

WE KNOW

FINANCE

MANAGING YOUR DEBTORS

QUICK GUIDE

This Quick Guide will provide you with tips on how to manage your debtors and cashflow in tough times.

MANAGING YOUR DEBTORS (AND CASHFLOW)

“The sale isn’t complete until the money is in the bank”.

Sales people love to tell you about how they closed the deal. But if you didn’t get paid, or if the cost of collecting the money (and there are a lot of hidden costs) meant the margin on the sale was eroded, was the sale worth making in the first place?

Cash to a business is like oxygen to a body. It is better to have the cash in your bank account, so you can feed the business, than for it to sit in someone else’s account.

Here are some tips to help you get the cash in good time.

1. Know what it costs to offer credit

- The obvious costs like paper work and mailing costs
- The hidden costs like staff time to manage debtors, interest cost of having your cash in someone else’s account, and lost negotiating power with your own suppliers.

2. Don’t offer credit (unless you really need to)

- Encourage cash sales or payment by credit card
- Make your systems pay-now friendly, e.g. invoice immediately versus posting one later
- Have an EFTPOS terminal on the counter
- Have a minimum amount that can be charged.

3. Implement good credit systems (and stick to them)

- Know who you are actually dealing with
 - Credit applications - checks with the Companies Register for both company and Directors
 - Credit references – don’t accept power or phone companies, they get paid first!
- Have your terms of trade signed before you make a sale on credit.

4. Stay on top of your paperwork

- Send your invoices as soon as possible - don’t wait until the end of the month; this shows you are keen to get paid
- Email invoices – your customers get them early; ensure the email address is for the right person
- Put your payment terms on the invoice – it reminds them when you want to be paid
- Avoid sending statements – add ‘Please pay on this invoice – a statement will not be sent’ - statements are an invitation for your debtor to delay paying you
- Shorten your payment terms - make it 7 or 14 days from date of invoice
- Give your debtors your bank account details to pay you directly – you’ll get access to your money much quicker.

5. Can you offer incentives to get paid earlier?

What would it cost you to offer a discount (or some other incentive) to pay cash or by credit card (don't forget the commission) rather than invoice, or to pay within 7 days?

DEALING WITH THE PROBLEMS

If you are not getting paid, are your debtors paying someone else instead of you, or are they paying no one? How you deal with the 'won't pay' and the 'can't pay' debtor will differ.

1. Follow up overdue accounts promptly; don't wait until 60 or 90 days overdue – waiting sends the message you don't expect to be paid on time
2. Make notes of conversations; follow up with an email to clarify what was agreed
3. Get specific promises to pay – how much (part payment is better than nothing) and when (a specific date); then follow up if the undertaking is not kept
4. Saying 'thank you' when someone pays as promised builds goodwill for next time
5. Remind slow payers of agreed payment terms and penalties for late payment (e.g. interest)
6. Be prepared to make arrangements; make them tight and use the opportunity to ensure you have/get good security/guarantees in return.

If you don't understand why a debtor is not paying, it is hard to know what action to take.

Factoring

One way to speed up access to cash is to factor or sell your debtors to a specialist financier. For a fee, they take over the administration of your debtors' ledger, and pay you up front a proportion of the value of your debtors.

Traps & Tricks

- New business – who are they, what is their history? A new company will have an unblemished history, but the people behind it (Directors/Shareholders) might have tarnished reputations
- Changing business patterns – after a period of modest sales paid on time, the big order arrives – beware their good trading history isn't designed to set you up with a false sense of security
- The big order – after getting over the 'wow', carefully consider the effect on the business and cashflow before you get paid – consider working capital, ability to service other customers, whether you can contract out part of the work – you may also need to negotiate progress payments with the customer, and have some deep discussions with the bank
- The big customer – relying on one customer for a significant proportion of your trade carries extra risk – which can be severe if that business stops paying on time or starts buying less from you.

The Employers' Chamber has a range of resources available to help you implement the above tips into your business:

Resources

Breakeven Analysis template
Cashflow Forecast template
Credit Application sample
Credit Control Policy checklist
Maximise Profits and Minimise Risk

For further information on Managing your Debtors or other aspects of debtor and cashflow management, please contact The Chamber; email info@cecc.org.nz or call 03 366 5096.