# PART FIVE
# Cash flow, working capital and cost control

# Preventing slow payments

5.1

*Gordon Skaljak at Graydon UK discusses 10 ways to improve cash collection*

Slow payments are a persistent problem for small and medium-sized businesses in the UK. As cash flow is an essential ingredient for business success, it is vital that a business does everything it can to collect cash from customers on time.

While the government has announced that the recent EU Late Payments Directive, which standardizes 30-day payment times, will be fast-tracked, to be implemented in 2012, it is unclear whether this is enough to reduce late payment. Worryingly, almost half of businesses predict that the impact of late payments could inhibit the ability to invest in people and services.

The current eurozone crisis has also adversely impacted consumer and business confidence, resulting in reduced sales revenue flow for many firms as customers tighten their purse strings. Not only is there a problem with those companies that are unwilling to pay, but businesses also have a 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. That's because many bigger organizations force 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 late invoice settlements or unwarranted demands. Most growing companies cannot afford to employ a professional credit manager either, who would normally have a range of tricks and skills to get the cash in on time.

It is now more important than ever for businesses to put safeguards in place against slow-paying customers. There are a number of positive steps that can be taken to minimize the impact of late payments, or even avoid them altogether.

## General principles

The Late Payment of Commercial Debts (Interest) Act of 1998 gives small businesses the right to charge debtors interest on overdue payments. 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 outstanding invoices going to the bottom of the finance department's in-tray. So be polite but assertive in asking for what you want.

Spread your risk. 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.

Here are 10 more ways to improve cash collection:

1. *Sign your customer up*. Ensure that 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.

   Don't rely totally on the taking up of two references given to you by the potential client, as they may be false. 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 on how long your business can afford to wait.
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, 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 and even months. It may be prudent to stop any further supplies until a resolution has been reached.
5. *Send statements*. Send statements at different times in the month compared to 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% 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.
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 on top 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 that you know everything you need to know about your clients.

   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. 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'*. It is generally riskier to take on new customers than grow existing ones. Establishing a strong relationship with customers will be beneficial for businesses as it will allow them to spot the signs that a customer may be struggling. Stepping in to provide advice to your customers will strengthen your relationship and ensure that your customer is on a sound financial footing. However, it is still crucial to build a broad range of clients, from start-ups to larger businesses, to ensure that the loss of one or more clients does not disproportionately impact your cash flow.

If smaller businesses follow this advice, they will find that cash-flow difficulties will ease. 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.

Graydon UK is one of the top five providers of credit management services, including credit risk assessments, to companies from start-ups to large corporates. 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, and offers the largest online credit report offering, spanning 150 countries. The Graydon group is owned by Atradius, Coface and Euler Hermes, three of Europe's leading credit insurance organizations. Website: www.graydon.co.uk

Gordon Skaljak is a director at Graydon UK and has over 13 years' experience in the credit industry. He has been identified as one of the Top 100 Credit Professionals in the industry by Credit Today's Credit 100 in 2011.

# Invoice finance

5.2

*Asset-based finance is outperforming other major forms of business lending as both clients and lenders across the globe come to recognize its inherent strengths in unpredictable economic times. With the UK leading the charge, these are exciting times for an industry that is constantly moving forward, expanding its horizons and helping smooth the long and bumpy road to economic recovery, says David Thomson, Chief Executive of Close Brothers Invoice Finance*

While significant chunks of the global economy continue to falter, there is one industry dramatically bucking the trend. Latest figures released by Factors Chain International (FCI) indicate that the total worldwide receivables finance industry is worth a record €1,648,229 million or US$2,190,000 million. More specifically, in Europe the asset-based finance sector saw 19 per cent growth in 2009–10, North and South America 31 per cent growth and Asia an incredible 69 per cent growth over the same period.

As increasing numbers of countries come to accept invoice finance as a reliable solution for SME funding and as a means of facilitating international trade, the UK continues to lead the way in terms of huge choice of invoice finance houses, product innovation and an adaptability to an ever-changing marketplace.

## The UK in focus

According to recent statistics from the UK Asset Based Finance Association (ABFA), invoice finance is outperforming all other types of business lending. Between 2000 and 2011, the sector grew by a staggering 209 per cent, from £77 billion to £238 billion in total client sales.

Indeed, the UK asset-based finance industry has almost returned to pre-recession levels of lending and activity. In the last year alone, it has grown by 11 per cent, proving the commitment of invoice finance providers to businesses across the UK – approximately 45,000 of them – amid a turbulent economic climate.

## What's driving the success of this medium of finance?

Well, clearly there are many causes – not least the flexibility and utility of the product in providing working capital. There is no doubt that tough lending criteria is forcing businesses to consider additional means of funding day-to-day operations and growth ambitions. Q1 2011 figures released by ABFA show total advances from members growing 9 per cent year on year, whereas wider bank lending actually contracted by 2.5 per cent in the same period – quite clearly, invoice finance is capitalizing on the banks' ongoing conservative approach to lending.

As the weak and very slow recovery ambles on, access to working capital is precisely what businesses require. It is not simply that recovery puts a strain on working capital resources. As businesses gear up to win new business – or perhaps win back some of the customers lost in hard times – they inevitably spend upfront on stock, raw materials or staff, knowing that it may be months before they receive payment from the client.

Another factor influencing the uptake of invoice finance is SMEs being squeezed by customers and suppliers. Large customers in particular are using their market power to exert downward pressure on prices while simultaneously asking for more favourable credit terms. Meanwhile, on the supply side, prices are rising and many suppliers are chasing debts more quickly. The result is that often companies are caught somewhere in between, suffering both deterioration in cash flow and a shortage of working capital.

## How invoice finance works

Invoice finance allows a business to raise cash against the value of unpaid invoices that they have issued. The invoice finance provider will pay a proportion of the invoice, up to 95 per cent (often within 24 hours), and can then, as an option, take on responsibility for ensuring it is settled by the client's customer. When the customer has paid, they will then pay the client the remainder of the invoice's face value, less any administrative charge.

It is easy then to see why so many businesses are starting to use invoice discounting to pay bills, take advantage of early payment discounts, increase sales and, last but not least, fund growth.

The British government indeed recognizes invoice finance as becoming more of a mainstream product. In a report published by the Department for Business Innovation and Skills,[1] invoice finance was identified as playing a 'crucial role in securing access to working capital' during the private sector recovery.

Its benefits are clear: invoice finance 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 credit secured through invoice finance is directly related to the strength of the business; as a company's order book grows, so too will its credit line. 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.

## Where now for invoice finance?

The rapid international uptake of asset-based finance demonstrates the global embryonic nature of the industry and its products, and points to the key role it has to play in a recovery of the worldwide economy. The challenging financial climate has actually assisted in increasing the popularity and awareness of asset-based finance. By using asset-based finance products, greater levels of finance can be made available to good businesses across the globe that may have been hampered by a lack of liquidity.

Closer to home, growth of the industry remains strong. We are also seeing other areas of the industry, such as export finance, gaining popularity. This growth has, once again, most likely been assisted by the sluggish UK economy as many businesses look to exports as a way of exploiting the expansion opportunities abroad, a trend that's set to continue.

There is a word of warning, however. From a UK perspective, research from Business Money shows that of 15,000 accountants with business clients, only 2,500 are well versed in the best use of invoice finance. How can a product such as invoice finance fulfil its potential and help aid an economic recovery if a significant proportion of trusted advisers to SMEs don't understand it, or at worst haven't heard of it?

Clearly the industry itself, banks, professional advisers, government agencies, and the media each have their role to play in ensuring that SMEs – which make up 99 per cent of all private sector enterprises – have all the information necessary to make informed financial decisions.

In sum, where invoice finance was once perceived as a temporary measure to overcome common obstacles such as customer late payment and issues with cash flow, the tougher lending conditions experienced both domestically and globally are now challenging this view. It will be interesting to see what the coming weeks, months and years hold for this burgeoning industry; I, for one, will be championing it all the way!

## Asset-based finance in practice

### Sovereign Rotating Machines – financing growth in the manufacturing industry

Sovereign Rotating Machines is a UK automotive parts remanufacturer, building starter motors, alternators and ignition modules for all makes and models of vehicle.

Founded in 1996, the business provides for three key market needs:

1 product range and availability;

2 quality and competitiveness;

3 first class customer service.

## Challenge

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 what is, essentially, a used car with a new engine.

'In tough times remanufactured vehicles represent an ideal compromise between brand new and used cars', says Sovereign's Managing Director, Richard Welland. 'Because of this, our orders are increasing, which is great – but we're having to spend a lot upfront on parts and components if we're to meet that demand.'

## Solution

Reluctant to fund an expensive bank overdraft to manage cash flow, Richard talked to Close Brothers Invoice Finance about invoice discounting. 'The account manager took the time to understand our business and was able to judge the quality of our debtors accurately,' he says. 'Recognizing that our business is sound means Close was willing to offer the kind of liquidity we needed to grow the company in line with market demand. We chose IDeal™, Close's online invoice discounting facility, as it could release up to 15 per cent more funding than other traditional paper-based facilities.'

## Result

Apart from supporting stock purchases, the availability of funding meant that Sovereign was in a better position to embrace new opportunities as they arose. 'We were able to take a risk on new business ventures that would not otherwise have been possible,' Richard says. 'Now our orders are increasing and the business is growing because our risk is managed and our financing secure.'

## ECO Plastics – funding the growth of Europe's largest recycling plant

ECO Plastics Ltd is the UK's leading plastic bottle recycler, producing plastics for soft drinks and milk bottles. The company operates Europe's largest and most technically advanced bottle sorting facility. They process two billion bottles each year, with 70 per cent of materials reprocessed into food-grade plastic products.

### Business challenge

In recent years, ECO Plastics has seen the demand for sustainable packaging in the UK increase steadily. In 2010, the company met with drinks giant Coca-Cola Enterprises, which was looking to recycle more of its plastics in the most environmentally friendly ways possible. In March 2011, the company signed a 10-year joint venture deal, a first in the UK drinks manufacturing industry, to supply the global enterprise with high-quality food-grade recycled material (rPET). Coca-Cola also had a target of including 25 per cent rPET in all plastic packaging within Great Britain by 2012.

Jonathan Short, Managing Director of ECO Plastics Ltd, said, 'We were thrilled to sign the joint venture deal with one of the most famous brands in the world and begin the next important step to expand our business. We needed to secure the additional capital required to now fund our operations.'

### Solution

ECO Plastics approached a number of finance providers but found that owing to the economic climate, lending was restricted. 'It was difficult at first to find the financial backing we needed to expand our business and meet the needs of our venture with Coca-Cola,' said Mr Short. 'We approached Close Brothers and discussed a structured finance solution, tailored to our business requirements. The deal was primarily a leasing contract, secured against our existing assets which incorporated invoice finance to fund our operations during the expansion.'

### Result

The combined asset-based funding facility of £18 million supported the expansion to ECO Plastics' processing plant which was completed in March 2012. Processing capacity at the facility increased from 100,000 to 140,000 tonnes of plastic bottles per year, just under half of the total collected in the UK in 2010. 'Without Close Brothers, we would have been unable to fulfil our agreement with Coca-Cola which would have not only been devastating to our business, but to the industry as a whole,' said Mr Short. 'Working with Close Brothers has afforded us the opportunity to expand our business and realize our true growth potential as we continue to work towards becoming the world leader in sustainable packaging.'

## Note

1 Department for Business, Innovation and Skills (2010) *Financing a Private Sector Recovery*, July, Department for Business, Innovation and Skills, London

David Thomson is Chief Executive Officer of Close Brothers Invoice Finance. As one of the UK's leading independent providers of factoring and invoice discounting services, they offer innovative tailor-made solutions to inject cash into small- to medium-sized businesses.

With the backing of a robust, FTSE 250 parent, Close Brothers Group plc, Close Brothers Invoice Finance supply high-quality professional services that are widely recognized. Launched in 2006, their award-winning iDeal™ product has become a favourite with their customers and is now their flagship invoice discounting solution.

Their facilities have helped thousands of customers to achieve strategic objectives such as acquisitions or disposals, takeovers or mergers or simply to support cash flow. Working closely with Close Brothers Asset Finance and Close Brothers Leasing, their solutions can be combined to ensure their customers get the right solution to support their needs.

To find out more about how Close Brothers Invoice Finance can help your business, please call 0808 252 3586; email salessupport@closeinvoice.co.uk; or visit the website www.closeinvoice.co.uk.

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# Tax decisions for SMEs

5.3

*Tax – mill-stone or stepping-stone? Andrew Gotch of TaxFellowship looks at the advantages that planning can bring*

Being involved in business means being involved with tax. The business environment is littered with tax traps and pitfalls, but equally if you know where to put your feet there are substantial tax-driven rewards to be had. What follows is an adviser's view of some of the most common areas of risk, and some of the prospective benefits, that are out there for SMEs and that are sometimes missed.

## Starting in business – the tax basics

When a business is small, the pressure is on and it is all too tempting to ignore basic tax compliance matters and focus entirely on running the business. Unfortunately, HM Revenue & Customs (HMRC) knows that too – and that's why it focuses so much attention on the smaller end of the SME sector.

HMRC risk analysis focuses on behaviour as well as accounts profile and so it is essential to make sure that procedural compliance requirements are strictly observed. Late returns and late payment, as well as attracting automatic and substantial penalties, can bring unwelcome attention to a business and its owners. Avoid it if you can, but if it's unavoidable, say so – and give HMRC reassurance that you're aware of your compliance obligations and are putting things right.

Be careful about the standard of your business records. Record keeping is a chore, but HMRC will expect them to be more or less up to date and complete on a rolling basis. HMRC has instituted a new policy of checking business records and penalties of up to £3,000 are available for significant record inadequacies. Get good record-keeping habits at an early stage – and try not to lose them.

Get into the habit of transaction planning and record planning with your advisers. Most transactions can be undertaken in more than one way, with different tax consequences for each. HMRC adopts a 'systems audit' approach in its compliance activity to help it identify higher-risk transactions and so it is particularly important for all businesses to make sure that its transactions – even its routine transactions – are undertaken in a way that means that the tax treatment that is sought is demonstrably correct and defendable.

Unfortunately, knowing how to prepare records to demonstrate a watertight entitlement to a particular tax treatment is not always easy. In the case of, say, a new building project, that can mean acting as early as the initial planning applications. It really is never too soon to ask for advice about transaction and record planning, and the cost of getting it wrong, in terms of tax, can be significant.

Generally, keep in mind that HMRC's resources are thinly spread and they can't afford speculative enquiries, so the watchword is: if HMRC want to visit you, they will have a reason for asking – it won't be a random check. So let your advisers know immediately and work with them to ensure an optimal outcome.

## Taking people on

An expanding business needs more workers. Employees come at a considerable price to the business, in terms of Pay As You Earn (PAYE) administrative headaches, additional National Insurance Contributions (NIC) cost and employment/pension rights. Many business owners are tempted to use freelancers, which cuts away many such problems at a stroke.

That's fine, of course: but make sure that your advisers confirm to you that the people you hire are actually self-employed and not, legally speaking, your employees. The legal line between employment and self-employment can be very thin and HMRC has developed a lucrative cottage industry in pursuing liabilities for tax and NIC from businesses who have inadvertently engaged workers who fall on the wrong side of that line. In most cases HMRC will be seeking to recover liabilities for up to six years in the past and the bill, including interest and penalties, can run into tens of thousands very quickly. Taking proper advice on the contractual relationships between you and your freelancers may be the best investment you ever made.

What if you do take on an employee? How do you motivate them to work harder? How do you attract particularly talented individuals? How do you get them to stay? The answer might be a share scheme, allowing all or some of the employees to share in increases in the value of a business through some dividend income or on an exit.

For a particular employee a bespoke scheme can be devised, although such schemes usually come at a cost; but there are many tax-advantaged statutory share schemes available that address the needs of different categories of employees and are generally less costly to implement. For example, 'rank and file' employees can benefit from a Share Incentive Plan. For more senior or valuable employees, there is the Enterprise Management Incentive (EMI) scheme, which allows the grant of options worth up to £250,000 and can confer very significant rewards through tax-free award and exercise. The motivation to add value to the business is clear. Both schemes need careful implementation, but provide generous incentives for employees.

## The developing business

Many growing businesses fail to identify that what they are doing in developing their product qualifies as research and development for tax purposes. That's a costly error

because the right sort of R&D attracts a very generous portfolio of tax reliefs that can materially reduce a business's tax liabilities. The correct identification of R&D and the compilation of a claim are not straightforward and normally require experienced professional assistance, but the advantages can be significant.

Similarly, capital allowances can confer considerable tax breaks, notwithstanding that the headline rates have generally been on a downward slide over the past few years. Once again, planning and expert help are essential to identify the subject matter of a claim and to ensure entitlement, and this is another area where it is important to keep advisers involved in planning for asset acquisition. Some advisers claim that a minimum of 25 per cent of the cost of a new building should qualify for allowances if the right planning steps are taken.

Developing businesses may also need to attract additional investment. For many trading companies, the Enterprise Investment Scheme can provide access to venture capital from interested third-party individuals. Investors can subscribe up to £1,000,000 for shares and get upfront income tax relief, and if they retain their shares for more than three years any gains they make on sale are tax free. Investors cannot be employees, but they can become directors of the company without losing their entitlement to relief. Predictably, such a generous relief is hedged around with conditions, so professional advice is essential, but the Enterprise Investment Scheme (EIS) can be used to secure substantial funding.

## Planning for exit

When a business is mature, shareholders' thoughts turn to realization. However, even if it seems that a future sale is a long way off, it is never too late to start planning for that eventuality. The entrepreneurs' relief tax rate of 10 per cent on the first £10,000,000 of capital gains is worth planning to get – a saving of £1,800,000.

Many companies will have developed more than one business stream. But if an offer comes in for just one of them, the shareholders may find themselves caught out and unable to access the 10 per cent rate on the value of the business that is sold. Even worse, they may find themselves paying corporation tax on the gain on the sale and then having to pay further tax personally to get the after-tax gain into their own hands – a painful double dip.

The answer is to ensure early on that business streams are segregated, possibly by hiving down into separate subsidiaries (in which case the gains arising to the holding company might be tax free if the conditions of the substantial shareholdings exemption are satisfied) or into separate companies owned by the same shareholders by way of a demerger (in which case the gains accrue to the shareholders and attract entrepreneurs' relief).

This sort of reconstruction is not to be undertaken lightly and expert help is required. But it is not planning that can be done at the last minute. Far too many SME shareholders see themselves cut off from tax advantages that they should be able to enjoy by not having taken action soon enough.

Don't neglect to plan to secure entrepreneurs' relief either. It is a valuable relief but has many conditions. Plan with your advisers to ensure that for at least a year before

any envisaged sale your shareholding is adequate (> 5 per cent); that you are an officer or employee; and that your company is a trading company. The latter is not as straightforward as it sounds, because 'trading company' has a special meaning. In particular, be very careful not to undertake any non-trading activities within a trading vehicle, such as property rental or holding investments. Once again, if there is any doubt, get your adviser to give you an entrepreneurs' relief health check. Without that, you could catch a very expensive cold!

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# Utility bills: stemming the tide

5.4

*Donald Maclean, Managing Director of Business Cost Consultants (BCC), explores the scope for making savings*

Over the past few years businesses have seen the costs of electricity, gas and water soar, putting pressure on already tight profit margins. These rises, together with increasing environmental legislation, ambitious carbon reduction targets and uncertainty over security of supply, are putting pressure on businesses to manage costs to ensure survival, competitiveness and a base from which to grow in the future.

Any savings which can be achieved will directly affect the bottom line. This can be quite significant given that utility costs, on average, account for between 5 and 10 per cent of most companies' annual budgets. You may feel that everything possible has been done to rein in energy spend and consumption, but there is always scope to make further savings.

## Are you paying too much?

Research carried out by Glasgow-based utility consultants, Business Cost Consultants, estimates that some 80 per cent of businesses in the UK are unaware that they are paying too much for their electricity, gas and water owing to flaws in their procurement procedures and errors on bills. If you have the time and your staff have the expertise, make sure that each utility bill is checked thoroughly. If bills do not appear on time chase them, otherwise you will simply postpone the pain of a larger bill. Keep track of your utility costs and consumption on spreadsheets, so that you can quickly spot anomalies in your costs and your consumption. Take meter readings for gas, electricity and water at least once per month and feed them to your suppliers. That way you can avoid inaccurate, estimated bills.

Many businesses do not have the time or specialist expertise to audit their own utility bills accurately. The result is that mistakes, inaccuracies and energy/water wastage occur. Some companies are therefore turning to independent utility consultants to help reduce costs and cut consumption.

## Auditing consumption

Using smart meters and data loggers, which transmit real-time data to a central computer, you can analyse electricity, gas and water consumption to identify areas where savings can be made. This analysis can highlight if equipment is left on overnight or if thermostat settings are wrong. Also, without smart meters, gas and water leaks can often go undetected for long periods of time, resulting in large bills at the end of a quarter. Some smart meters and data loggers can be programmed to spot such anomalies automatically and immediately alert the user by SMS or e-mail.

If you are not confident about how to use the data from such devices, consult an expert. Not only will they be able to interpret and deduce useful information from the data, they will be able to send experts to your sites to look for potential savings in energy and water consumption and for reductions in carbon emissions. Real savings of over 20 per cent are not uncommon.

We identified savings of about 15 per cent when we noticed a factory was ramping up about three hours sooner than necessary and informed a hotel that their heating was running 24 hours a day in summer. Without our expertise, these instances would have gone unnoticed, resulting in an unnecessary waste of money which could be invested back into the business'

## Don't miss renewal dates

It can be difficult to keep track of all termination dates and contract end dates. However, businesses that unwittingly allow gas and electricity contracts to roll over without review can end up paying much higher prices, in comparison to existing rates.

Suppliers' terms and conditions are tough and generally not in favour of the customer. Usually, suppliers will require written notification to terminate an existing agreement at the end of the contract. In general, they require more than 30 days' notice, but some suppliers state that they need up to 90 days' notice. If this notice period is missed, the supplier can extend the contract for one or two years at a higher rate without the need for a further agreement being signed. It is therefore crucial for business owners to know when all contracts are due to end and look into alternative suppliers well in advance of contract renewal dates.

## Energy contracts

We are all aware of the volatility of energy prices over the past five years or so. Most people wrongly think that the best ways to attain good prices for their energy contracts are to seek plenty of prices and to try to buy in bulk. However, if you go into the energy markets at the wrong time, the difference between all the prices quoted will be a few per cent.

It is recommended that you monitor the energy markets for at least 12 months before energy contracts are due for renewal. However, this will vary depending on

the size of the supply – small supplies might not be able to get prices from suppliers more than three months in advance of the renewal date.

The experts monitor energy markets on a daily basis and pay for market intelligence. That is why they will buy energy contracts for their clients near the bottom of the market. In any year wholesale energy prices can fluctuate by 30–100 per cent.

By monitoring the market and purchasing at the right time, as opposed to when their client wanted to buy, one of our clients recently saved just over £600k.

It is also important to note that most energy companies sell through a variety of departments and channels. If you run a large organization you might assume that you will get the best energy prices from the suppliers' corporate sales department. However, better prices might be obtained from the SME department or from a different sales channel.

The more data you can supply to energy companies when tendering your energy contracts, the better the price you are likely to obtain. Lacking information, the energy companies build in a risk premium, meaning that you pay a higher price.

It is also important to check the terms of your energy supplier's proposed contract carefully. Although the price it offers may look the cheapest, in the small print you may find that it has omitted some charges in its calculation which purports to show you the price you are likely to pay in any given year.

Contracts normally contain take or pay clauses. They can easily catch you out. If there is a mild winter and you spend money on energy conservation measures, your consumption of gas may be much less than you expected. You could be heavily penalized if you do not take close to the volume of gas on which the contract was based.

## Become greener

While increasing environmental legislation is obliging companies to become 'greener', it is ultimately in the best interest of businesses to lower energy usage to reduce costs. Businesses should draw up an energy policy setting out how each employee can help reduce energy consumption. You can also reduce your carbon footprint by encouraging recycling and how employees travel (car sharing and cycle schemes, for example).

It is worth considering buying 'green energy' instead of 'brown energy' through suppliers or installing an on-site source of renewable energy such as wind, solar, heat pumps or biomass boilers. It is also worthwhile considering a rainwater harvesting system which collects rainwater in large tanks which is then filtered and can be used for flushing toilets, or in some production processes (eg cooling machinery). There are also a host of energy conservation measures which can be implemented, such as boiler controls, draught-proofing, insulation, variable speed drives, voltage optimization, power factor correction, energy efficient lighting and lighting controls. Soft loans are sometimes available for organizations buying and sourcing environmentally sustainable technologies. In addition, it is possible to offset your carbon through buying trees and investing in renewables.

## Consult an expert

There are many steps that businesses can take to reduce energy consumption and costs. The above outlines only some examples. Energy consultants can help with all of the above and more, and in most cases there is no net cost as fees are taken from the savings achieved.

They have access to daily market information, have years of experience in dealing with suppliers and can help devise and support energy management plans, making prioritizing utilities as a cost-cutting measure easy. They are also expert in negotiating with suppliers, for example when bills are in dispute.

It is important to note the difference between consultants and brokers. Brokers will normally seek prices from a select few energy suppliers with which they have arrangements. Their fee will then be added on to the price they obtain for you and you may not be aware of the commission you are paying them. Independent consultants will scour the whole market for you and share all the tendered prices with you, before allowing you to choose your supplier. They will not take any commissions from suppliers, preferring to remain totally independent by being paid out of the savings they demonstrate to you.

Business Cost Consultants is one of the UK's leading independent utility consultants. Based in Glasgow, for over a decade they have been helping businesses such as Aegon, Apex Hotels, Walkers Shortbread, The Morris Furniture Group, Holiday Inns, Rangers and Celtic Football Clubs and CALA Homes reduce their utility bills and cut consumption. Further information: tel: 0141 226 8525; e-mail info@businesscostconsultants.co.uk; website: www.businesscostconsultants.co.uk

# Commercial fraud and business identity theft

5.5

*As a small business, it is easy to become a target for fraud, says Gordon Skaljak at Graydon UK. What can you do to prevent it happening?*

One in three businesses has received a credit application from a business intending to obtain services fraudulently, according to research by credit reference agency Graydon UK. Fraud in the UK also reached a record high in 2011. The KPMG Fraud Barometer revealed that fraud totalled £3.5 billion in 2011, an increase of 150 per cent on the previous year. Commercial fraud and business identity theft in particular are common problems for SMEs and it is important that they understand why this is the case and what they can do to protect themselves.

Commercial fraud is often caused when orders for goods on credit are not properly vetted by suppliers. Smaller businesses are often viewed as vulnerable targets by fraudsters because they are too small to employ professional credit managers.

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 which in no way is associated with the original bona fide company whose identity has been stolen. Fraudsters also file 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, fraud can only be perpetrated when existing credit control procedures at the supplier's end are insufficient. The good news for businesses is that procedures can be put in place to tackle this problem and tips can be taken on board to protect your company's best interests and profitability.

Firstly, 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 and documents with confidential information on them without shredding them first. Identity thieves are known to rummage through rubbish and recycling bins outside commercial properties.

To prevent your business becoming a victim of fraud or corporate identity theft, it is essential to monitor what documents have been filed on your company at any point in time. Some credit reference agencies provide services such as e-mail alerts and

monitoring that will send you an e-mail when any such changes occur on your company or any business you are interested in. Make sure that you use an agency that can provide daily monitoring with immediate e-mail alerts. If you are subscribed to that service and you receive 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.

Graydon UK has identified a number of steps that businesses can take to protect themselves against the threat of corporate fraud:

- Always obtain a credit report for customers and suppliers that does not simply repeat Companies House data but one that tracks and analyses unusual patterns of corporate behaviour in order to identify potential fraud. Graydon UK can conduct both ongoing and fresh investigations for their clients and can check for any duplicate accounts that have been filed at Companies House under different company names.
- Never set up a client account until their application for trading has been fully checked and processed.
- Always verify clients' trading and registered office addresses.
- Be wary of mobile phone numbers and non-business e-mail addresses such as Hotmail or Yahoo.
- Check whether your customers have a website when establishing their identity.
- Most companies will support their order by supplying a purchase order from their accounts department – make sure that you obtain a purchase order number before supplying any products or services.
- When dealing with non-incorporated businesses, always request original copies of utility bills addressed to the delivery address that you have been supplied with.
- Double-check all delivery addresses, keeping a close eye on what sounds like residential addresses.
- Check whether clients are VAT registered by calling the VAT Office for confirmation, or simply verify VAT registration via the European Commission's VAT validation website (http://ec.europa.eu/taxation_customs/vies/) which covers all EU countries.

It is also extremely important to flag certain events and details that seem out of the ordinary. Here are some examples of incidents which should alert firms to the possibility of fraudulent activity taking place:

- Is a sudden change of delivery address provided to you by the client?
- 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 of the business you are dealing with fixed-line or non-geographic such as 0800 numbers?

- 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 a fraudster will anticipate that they have the longest timeframe before you chase for payment.
- Have you received a large first-time order on a credit card? If so, be wary.

Graydon UK is one of the top five providers of credit management services, including credit risk assessments, to companies from start-ups to large corporates. 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, and has the largest online credit report offering, spanning 150 countries. The Graydon group is owned by Atradius, Coface and Euler Hermes, three of Europe's leading credit insurance organizations. Website: www.graydon.co.uk

Gordon Skaljak is a director at Graydon UK and has over 13 years' experience in the credit industry. He has been identified as one of the Top 100 Credit Professionals in the industry by Credit Today's Credit 100 in 2011.