

Protect your business from bad debt

By Neil Largan

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The current economic downturn is presenting businesses with new challenges to face, not least the difficulty of managing cash flow in these uncertain times.

To be confident that you will survive a slowdown in the economy you need to ensure that your business is not exposed to debt that has “gone bad” due to poor management.

We all know the importance of good business relationships with customers and suppliers. You may have long term customers who are feeling the strain of the current economic downturn more than yourself. Accordingly you may wish to help them by giving them short term extended credit terms to make payments easier for them. However beware; this could leave you more exposed to risk than you think. You may be able to manage the extended wait for payment from one customer but it could quickly become unmanageable if others come knocking on your door asking to delay payments also.

You need to make sure you know the options available to you to try and resolve payment issues in a constructive and non damaging way for the future of your business and working relationships. A good customer will understand the importance of you getting paid and will be willing to agree how they can make the payments in a beneficial way for you both.

Bad debtors can very quickly become a menace to the day to day running of your own business if you don't take the right action at the right time. Businesses need to take positive action now!

Make an action plan of what you are going to do. Who can't pay and who won't pay? Be pro-active with those who can't pay and come to an arrangement which works for you both. For those who won't pay you need to decide what action to take. You may wish to speak to a specialist who can advise on your options on the most effective recovery action.

Take time out to review any contractual documents, particularly terms and conditions of payment, to make sure they are up to date and practical for your current trading requirements. If any previously good customers are failing to communicate with you regarding your unpaid invoices, this is a real sign they are in difficulty.

If it is in fact your business that is struggling to pay their debts, it is vital that you communicate with your creditors so as to agree an appropriate payment plan. If you fail to do so recovery action may be taken against your business, which will only increase the debt, often significantly.

If you would like advice on managing or recovering unpaid invoices, please contact Neil Largan at our York office on 01904 624185 or email employment@crombiewilkinson.co.uk

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