FINANCIAL REVIEW

The cheque's been in the mail too long

FACTORING AND DISCOUNTING

Thursday, 29 September 2005 | Supplement | Page 11 | Alexandra Cain

Payment periods are being stretched even further by creditors, causing cash-flow problems, writes **Alexandra Cain.**

Businesses are waiting more than double the period of standard trading terms to be paid by customers, according to research by credit information provider Dun & Bradstreet (D&B) Australia.

The small business sector, which usually has to take whatever terms its big business clients dictate, is having to wait the longest for bills to be paid. And the result may be cash-flow difficulties.

D&B Australia chief executive Christine Christian says there has been a "dramatic decline" in trade payments in the past 12 months.

The average trade payment period is now 56 days, compared with the average 48 days reported in D&B's 2004 trade payment survey and standard terms of 30 days.

Mining, transport and communications companies are worst affected. Creditors in the mining industry are having to wait 60 days on average to be paid, while creditors in the transport and communications sector are waiting 57 days.

Christian says small businesses wait much longer than big business because of their position "at the end of the food chain".

There is evidence from the coalface to back up D&B's research: David Hall, NSW president of the Australian Institute of Credit Management and credit manager of Sun Microsystems Australia, says most companies are delaying payments as long as possible.

"Lots of SMEs [small to medium-sized enterprises] are behind on statutory payments like PAYG tax and superannuation," says Alan Kaye, managing director of Cash Resources Australia, which provides invoice discounting and factoring services to small and medium-sized companies.

Christian says the trend for companies to delay paying creditors for as long as possible is a leading indicator. "It suggests businesses are starting to experience some difficulties in cash-flow management," she says.

Hall says companies are watching the economy closely before making a payment and often delay paying creditors "for balance-sheet reasons leaving their money in their bank accounts to work for them".

But, says Christian, this can create a vicious cycle, leading to cash-flow problems across the economy, because businesses are both creditors and debtors.

There are a number of different strategies companies can use to hasten payment of overdue invoices. Christian says small businesses must address their trading terms 90 per cent of businesses fail because they run out of cash.

A key strategy is to make trading terms crystal clear on the customer's credit application.

Christian also suggests contacting debtors as soon as the agreed terms of trade have expired.

"It's important to follow up. Set up an auto trigger and get on the phone and remind the customer [to pay],"she says.

"People take advantage of companies that don't demand payment within their terms."

Using a debt collector to chase old bills is also advisable. "The sooner an old debt is handed to a collection agency the better the older the debt the harder it is to collect."

Peter Hattaway, director of Hattaways Credit Management Training, advises companies to urge their customers to use direct debit for payment of bills.

"There's real value in pushing to get the customer set up on direct debit," Hattaway says.

"If customers send a cheque they have to get around to finding a cheque book and envelope, then get to a post box. Whereas with direct debit payment is set up front."

Accepting payment via credit card is another way to speed up the payment cycle.

"It's an easy way to deal with old debts, plus customers can also get air points," he says.

Using the services of a factoring and discounting company is also starting to become a popular way for SMEs to shorten their payment cycle.

Companies sell their debts to a factoring and discounting company at a discount to the value of the invoices, in return for upfront cash.

The factoring and discounting company is then responsible for managing the debts.

"It's better than waiting 45 to 70 days without getting anything upfront. But it's up to businesses to use the money wisely.

"Hopefully they will use the money to pay creditors and make investments we're keen to see customers use the money for business rather than private reasons or for new office furniture or better cars," says Cash Resources' Alan Kaye.

Christian urges companies to make debt management a key performance indicator. "Good debt management is a fundamental necessity in today's business environment," she says.

Due date

· The average trade payment period is now 56 days.

· This compares with an average 48 days a year ago.

· Small businesses wait much longer than big businesses.