Are you lending your customers money?

When selling on credit you lend customers interest free money and risk losing it.

Businesses selling to other businesses have to give credit because their rivals do. Choosing not to do so can mean loss of sales, the passing up of new customers and reduced market share. Yet it means you are giving your customers interest free finance. So, which way do you turn?

Giving credit is so risky most banks only value debtors at 30% to 50% of book value, and they can be reluctant to place any value on them at all, which is hardly surprising when there is a 2% bad debt risk the moment you give credit, a 25% risk at 90 days, and a staggering 51% chance that you will never see your money again at 180 days.

It is imperative you develop a simple Credit Policy with key procedures to follow:

- Assess the credit-worthiness of new customers;
- Assess the credit-worthiness of existing customers seeking higher limits;
- Consider carefully what credit limits you want to allow;
- Make sure your Terms and Conditions of Trade are up-to-date and expressly known to your customers;
- Establish, and stick to, good credit control and debtor management systems.

And remember we are not talking about Debt Collection here but getting valued customers to pay when the Terms and Conditions and invoice says they should.

So what are your options when it comes to getting paid?

1. Make a few phone calls and hope they will pay
2. Make credit control a priority
3. Factor your debtors
4. Outsource your debtor management

1) Just making a few phone calls means being your customers' interest free financier and that creates bad debt risk – what would happen if a big customer went bust owing you three or more months' sales? Could you survive?

2) Making credit control a priority is easy for larger firms, but harder for small companies operating without a trained credit controller. Getting office staff to do it amongst other tasks can be ineffective, and stressful unless they have been on credit control courses. Doing it yourself is impractical and stops you growing your business, but if you are a small business you might have to.

3) If you want quick payment, factoring is an option. Factoring companies pay up to 90% of your invoices within days and the balance (minus 2 to 4% commission) when your customer pays them. But they often insist on factoring <u>all</u> your invoices, so you pay 2 to 4% on every credit sale you make.

   The risk is if your customer fails to pay the factor you have to refund the amount advanced. To ensure they get it they require personal guarantees and/or other securities plus the authority to take the money directly from your account. If you do not have it, the guarantees will be exercised and if your personal assets are at stake, you have a serious problem. Speak to your accountant or lawyer before you even consider factoring.

4) If you don't have the staff or time, look at outsourcing your debtor management to a local, Australian company. This can free credit control and other debtor chores away from your offices without customers being aware of it. It can improve cash flow, lower your costs, reduce bad debt risk and save you from being a source of interest free finance.

Whatever you chose, do something because unless you manage your debtors they can send you out of business. If that is easier said than done, then contact an outsource debtor management expert, such as below. You will be surprised at how little Peace of Mind can cost.

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Accounts Receivable Solutions are experts in receivables management especially for small to medium sized businesses selling on credit business to business (B2B). Accounts Receivable Solutions also provides Training Packages tailored to your specific needs.

Let us:

- Free up your time to grow the business
- Increase your profits
- Lower your costs
- Improve your cash flow
- Maintain and improve customer relations
- Reduce your debtors and your debt to the bank

How?

- Outsource the credit function locally
- Produce up to date Terms of Trade that embrace the new Personal Property Securities Act 2009
- No long term contracts
- We act like your staff without being on the payroll
- Or, if you have an in-house Credit Control department, take advantage of our Credit Control Training to provide your staff with specialist training with proven credit control methods.

GET PAID PAINLESSLY

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