

Setting terms of payment

Your terms of payment set out when and how you expect to be paid for the goods or services your business supplies. You set your terms of payment (also called terms of trade) and communicate these terms to your customers to give you better control over your business.

This article outlines the terms of trade you could consider using in your business.

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Cash, EFT, EFTPOS, cheque or credit card?

There are a number of ways for customers to pay you for goods and services including cash, bank deposit, electronic funds transfer, EFTPOS card payment, debit card payment, credit card payment, or payment by cheque, as well as online payment options such as [PayPal](#) or [Moneybookers](#). Take the time to become familiar with all these options and their relative advantages, disadvantages and costs. That way, you can provide clear payment options for your customers. You might, for example, run the kind of business where cash payments are the norm, in which case you could consider a surcharge for credit card or other payment methods that cost you more because of banking charges.

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Industry norms

To get or retain business, you might need to toe the industry line and offer the generally accepted terms for your trade or industry. Before deciding your terms of payment, take the time to investigate what other businesses in your industry offer. It helps to be aware of the terms your competitors use – and you might see a gap or opportunity to offer a new service that gives your business a [competitive advantage](#).

Can you offer more competitive prices on a cash sale deal to attract price-conscious buyers, or could you attract more customers during a recession by hiking prices slightly and offering longer payment terms?

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Communicate your terms

Whatever your payment terms, it helps to communicate these clearly. If you have pay points, avoid disappointing customers by putting up a sign up at your till points indicating what methods of payment you accept. Your customer then doesn't get to the till before they discover you don't accept cheque payments or don't have EFTPOS or credit card facilities.

Similarly, if you provide goods on credit, make it a business policy to have customers sign acceptance of your terms of trade when they apply for credit from your company. That way, they can't argue that they didn't know about due dates, interest fee charges and other payment or credit conditions.

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Payment in advance

Some businesses, such as ones operating over TradeMe or eBay, could require payment in advance. With payment in advance, customers pay the purchase price (including shipping costs) into your bank account. You then wait for the payment to clear into your bank account before sending goods or starting to supply services. This provides protection against possible online fraud. Be wary of relying on a fax of a bank deposit, or email confirmation not sent directly from the depositing bank as proof of payment.

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Payment on purchase

Here a customer walks into your business, selects what they want or accepts a service and pays before leaving your premises. It's up to each business to decide whether you'll accept payment by cheque or credit card on the same terms as you accept cash payments. You might decide to offer an additional discount for cash, or give your staff leeway to negotiate cash discounts if customers request this.

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Offering terms

If you allow customers to buy from you on credit, you'll need to set these [payment terms](#). You might, for example, expect payment within 14 days, 30 days, 60 days or 90 days. Terms of 30 days and 60 days are the most common.

To protect your business, it's in your interests to do a credit check to ensure that the person or business you're extending credit to has a good credit record. Ask customers for permission to do a credit check and get them to sign that they have read, and accept, your terms of trade as part of your credit application process.

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Early settlement discounts

Include early settlement discounts as part of your payment terms to encourage people to pay on time. If, for example, you offer customers 60 days to pay their accounts, consider offering a 5% discount for payment within 30 days and a 2.5% discount if they pay before the due 60-day date.

Be aware that some customers will try to claim discounts after the due date. It's in your interests to politely but firmly point out your terms of trade. If you don't stick to them, your customers won't either.

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Charging interest on late payments

Another way to encourage prompt payment is to charge interest on overdue payments. You might, for example, allow customers a grace period of between 60 days and 90 days to pay, and start charging interest on overdue amounts from 91 days. Warning them that they'll have to start paying interest within a few days might ensure your account gets priority attention if your customer is struggling to meet financial commitments.

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Setting and sticking to credit limits

When you offer customers terms, it's also important to set credit limits. The credit limit is the amount up to which you'll allow them to buy from you on credit. It helps to limit your exposure to bad debts. While you're free to revise this upward (or down) at any time it's warranted (always do a new credit check first), you should make it company policy not to supply customers if the new order will go over their credit limit. Ask your customer to make a payment to reduce their indebtedness, and suggest they might like to apply for a higher credit limit if they plan to continue

to buy from you at higher levels.

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Contracts and debit orders

If your business offers regular access to services or equipment for a set monthly or annual fee, much like a gym or a monthly book-keeping service, it might be worth setting up a contract and getting your customers to sign a debit order to reduce the amount of time your business needs to spend chasing payments.

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Choosing your terms

By now you'll have a good idea of the range of terms you can consider when setting payment terms for your business. Once you have an idea of the terms you'd like to use, run these past your accountant, bank manager or lawyer for their input.

[Download Terms of Trade template](#) [DOC].

While you're largely free to set the terms of payment you wish to, bear in mind that your customers might have certain expectations and preferences and that your terms could attract customers or turn them away. If you don't accept credit card payments or add a surcharge for credit card payments, for example, you might lose sales. You might decide to absorb the additional costs involved in accepting credit card payments in order not to lose business, or you might decide that the amount of business you'd lose would not amount to much. It's up to you to decide what terms of trade will work best for your business, and your customers.

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