business's sales pipeline of orders.

4 **Understanding working capital**

The time it takes to buy a product, sell it and collect the debt can vary significantly from business to business. The company will be invoiced for the stocks bought as soon as they are received so at that point the cash flow time lag is ticking. The time-lag issue must be quickly addressed by collecting payments and sending invoices in a timely manner. You do not have to invoice just once a month – it can be done weekly or on the day the sale is made.

5 **Supplier payment reviews**

It is often quite easy to delay payment of supplier invoices to help improve cash flow constraints. However, there is often a fine line between delayed payments and late payments. Crossing that line and incurring additional costs for late payments is normally not a good cash flow management technique – it can also agitate important suppliers and potentially lead to a loss of a key supplier. Do not hesitate to take advantage of credit offered by suppliers and always negotiate for better terms rather than just accepting the standard terms.

6 **Monitoring customer payments history**

Monitoring key customers may provide insight into their payment profile. Some customers will pay in line with credit terms and it is simple to include them in the cash cycle. However, it is monitoring those customers who often pay late that is vital. A business should consider implementing new payment procedures for customers who continually pay late. It is pretty simple these days to download credit rating reports on new customers – this type of procedure should be utilized in order to assess customers when they are taken on or when you become concerned about their payment profile. Payment terms influence potential customers, but be cautious not to offer over-generous payment terms.

7 **Cash flow forecasts**

A projected cash flow forecast should be developed. Forecasts will help identify when there is a lack of cash expected in the business and hence will help allow time to try to alleviate this issue. Keeping the bank informed of your projections will help them understand the business better.

8 **Maintaining up-to-date management information**

Continual cash flow management is only as good as the information on which it is implemented. A record-keeping system that provides information useful to making decisions regarding cash inflows and outflows is essential.

In today's current economic climate cash flow management has become an essential tool for business survival. The business owners who take the time and effort to manage this process will undoubtedly have success in the future.

Gareth Jones is a director of business advisory services for Mazars LLP. In his current role he advises predominantly small and medium-sized businesses on business planning and strategy.

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Invoice finance for growth

5.2

*If banks are reluctant to lend, use invoice finance to give your cash flow a tonic, says **David Thomson**, Chief Executive of Close Invoice Finance*

Signs are that we are slowly emerging from the deepest recession since the 1930s and businesses are tentatively turning their attention away from immediate survival towards long-term expansion. But with more difficult times expected ahead for the economy and a continuing lack of funding forthcoming from the banks, how achievable is this expansion?

The difficulty in accessing funds

The formation of a new government has, if nothing else, injected some much-needed confidence back into our business community and created a level of economic stability that we haven't seen in years. Not hard you might say, but given the rough ride SMEs in particular have had to endure over the last few years, any amount of stability is to be welcomed.

Of course we are far from out of the woods yet and the full impact of the recent VAT rise remains to be seen. Still, at long last business owners have a certain degree of direction and clarity as to the future, and a growing sense that the road to recovery, however long and painful, might just be in sight.

Indeed, figures drawn from the *Close Small Business Finance Barometer 2010*[1] would seem to support this sentiment. It reveals that over half of UK SMEs plan to increase their headcount in 2011, a huge increase on the previous year when only 11 per cent expected to do so. Even for those businesses who have no immediate intentions of hiring, many are consolidating their positions internally, taking measures such as investing in IT infrastructure and training, to ensure they are as efficient as possible when growth returns.

Although businesses clearly feel that their prospects for expansion are looking up, a weak cash flow could prevent them from taking advantage of market improvements and opportunities. Worryingly, 90 per cent of those surveyed are finding it as difficult, if not more so, to access funding than this time last year. So what's going on?

What to do when banks won't lend

Despite claims to the contrary, high street banks seem now more conservative than ever as to their lending policies and concerns are that even as we emerge, albeit tentatively, from recession, their prohibitive costs and rigid terms look set to continue.

Many commentators are of the opinion that the banks' response to the forthcoming levies, cap on bonuses, and new capital requirements being implemented by the Financial Services Authority could make them even more risk averse.

It's well-known that SMEs make up 99 per cent of our regional economy so it's not hard to see that this attitude to lending is threatening to derail the road to economic recovery.

Where companies have been busy securing new business the problem they can run into is overtrading. For the unprepared, over-accelerating in an upturn can be as dangerous as the sharp brake required in a downturn. To avoid over-trading, companies need cash flow. If a business secures lots of new orders, it then comes time to start delivering on those orders. For that, you need to invest in the raw materials and the staff, and so on, and you need cash to do it.

The bottom line is that no matter how optimistic businesses are on paper as to their expansion plans, they are merely pipe dreams without the necessary funding.

It's clear that the new government have their work cut out over the coming months when the banks remain reluctant to lend to SMEs, particularly in sectors they consider to be risky, but those same businesses need funds to prepare for growth.

Only time will tell if the Lib/Con's £200 million extension to the Enterprise Finance Guarantee (EFG) Scheme and the introduction of a £37.5 million Enterprise Capital Fund are enough to deliver an effective economic stimulus. Each have their critics, some noting that use of the EFG has become pre-restricted, with more proposals being refused than supported. This means less appetite for banks to back EFG-based deals.

So what does the future hold for SMEs amidst all this uncertainty? Thankfully there are more flexible options for forward-looking businesses, other than traditional bank lending.

Invoice finance – growing into a mainstream option

Increasing numbers of businesses are coming to realize they have a very valuable asset that they could put to work to finance their growth aspirations – their invoices.

The principle of borrowing money secured on a business's assets, particularly invoices, has been in the UK market for almost 50 years, but it's only in the last decade or so that the industry has really taken off.

Statistics from the Asset Based Finance Association show that the UK invoice finance sector has grown by £114 billion (total client sales) between 2000 and 2009 from £77 billion to £191 billion. In the last year alone, nearly 46,000 businesses in the UK and Ireland have used invoice finance facilities to fund their business and improve their cash flow with the industry advancing in excess of some £15 billion.

It's an approach that is gaining government interest. According to *Financing a Private Sector Recovery*, published in July 2010 by the Department for Business Innovation and Skills, invoice finance 'could play a crucial role in securing access to working capital finance during the recovery for many businesses'.

While innovative businesses are quickly becoming more aware of the benefits this type of funding can bring, it's important that more businesses across the UK come to understand the power of invoice finance as a smart, sensible thing to do, guaranteeing a cash flow when you need it most.

How invoice finance works

Essentially, invoice financing allows businesses to raise cash against the value of unpaid invoices that they have issued. The invoice finance provider will pay a proportion of the invoice, often within 24 hours, and can then, as an option, take on responsibility for ensuring it is settled by your customer. When the customer has paid, they will then pay you the remainder of the invoice's face value, less any administration charge.

There are a number of significant benefits associated with invoice finance. In the first instance, it offers some certainty regarding invoice payment dates. Rather than waiting 30 or even 90 days for payment, you can get up to 95 per cent of the value of the invoice within 24 hours.

It also provides businesses with higher levels of working capital, an increased ability to make accurate financial predictions, and the opportunity to react quickly to changes in market conditions. Furthermore, the funding secured through invoice financing is directly related to the strength of the business; as a company's order book grows, so too will the amount you can obtain.

This helps to provide clients with the capital they need to expand efficiently, quickly and in a risk-managed manner without the expense and continual need for renegotiation associated with overdrafts.

Looking ahead

Cash flow is potentially the greatest danger area facing firms that wish to expand in today's business environment. It is vital that any growth is properly financed, and that expansion can occur without putting undue stress on existing core business activities. Given the reluctance of banks to lend, businesses may need to consider different financing options, including factoring or invoice finance.

With proper planning and some creative thinking, you can make the most of the opportunities for expansion. Today, strong relationships and reliable delivery are more important than ever as businesses look at the whole value proposition when choosing a financier. The invoice and asset-based lending industry has remained consistent in its relationship-based approach throughout the last 18 months, bridging the funding gap by offering sustainable finance that many businesses are finding more appropriate to their needs today and ultimately helping them meet the recovery with strength.

Funding for growth case study – Sovereign Rotating Machines

One example of a company that uses invoice finance to assist its growth plans is Sovereign Rotating Machines – an automotive parts remanufacturer, building starter motors, alternators and ignition modules.

With travel and fleet budgets tight, purchasing a new car is a bigger decision than it used to be for both individuals and companies. Instead, car buyers are turning to remanufactured vehicles – cars where all the key components have been replaced and upgraded to create, essentially, a used car with a new engine.

In tough times remanufactured vehicles represent an ideal compromise between brand new and used cars. Because of this, Sovereign's orders were increasing but they needed to invest in parts and components up-front to meet that demand.

Reluctant to fund an expensive bank overdraft to manage cash flow, Sovereign Rotating Machines chose invoice finance. They preferred the way in which an account manager took the time to understand the business and was able to judge the quality of the book debt accurately. Apart from supporting stock purchases, the availability of funding meant Sovereign was far better able to embrace new opportunities as they arose. Their orders are increasing and the business is growing because their risk is managed and their financing secure.

Practical ways to improve your cash flow

Poor financial management is one of the major causes of the failure of small businesses. Many small firms go out of business because of inadequate working capital and poor cash flow management. Below are some pointers on how best to manage your cash flow:

- Know your customer. To do this, you can approach their bank for a reference, use a credit reference agency, or ask their other suppliers. Establish how solvent the customer is and whether they are likely to have any problems paying their invoices on time. Be aware that if you ask a prospect for a client reference it is quite likely they will have a stock of good references – it is worth investing in more impartial ratings/references.
- Be clear with terms and conditions. Formally agree payment terms in advance and confirm in writing. Devise a strategy for customers who demand longer to

pay. One example might be to require a down payment on projects so your customer funds the work, not you.

- Offer incentives for early payment. You should be able to recover the money more quickly if you offer a discount for prompt payment.
- Issue invoices immediately after supplying goods or services. Make sure disputed invoices are investigated and resolved straight away. Ensure sales invoices are fully compliant with HMRC guidelines and VAT requirements.
- Plan ahead and don't hold too much stock as this unnecessarily ties up your cash. Investigate the possibility of more frequent deliveries from suppliers so that stock levels can be kept to a minimum.
- Take more credit. The longer you take to pay suppliers, the more cash you'll retain in your business. It might not be possible to take extra credit in some cases but you could review your creditors and identify those suppliers that you delay paying a little longer. This can make a dramatic difference.
- Preparing accurate cash flow projections can alert you to problems before they materialize. Beware of potential lags in your cash flow and the fact that late payment becomes more widespread during lean times.

Notes

1 *Close Small Business Finance Barometer* August 2010 – 500 UK SME interviews conducted by Lightspeed Research Ltd.

David Thomson is chief executive officer of leading UK independent invoice finance provider, Close Invoice Finance. Since taking the helm in 2002, he has overseen a period of expansion, re-positioning the business as a product and service leader within the factoring and invoice discounting sector. Their IDeal product remains unrivalled and has won numerous awards since it was launched back in 2006; the most prestigious being the Business Moneyfacts 'Best Factoring and Invoice Discounting Provider' – an accolade Close have won for the last five years.

Close's management team offers a huge depth of industry knowledge with each of them having many years' experience working within the invoice finance industry. Without exception all started their careers in very junior positions and consequently are acutely aware of how businesses work and how invoice finance needs to interact at all levels to allow clients to grow.

Providing bespoke cash flow solutions to over 1,000 clients from most sectors and sizes, Close Invoice Finance is part of the FTSE 250 listed Close Brothers Group, one of the UK's most enterprising specialist lenders.

To find out more about how Close Invoice Finance can help your business please call: 0800 220 257; or visit the website: **www.closeinvoice.co.uk**.

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Preventing slow payments

5.3

*Do not suffer in silence, says **Martin Williams** at Graydon*

No matter what size your business is, a sale is only a sale when the invoice is paid. Cash flow is an essential ingredient for business continuity and success, so it is vital that a business does everything it can to collect cash from customers on time.

Since it is estimated that around half of all UK trade invoices are paid late, it is fair to assume that most businesses will experience issues relating to delayed payments from clients. This perennial problem has been exacerbated still further by the current credit crunch. Not only do we all have a problem with those companies that are unwilling to pay; we also have a serious and growing problem with customers who cannot pay because of their poor financial condition. Unfortunately, it's also true that smaller businesses will probably suffer most from this 'delayed payment' affliction. That's because many bigger organizations 'bully' smaller suppliers into accepting slower payments or demanding discounts for prompt payment, in the knowledge that the smaller supplier is so grateful for the business that it will turn a blind eye to tardy invoice settlements or unwarranted demands. Secondly, most growing companies cannot afford to employ a professional credit manager, who would normally have a range of tricks and skills to get the cash in on time.

It's not all gloom and doom, however. If you are a small and growing business, a number of positive steps can be taken to minimize the impact of late payments, even avoid them altogether, without going to the expense of hiring a credit management professional.

General principles

Firstly, the law is on your side! The Late Payment of Commercial Debts (Interest) Act of 1998 gives small businesses the right to charge debtors interest on overdue payments. The large majority of small businesses are worried about pushing for this right for fear of upsetting/losing the customer, but in the southwest of England, a recent survey suggested that as many as 29 per cent of businesses regularly added interest to overdue invoices.

Please recognize that cash flow is the lifeblood of your business – don't just take excuses for delayed payments with a submissive acceptance speech.

Take note: any perceived lack of interest or urgency by a supplier in getting paid will be seen as weakness by the slow payer, and that would mean your outstanding invoice going to the bottom of the finance department's in-tray. So be polite but assertive in asking for what you want.

Secondly, spread your risk. As a small business, be careful about having too many eggs in one basket with regards to commercial trade debt. There are countless tales of smaller companies going to the wall because a large customer accounting for a disproportionate amount of sales turnover did not pay up on time. Pareto's Law is a good indicator as to what customer mix should be aimed for (80 per cent of turnover should come from the top 20 per cent of your client base).

How to improve cash collection

Here are 10 more ways to improve cash collection:

1 **Sign your customer up**

Ensure your company has got a signed contract with the customer that clearly states your payment terms. These terms should also be clearly described on your application forms and the invoices you subsequently send out. Be sure they know what the credit terms are, whether you offer discounts for prompt payments or bulk purchases, whether additional costs are payable (eg VAT or carriage costs), and whether you charge interest on overdue accounts (all businesses are legally entitled to do this). If a customer tries to unilaterally impose its payment terms on you, make sure you build that additional cost of extended credit into your prices so that your profits aren't marginalized further.

2 **Do a credit check**

Buy a credit report from a recognized credit reference agency; especially one that collects trade payment information on how large companies pay their bills, eg Graydon, Experian, and Dun and Bradstreet. Don't rely totally on the taking up of two references given to you by the potential client. They may be cultivated. Don't be taken in either by a great-looking set of accounts to determine whether you will get paid on time; a healthy-looking balance sheet might mean that your potential customer is very proficient in getting its suppliers to finance its business. Set a credit limit for each new client, and don't allow customers to exceed limits without your permission. After all, they are set for a good reason, as you have assessed the creditworthiness of the customer and for how much your business can afford to wait (or lose, should the worst scenario occur).

3 **Is a purchase order required?**

As part of their internal control procedures, large companies often require signed purchase orders before paying invoices. Ask the manager/department placing the order whether they need to raise an internal PO, and if so, have they done so, covering the value of the order. Ask for a copy of the PO (NB:

some large companies require invoices from suppliers to quote the PO number before they are paid).

4 Prevent excuses

Prevent excuses for delayed payment – after dispatching goods and sending your invoice quickly afterwards, make a pre-due call to ensure that your customer has received them and that there are no problems with quantity or quality of the goods supplied, or with the content of the invoice. Invoice disputes can be very genuine and can push back the time you get paid by weeks or even months sometimes.

5 Send statements

Send statements at different times in the month from your invoices. Sometimes this tactic can provoke questions, particularly when original invoices have been lost, not received, or mislaid.

6 Check on expected pay date

Confirm with your client when your bill is expected to be paid, remembering to ask whether they have specific cheque-run dates.

7 Use the telephone (or even a personal visit) to chase

If payment is delayed, chase your money by telephone rather than letter. Some experts in this field say that the telephone method can be 80 per cent more effective. Always prioritize your cash-collection activity, making sure you chase the oldest and largest debts first. Be friendly but firm when speaking with them, and don't forget to remind them that you could charge interest on all late payments. If it's a big debt, don't dismiss the idea of turning up on the doorstep and waiting for your cheque. It does work!

8 Maximize your bargaining power

Maximize your leverage. Try to establish how valuable the product you're selling is to your client. It may be a vital component in a manufacturing process, especially if it has been developed to the client's own specifications.

9 Monitor your risk portfolio

Keep abreast of news that may affect the creditworthiness of your key clients. Put their names on a low-cost monitoring service with a credit reference agency (Graydon's service is called CreditWatch). There is nothing worse than being the last to know when something has happened to one of your key customers. Don't fall into the trap of believing you know everything you need to know about your clients. A businessman I know was informed by a credit agency monitoring service that one of his clients had attracted a number of County Court Judgments over a few short weeks. As a result, he insisted on cash up-front when the client's next order arrived in his in-tray. The client declined the offer on this occasion and put the phone down in an agitated mood. Two weeks later, that disgruntled client actually went bust owing several other unsecured trade creditors money! Thanks to his foresight in buying a monitoring service, my businessman friend avoided a potentially crippling bad debt. Losses from bad debts can really put a strain on a business's cash flow, and in the worst scenarios can even bring companies down! It's the old domino effect. You may not see all bad debts coming, but there are tools out there that can help minimize the chances of it happening, so why not use them like the credit professionals do?

10 Develop a 'friend'

Try to establish a personal rapport with one or two people in your client's accounts department. Get to know Gladys or Vera in the purchase ledger department, by engaging in some general conversation. What might seem like a time-wasting exercise asking Vera about her recent trip to the zoo could actually prove a very productive use of your time if she pulls out your invoice for payment when asked to do so a few moments later. In my experience, the personal touch never fails!

Summary

The message could not be clearer. If smaller businesses follow this advice, they will find that cash flow difficulties will ease. This course of action will be far better than doing nothing about slow payments, particularly from large organizations (apparently, half of small businesses continue to suffer slow payments in silence for fear of losing 'valuable accounts'), or do the extreme opposite, ie close the account. Two things are certain: large companies are not going to change their bullying payment habits overnight, and there will always be clients with genuine cash-flow difficulties that cannot pay up on time. Your organization may not yet be big enough to employ a professional credit manager, but taking the recommended steps above will make it look to the outside world like you do. This may well lead to you gaining not only respect from customers, but a healthier cash position for your business too!

More information

For more information on Graydon UK Limited: **www.graydon.co.uk**
Federation of Small Businesses: **http://www.fsb.org.uk**
The Better Payment Practice Group: **http://www.payontime.co.uk**

Martin Williams has spent the last 30 years in the Credit Information Industry. For the first nine years, he held a number of management positions with Dun & Bradstreet UK, but was transferred in 1984 to Dun & Bradstreet Europe, as part of a high-level team employed to help Dun & Bradstreet companies in Europe to computerize their operations. In 1987, Martin moved to Graydon, which is now one of the top five players in the UK. Since 1989 Martin has been a board director of Graydon UK and became managing director in 2001. Martin is currently the president of Eurogate, a network of European Credit Information Agencies, of which Graydon is a part. He has also been a member of the Institute of Credit Management in the UK since 1991, and is a regular presenter and speaker at credit management forums in the UK.

Graydon UK is one of the leading database information providers specializing in credit risk management. The company helps clients to reduce the uncertainty of commercial risk by providing a high-quality package of credit scoring, credit rating and credit risk management services. Graydon provides access to credit information and reports on more than 70 million companies in more than 130 countries worldwide. The Graydon group is owned by Atradius, Coface and Euler Hermes, three of Europe's leading credit insurance organizations.

For additional information visit the website: **www.graydon.co.uk**.

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Commercial fraud and business identity theft

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As a small business, you can easily become a soft target for commercial fraud, says ***Martin Williams*** *at Graydon. What can you do to prevent it happening?*

It is no wonder that the research conducted by Graydon, one of the leading credit information agencies, into the levels of corporate fraud in British business sparked much debate in the press and in the credit management industry in particular. The survey, carried out among those working in credit management departments in a business-to-business environment, came up with some alarming results. The study found that one in three respondents had experienced an instance where they had received a credit application from a business wanting to obtain goods/services from them fraudulently.

The results also showed that the same percentage of business respondents believed the problem of fraud was getting worse. One thing is for sure: this is a problem that is not likely to disappear anytime soon.

So why is white-collar crime on the increase and what can be done about it?

John Dillinger, the infamous American bank robber, when asked why he robbed dozens of banks, replied, 'Because that's where the money is.' Like John Dillinger, most criminals are opportunists who also like to think they won't get caught. Corporate fraud is not exactly high on the police agenda when there are so many higher profile areas of criminality to tackle with limited resources within the force. If the police asked the average person, even if that person was the credit manager, whether he/she would prefer to use policemen to tackle knife crime or fraud, we can guess what the answer would be. Additionally, there is a commonly held belief that with the British judicial system as it stands today, convictions for fraud are notoriously difficult to obtain. So, it's not surprising that some criminals see this area of activity as attractive. They perceive that police interest is low to start with, and know that courts find difficulty in sending culprits to jail.

Similarly, if other factors exist that make the fraudster's life easier, he will use the opportunity. As an example, disclaimers on the Companies House website explaining that documents lodged there are accepted by the Registry in good faith and 'are not verified or validated in any way' may be acting as enticers to criminals to file fictitious documents for illicit gain and deception.

There are other reasons why corporate fraud happens. Losses caused by corporate fraud are often viewed by victim companies as commercial debt and not fraud. Fraudsters believe that few companies pursue them but simply write-off corporate fraud losses as bad debt. Secondly, if fraudsters obtain goods from unwitting suppliers by deception, they have to have a ready market for the goods that have come into their possession. Therefore, fraudsters tend to target certain product lines that are easy to sell for cash in pub car parks, markets and on the streets.

But perhaps the biggest reason why fraud happens is that orders for goods on credit are not properly vetted by suppliers. Smaller businesses are often viewed as 'soft' targets by fraudsters because they are too small to employ professional credit managers.

So how does the fraud happen? Firstly, fraudsters use genuine company details for dishonest purposes. This has become known as 'identity fraud'.

Signatures are forged in order to have goods delivered to an address that in no way is associated with the original bona fide company whose identity has been stolen. Also, as has already been mentioned, fraudsters are filing false documents such as fictitious balance sheets at Companies House in order to generate good credit ratings with the information agencies. On top of these filings, fraudsters are filing false director appointments and registered office changes in order to facilitate identity theft fraud.

However, perhaps most importantly, frauds can only be perpetrated when existing credit control procedures at the supplier end are insufficient, either through ignorance about what to look out for, or lack of will to introduce adequate checks to stop this from happening.

The good news for businesses is that procedures can be put in place to tackle this growing menace, and tips can be taken on board to protect your company's best interests and profitability.

First, like consumers, businesses should be very careful as to how they dispose of their 'rubbish'. Small businesses in particular should never throw away paperwork such as utility bills, credit card statements, bank statements etc without shredding them first. Identity thieves are known to rummage through garbage bins outside commercial properties.

Beware of the potential damage that can be caused by hijackers to companies and suppliers of goods and services. 'Corporate identity hijacks' normally involve fraudsters changing the details of a company's directors and registered office. To help combat company fraud, Companies House has introduced the PROOF (PROtected Online Filing) scheme. To join the PROOF scheme, you will first need to be registered for the Companies House WebFiling Service.

To prevent your business becoming a victim of fraud or corporate identity theft it is also very useful to monitor what documents have been filed at any point in time on your company. Some credit reference agencies such as D&B and Graydon offer services such as e-mail alerts and monitoring, for example CreditWatch, that will send you an e-mail when any such changes occur on your company or any business you are interested in. If you are subscribed to that service and you received an e-mail alerting you that somebody has filed, for example, Change of Particulars (Company Officers), Change of Registered Office Address or other critical documents, you may wish to check if these are genuine or known to you as true facts.

Once you have taken that initial precaution, it is worthwhile taking a few additional steps that will go a long way towards protecting your company from the risk of corporate fraud. Before giving the green light to deliver goods or services to any given client:

- Always obtain a credit report on the business. (Hopefully not from an agency that just regurgitates Companies House data. Some agencies such as Graydon.co.uk and Experian add value by analysing and scanning their huge commercial credit databases for unusual patterns of corporate behaviour and reporting such findings to clients within their credit reports and monitoring services.)
- Never set up an account until the application has been fully processed.
- Check the credit application for quality and completeness.
- Always check the trading and registered office address.
- Be wary of mobile phone numbers and non-business e-mail addresses, eg hotmail/yahoo etc.
- Know the true identity of your customer – have they got a website?
- Most companies will pay their bills by completing a purchase order from their accounts department – obtain a copy of this.
- For non-incorporated businesses, request original copies of utility bills quoting the delivery address.
- Double check all delivery addresses, keeping a close eye on what sounds like residential addresses.
- Check for valid VAT numbers. Call the VAT Office on 0845 0109000.

It is also extremely important to flag certain events and details that seem out of the ordinary. Here are some examples:

- Is there a sudden change of delivery address?
- Is there a last-minute call to collect the goods rather than have them despatched to the quoted delivery address?
- Is the delivery address given by the client shown on the credit report you obtained from your agency?
- Are the telephone numbers fixed line or non geographic, eg 0800?
- Have you received an order on the last afternoon of the month? (Fraudsters, like credit managers, understand the pressure from the Sales Department!)
- Look out for unusually large orders placed at the start of a new month, where the fraudster anticipates he has the longest time before you chase for payment.
- Have you received a large first-time order on a credit card? If so, be wary.

Businesses therefore have a choice when it comes to fighting commercial fraud. They can keep their fingers crossed and hope it never happens to them, much like the house owner who refuses to invest in a burglar alarm system when all his neighbours have done so. Or, they should fully recognize that commercial fraud is here to stay, but appreciate that if proper controls are put in place, the opportunist criminal will move on down the commercial street and target someone else who looks easier to take on.

More information

Graydon: **www.graydon.co.uk**;
http://www.graydon.co.uk/content.asp?pageTag=fraud-prevention
http://www.graydon.co.uk/content.asp?pageTag=credit-risk-monitoring

HMRC: **www.hmrc.gov.uk**

http://www.companieshouse.gov.uk/infoAndGuide/proof.shtml
http://www.businesslink.gov.uk/bdotg/action/detail?type=RESOURCES&itemId=1075422219
http://www.businesslink.gov.uk/bdotg/action/detail?type=RESOURCES&itemId=1080006906
http://www.identitytheft.org.uk/security.asp?action=in
http://www.banksafeonline.org.uk/

Graydon UK is one of the leading database information providers specializing in credit risk management and risk-assessed marketing lists. The company helps clients reduce the uncertainty of doing business by providing a complete, differentiated and high-quality package of credit risk management services. Graydon provides access to credit information and reports on companies in more than 190 countries worldwide. The Graydon group is owned by Atradius, Coface and Euler Hermes, three of Europe's leading credit insurance organizations: **www.graydon.co.uk**.

In 2008, Graydon UK managing director Martin Williams was invited by Philip King, director general of the Institute of Credit Management (ICM), to join the ICM think tank (an expert panel of 20–25 industry leaders who meet quarterly and act as an influencing force on all issues related to the credit industry in the UK). That same year, Martin Williams was honoured by Credit Today, after being included on their Credit 100 list of people who have had the greatest impact in the credit industry during 2008 and 2009.

In January 2010, Graydon UK's new 'Level 3 Including Management Accounts Report', which incorporates standardized and validated monthly management accounts into the credit scoring process for the first time globally, was shortlisted and commended for the Most Innovative Product Award at the Business Moneyfacts Awards 2010.