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Portsmouth FC collapse provides a sobering warning to small business suppliers

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Small business suppliers are being warned to crack down on late payments in light of the financial collapse of Portsmouth Football Club.

The warning to the construction and engineering sector comes as 1,834 UK firms became insolvent in February this year, including 245 firms in the North West.

It also follows the release of a dossier by Portsmouth FC's administrator that revealed the club's debts had spiralled to £122.8m, and that its small business suppliers are only likely to receive 20p-25p of every pound they're owed.

Alan Woods, director of Mersyside accountant Woods Squared, which issued the warning, urged businesses to implement a tough line on late payment to avoid having their credit abused.

He said: "Small businesses cannot afford to be used as an overdraft facility by their customers. 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, and 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."

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." Woods continued. "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 that 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. 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.