

Amber BUSINESS BOOST (Survival) GUIDE

Are you your customers' banker?

In spite of the technical answer to this question being "no" for most businesses; the answer for many is, in a way, "yes". It seems that in spite of all the advice on the subject many small businesses continue to act as bankers for their customers.

Take one typical small business with an annual turnover of £875,000 and terms of debtor payment 30 days. This means that, inclusive of VAT trade debtors should average £84,000. Of course we all know the reality is that some debtors will pay on time, some at 45 days, and others at 60 and beyond.

Just for this example let us say that half the debtors pay on time, 30 days. The other half pay at 60 days. What this means is that at anyone time £42,000 is tied up in debtors and should be in the bank.

If the business is larger, say £3m turnover, then the cash unnecessarily tied up in debtors is a massive £144,000. Collect this debt and if nothing else, it can have a major impact on your bank balance! The company on which this latter example is based operates on an average overdraft of £100,000. The cost to the company is in excess of £8,000 per annum.

Why does this happen? The answer is unprofessional debt collection.

The solution is simple and straightforward.

Put a system in place to collect your debts. Then apply it rigorously.

Here is a suggested approach:

- **Before carrying out any business**
For all new customers (and possibly repeat for existing ones) carry out an up to date credit check. Agree terms of trading and for this example payment at 30 days.
- **Day 1**
Send out the invoice on the day the work is completed or goods despatched.
- **Day 5**
Contact your customer to ensure customer satisfaction, goods delivered and that the right person has received the invoice.
- **Day 28**
Phone the customer and check that your invoice is ready for payment. This step is crucial and pre-emptive!
- **Day 31**
Check receipt of payment and prepare list of non payment.
Send a polite email if no payment received....."We are certain that payment is on its way; however, just in case you have overlooked our invoice"
- **Day 35**
Phone the customer re outstanding payment and ask when it is due to be paid.

Amber BUSINESS BOOST (Survival) GUIDE - continued

- **Day 40**
Send a letter explaining the communications so far and include any "promises to pay". Explain that you will contact them within 48 hours to seek resolution of the outstanding debt.
- **Day 42**
Phone and discuss the previous letter.
- **Day 45**
Send a letter, including an account statement and a copy of agreed terms and conditions that they signed up to, outlining your next steps e.g. referral to their CEO/MD or referral to agents for collection. Of course if they pay up now.....none of this will be necessary.

Will this put your customers off trading with you? Some maybe; but do you need more bad payers? They had the opportunity to negotiate terms with you when the account was established!

Actually what happens is that you customer understands that you are professionally running your business and that you are not the supplier to mess with.

Always remain polite but firm and explain this is how we do business successfully.

.....and just in case you have not got the message.....

Systematically and consistently chase your debts

After all it is your money.

Amber Business Services Limited provides part time financial director services to growing businesses either "virtually" or "in the flesh". They look after more than just the numbers by working on strategic development and business growth with the business owners. We then coach and mentor for results.