

- ◆ Small businesses urged to focus on collections
- ◆ Soft laws for directors?
- ◆ Level playing field

Trade bodies and the media are urging small businesses to take a close look at their recovery practices during these difficult times, so why is debt collection so hard?

By Carlo Pegna

SMALL BUSINESSES MUST CHASE DEBT 'RIGOROUSLY'

Read with interest *The Sun* newspaper campaign published in October 'backing British business'.

In the same campaign the Federation of Small Businesses (FSB) published a letter to prime minister Gordon Brown urging him to encourage local authorities and government bodies 'to pay up as early as possible'.

In addition the FSB published 'ten golden rules for small firms' featuring the golden credit rule 'chase money owed to you rigorously'.

There are 4.7 million small firms in the UK which contribute £1,440bn into the economy. So it is not just the multi-billion turnover blue chips that have an impact on the economy should they collapse as a result of the current economic downturn.

Having worked for blue chips I am able to see the difference between how a blue chip and a small- or medium-sized enterprise (SME) can stand up to an economic downturn. Blue chips are either so big or asset rich that they can ride the storm or sell for the benefit of their shareholders before things get worse. SMEs on the other hand are so small that they either collapse or have very little in the way of assets to sell. So for SMEs a recession is very much a 'sink or swim' affair.

Make or break time

That is why, in my opinion, it is the hard work and initiative of the management team that will ensure whether an SME sinks or swims in turbulent waters.

It is no wonder that of late I, as a legal manager of a collections agency, have been working closely with managing directors and finance directors. I am confident you would not see this with the likes of the large corporate blue chips.

Directors of SMEs are more hands on with credit control because in the current climate it can make or break their business. That is why the FSB is vocal about the importance of credit control, encouraging small businesses to 'chase money owed' to them 'rigorously'.

So what does the FSB mean by chasing money rigorously? One thing it certainly does not mean is threatening to break your customers legs if they do not pay on time!

When I am asked to advise SMEs on credit control I always say you should make sure you keep on top of credit

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terms and not take it for granted that your customer will pay you on time, because not all of them will. In one case I served an SME that did not publish credit terms on their invoice and the debtor did their best to exploit that.

Therefore if credit control for you is reliant on the circulation of invoices and statements of account, then unless you tighten up your processes you will struggle to float during an economic downturn. The reason is simple: your customers invariably will pay other suppliers who have stronger and tighter processes.

For example we recently started working for a printer who was not happy with the legal letters that were being sent out on their behalf – we suggested a pre-legal format that incorporated a detailed letter of claim, final demand, two follow up telephone calls and query management.

Still a difficult process

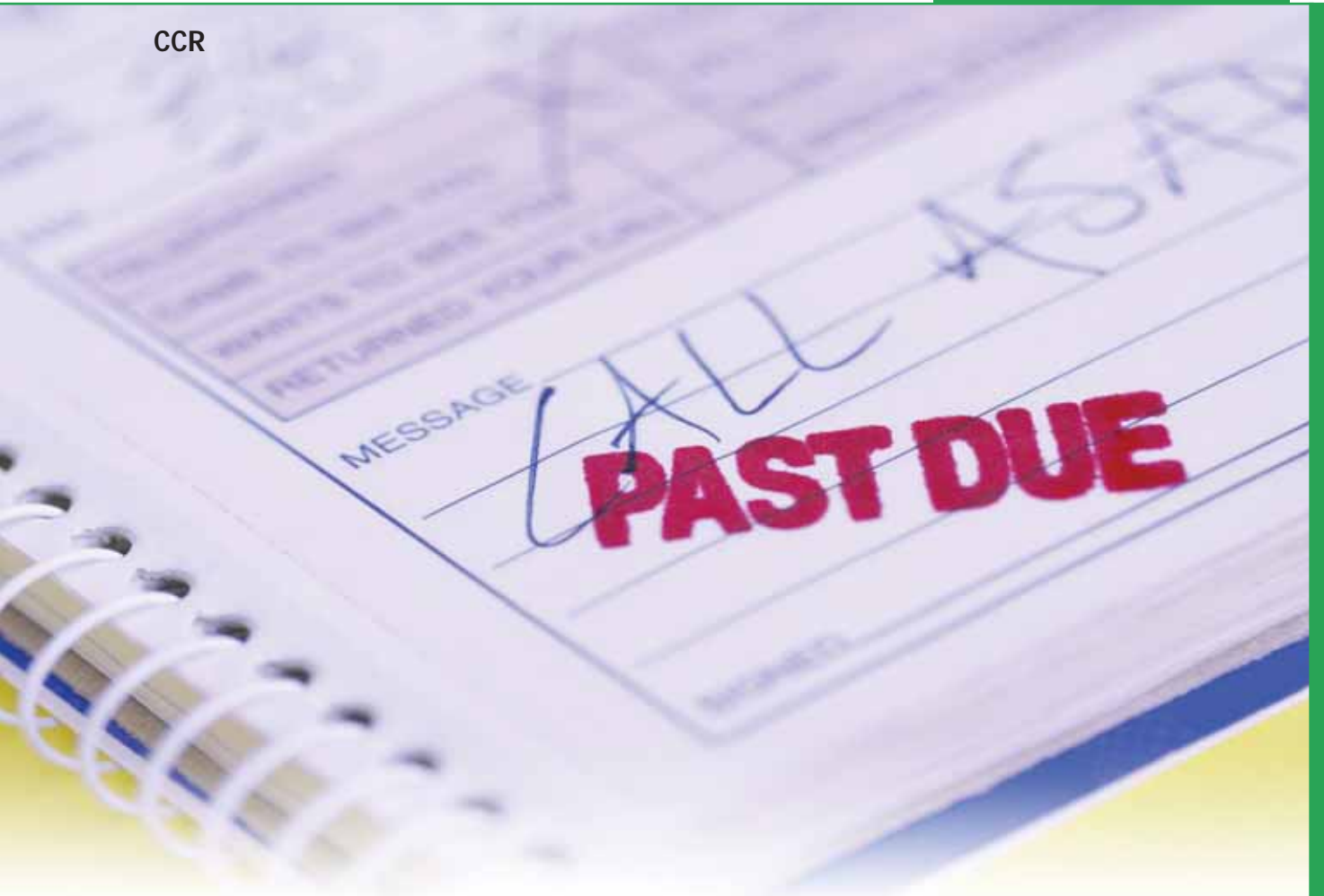
Although the introduction of the Late Payment of Commercial Debts Interest Act and European enforcement orders (EEOs) were intended to help businesses with debt collection domestically and in Europe, overall I do not think debt collection has become any easier for SMEs and business in general.

Indeed one of the most common disputes I get involved in is debtors refusing to pay late payment interest and compensation, and EEOs can be expensive with exposure to technicalities of service in the state in which you wish to enforce.

Combine this with the 'professional debtor' who will hide behind the corporate veil and the introduction of court hearing fees of up to £1,000, depending on the value of your claim, and you will see why I think debt collection has not become easier.

SMEs need to not just look at the credit score of a company but also at the board of directors to see how many companies, if at all, they have been associated with that went into voluntary liquidation.

There are other problems in modern times that have made debt collection difficult. In my opinion consumers now have more rights than ever. For example a good friend of mine that is head of credit at a utility company tells me that as a result of data protection legislation they are unable, in the absence of a contract, to acquire telephone numbers of debtors that have not paid their water bills.



This hinders collection because they cannot call debtors to collect outstanding money and arrange payment plans. As a result the debtor can be as elusive as they wish now that water boards are not allowed to cut off domestic water supply.

Debt management schemes have become more frequent to the point where some debtors will use them as a sanctuary in a deliberate attempt not to pay their debts.

If you do not believe me then ask yourself, how is it that England has the highest personal debt in Europe and banks that handed out credit are going bust?

It is not just because of irresponsible lending but because debtors are getting away with not paying back their debts and very little has been done to redress the balance.

A battle of wills

While this may sound far fetched I think debt collection has become a battle of enforcing collection against the 'won't pays' and 'can't pays'. As in any battle the winners are those that have the best strategy.

Genghis Khan ruled over an empire that was four times the size of Alexander the Great's, twice the size of Rome's. He often went into battle against the odds and came out triumphant. It was his strategic thinking that made him legendary.

You only need to look at how utilities segment debt and introduce systems to increase collections to see how much they agree that strategy is the way forward.

But what about your SME that cannot afford smart computer systems and credit experts? They will try to collect debts themselves by, amongst other things, using Money Claims Online, and while some will be successful in acquiring a CCJ they can still come undone when they do not know how to enforce it.

The courts are not qualified to give legal advice and, faced with this, the SME will often write off the debt – whereas the large corporate business will have money to invest in credit control and legal processes.

I recommend that SMEs get help with credit control by partnering their processes with a debt collector or cost-effective solicitor. There are plenty to

choose from with varying services so look to the expertise of the people that will be managing your accounts. Indeed you do not want someone taking charge of legal collections when they are not qualified to do so.

Scrutinise debt collectors and solicitors in the same way you would if you were employing them to work for you.

Alternatively SMEs can chase debt rigorously themselves by reducing the number of letters they send out and using Money Claims Online for small claims – but I would not advise this option unless the SME has the experience and expertise to do so, for example through the services of a credit manager.

I encourage SMEs to read my guide on Debt Collection in the UK. To help promote the FSB campaign in partnership with *The Sun* newspaper, I am offering the guide for free. All you need do is e-mail me confirming your interest and I will e-mail you the guide by return for free. **CCR**

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