

February 2020

Getting to Know You - Do you know who you are doing business with?

Knowing your client is the very first step to a healthy business relationship and to ensuring you protect yourself from unscrupulous business practices.

In this briefing note, Gemma Newing, Senior Associate in our Dispute Prevention and Resolution team at Rooks Rider Solicitors, highlights the common pitfalls on a recent matter she advised a client upon:

A Company Limited was a foreign company looking to expand its business into England. In the early days of trading it formed a business relationship with B Company Limited. Over the years a strong business relationship grew between the two, with both enjoying considerable success, with A Company limited believing there was a relationship of trust and respect between them. B Company Limited grew substantially and incorporated additional companies, all with associated names and, for publicity purposes, referenced all as being under an umbrella group company (“the B Companies”). A Company Limited had a regular stream of orders placed with it by the B Companies and business was booming. The orders from the B Companies failed to have any reference to the exact entity placing the orders; simply referring to the Group name. All of the B Companies shared the same office address as well as the same accounting team, with the staff having generic email addresses without specific reference to the entity they were working for and placing orders on behalf of.

A Company Limited was overwhelmed by its success and the relationship it had developed. As far as they were concerned the B Companies were all one and the same and because of the success enjoyed over the years; nothing would go wrong. It did not take steps to obtain some basic details about who they were doing business with; with the management saying “we were focused on fulfilling the orders and didn’t think to ask”; “we didn’t want to upset our client by asking questions”, “why is it so important anyway, they were placing orders and paying us, we didn’t see there to be a need to ask”. This was the first warning sign; A Company Limited had become complacent.

The relationship worked for a number of years up until when some of the B Companies ran into financial difficulties. This should have been the second warning sign to A Company Limited. Despite the B Companies failing to pay within the period of credit given, A Company Limited kept up the same levels of supply to them, thereby further increasing the amount owed, in the mistaken belief that all would come good.

In the end, some of the B Companies were placed into Liquidation, leaving considerable debts owing to A Company Limited. Unsurprisingly, to the sceptical business eye, the companies that ‘failed’ were the historic companies, with the newer companies being kept ‘clean’ and continuing to trade without issue. It was the historic companies who A Company Limited had invoiced. The B Companies had exploited A Company Limited’s trusting nature and failure to ask some basic

questions about who they were doing business with. What had been a lengthy and successful business relationship came to an abrupt end, with A Company Limited owed considerable sums of money.

To avoid these pitfalls, it is good practice to do the following:

- 1) Know who you are contracting with at all times. Is it a Limited company; LLP; PLC; Partnership; sole trader, an individual in their personal capacity? If you are unsure, ask.
- 2) Obtain evidence of identity to confirm what has been presented to you. Satisfy yourself of what you are being told. If there are any questions, resolve them from the outset. Never be embarrassed to ask and never make assumptions.
- 3) Have strict credit terms in place to protect yourself at all times, no matter what the duration of the business relationship is. Would you give a large amount of credit to someone you know little about and have no history with, or to whom you know are struggling financially?

Don't become a victim of being too trusting. It is good business practice to ask questions and the honourable businesses out there will expect to receive such questions; they will be asking their own customers the same questions. These basic steps can save a lot of financial pain down the line.

If you have any questions in relation to the issues arising in this briefing note or for advice on how to best protect your business, please do not hesitate to contact Gemma Newing or a member of Rooks Rider Solicitor's Dispute Prevention & Resolution team.



Gemma Newing
Senior Associate
Dispute Prevention &
Resolution
gnewing@rooksriver.co.uk
+44(0)20 7689 7142



Nicola Stewart
Senior Associate
Dispute Prevention &
Resolution
nstewart@rooksriver.co.uk
+44 (0)20 7689 7252



Aaron Heslop
Associate
Dispute Prevention &
Resolution and Employment
aheslop@rooksriver.co.uk
+44 (0)20 7689 7209

**CREaTe**

Rooks Rider Solicitors LLP

CentralPoint
45 Beech Street ■ London ■ EC2Y 8AD**Disclaimer:**

Please note that the information on the law contained in this bulletin is provided free of charge for information purposes only. Every reasonable effort is made to make sure the information is accurate and up to date, but no responsibility for its accuracy and correctness, or for any consequences of relying on it, is assumed by the author or the firm. The information does not, and is not intended to, amount to legal advice to any person.