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Portsmouth FC - a sobering warning to small business suppliers

The financial collapse of Premier League football club Portsmouth is a sobering warning to small business suppliers to crack down on late payment, a leading Merseyside accountant warned this week.

Woods Squared accountants said a dossier released by the club's administrator last week is stark and compelling evidence for any supplier to take a hard line on credit control. The accountancy firm made its warning against a backdrop of 1,834 UK firms becoming insolvent in February this year including 245 firms in the North West.

Unsecured creditors get the crumbs

Portsmouth's administrator's report has revealed that the club's debts spiralled to £122.8m. However, while the club's football creditors, such as players, agents and other clubs, must have their debts paid in full, its unsecured creditors, its small business suppliers, are only likely to receive between 20p and 25p in every pound they are owed - pending an offer to be put to creditors on May 6. The total owed to unsecured creditors is £92.3m.

Alan Woods, director of the firm, said too many small business suppliers are left with 'crumbs' when a business falls into administration. He urged businesses to implement a tough line on late payment to avoid having their credit abused.

"Small businesses cannot afford to be used as an overdraft facility by their customers," he said. "In the current climate where so many businesses are going bust every month, and credit lines are being squeezed throughout the supply chain, small business suppliers are extremely vulnerable. By the time a firm goes into administration it is really too late and suppliers are left with pennies. For this reason suppliers need a thorough credit control procedure from the outset. A key objective of any small business is growth. You cannot grow, you cannot hit your targets, you cannot pay your own bills if customers are piling up debt they cannot afford to pay - as Portsmouth's suppliers have so devastatingly found. The sum may be £1,000 or it may be £1m, it does not matter, that money should be yours, you have earned it and your business needs it."

Advice for small business owners

Mr Woods advised suppliers to ask their customers to pay by standing order, or direct debit, rather than cheque so you have a nailed down payment date which cannot be pushed back.

"If a customer refuses to do this, make clear what your payment terms are and consider suspending work or charging interest until payment is made," he said. "Moreover it is wise to have a set procedure for chasing payment as soon as the invoice has been sent."

"Check immediately with the customer that it has received your invoice and ask when you can expect payment. This lets them know you are on the case and are alert to any potential problems. It is critical that the client is aware that you are prepared to chase payment hard. That way they are more likely to pay your invoice before invoices which are not being chased. It stands to reason that the suppliers who do not chase payment and do not enforce sanctions will be paid slower than those that do."

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Communicating with the client regularly also encourages them to resolve problems and inform you if there are difficulties.*

Mr Woods said it is even worth considering asking for immediate payment on receipt of invoice.

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