

CASH FLOW PROBLEM? SLOW PAYERS?

Most businesses suffer from cash flow problems from time to time.

The problems arise from three main areas:

- Poor planning of purchasing, causing unexpected cash demands
- Lower than expected levels of sales
- Slow paying debtors

We will deal with the third point, collection of overdue accounts.

Many business owners are reluctant to chase debtors for fear of upsetting the business relationship and losing their business, but it is important to remember that slow-paying debtors are in effect using you as a bank; they are using your credit to finance their business. It is your money that they have; you should not feel at all awkward about chasing them for it!

You can, however make it easier for yourself, and maintain your relationship with your customer, by implementing strict procedures and then following some simple steps.

1. Set Expectations.

Tell your customers exactly what you expect of them.

Clearly define your Terms of Trade, in writing:

- In your purchase or supply agreements
- At the point of sale (signage)
- On your invoices
- On your statements

2. Review your invoicing procedure.

Make it easy for your customers to pay you!

- Ensure all costs and charges are correctly invoiced
- Provide simple, clear, accurate information
- Define your Terms of Trade on the invoice
- Consider a prompt payment discount
- Send your invoices promptly
- Consider encouraging electronic payment (by direct credit)
- Provide a Remittance Advice slip (payment advice)
- Provide a self addressed envelope

3. Follow up all overdue accounts promptly.

Implement a procedure so that overdue accounts are followed up promptly, every month:

- Your accounts person or credit controller should phone the overdue customer immediately they are overdue (the day after the due date).
- Prepare a script to use, along the lines of “We have noticed that you haven’t paid as yet. Do you need any further information? When can we expect payment?”
 - Make a note of their reply and commitment to pay.
 - Phone them again after 7 days.

Prepare a second script to use, advising them:

- “We still haven’t received your payment.”
- Are there any problems?
- How can we help you”? make any necessary arrangements e.g. part payment, post-dated cheques.
- Make a note of any arrangements made.
- Monitor all commitments
- Put all non-payers on stop credit on the 15th of the following month (they will have had at least 45 days free credit from you by this stage!)

The keys to the success of this system are to:

- Set expectations (customers and staff)
- Follow the procedure every time, all the time
- Stick to the training

By following this simple procedure, you will:

- Improve cash flow
- Minimise bad debts
- Maintain relationships with Customers
- Improve your internal efficiencies

Let your customers know what you expect, and that you will be chasing them up regularly!