Cash Flow Management

Don’t just go with the flow on credit terms

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As the **credit** crunch worsens, managing cash-**flow** and payment **terms** has never been more critical for SMEs.

David Hall, founder and Managing Director of CreditGuru, says many businesses do not place enough importance on their **credit** management strategies. “Part of the sales cycle ... is the collection cycle and I think a lot of SMEs **don’t** take that into consideration,” he says.

Hall adds that businesses should guard against complacency: delivering a product or service does not always lead to payment. If a company is suffering at the hands of slow-paying customers, he suggests lax **credit** management may be to blame.

“Often a lack of payment means you need to put in some tighter controls around cash collection and **credit terms**.”

Setting credit terms

The first step is to establish your **credit** and trading **terms**. Make sure they match your business needs and then clearly communicate them to customers through channels such as letters, emails and monthly statements. In the rush for the next sale, many SMEs neglect this administrative task – and pay the price later.

Check, too, that your **terms** are enforceable. In a surprising number of cases, they do not stack up legally. SMEs selling goods on **credit** are also advised to include ‘all money’ or ‘full retention of title’ clauses as part of their trading **terms**. This means you retain ownership of goods until they are paid for in full.

With such **terms** set, Hall says it is then vital to monitor customer payments.

“I’ve seen cash-**flow** problems increase by about 30 per cent recently and many small enterprises aren’t realising it,” he says.

A matter of time

Determining acceptable payment times is one of the big issues for any business. Anecdotal evidence suggests many SMEs are struggling because customers are delaying payment of invoices.

Susan Wahhab, managing director of accounting firm The Winner Partnership, says small businesses must ensure their **credit terms** offer flexibility without affecting their working capital cycle. It is a tough juggling act.

“They’re often battling against the bigger companies who are always trying to extend their payment **terms** and they feel like they can’t really negotiate because they’re in a tight market,” Wahhab says. While some customers agree to 14-day **terms**, others have been stretching out payments to 120 days. To combat this trend, Wahhab says small businesses may be forced to slightly delay their own payments to suppliers to align them with those of their debtors.

“Instead of 30 or 45 or 60 days, try to balance your aged debtors (those who have owed money to the business for a defined period of time) by moving your own payments towards 90 or 120 days. Stretch them a little bit more,” she says.

Offer some incentives

For customers that pay up-front or on time, consider giving them a discount.

“Offering clients incentives if they pay by the due date is a good strategy. You could offer them a 2.5 or 5 per cent discount,” Hall says.

She also advises giving clients a range of payment choices, including electronic transfers and direct deposits through BPAY®. A surprising number of businesses do not offer **credit** card payment options. While you lose some of the margin on fees, the benefit of faster payments usually outweighs that small loss.

Wahhab comments: “Know what your clients prefer and give them what they want.”

There are other creative ways to alleviate cash-**flow** problems and buy yourself some time while waiting for suppliers to pay. “Try paying your suppliers with **credit** cards and then pay the cards off by the end of the 55-day cycle (to avoid interest charges),” Wahhab suggests.

Get on the phone ... now

Communicating clearly with customers is the key to faster payments.

For debtors who continue to neglect their bills, Hall suggests working the phones rather than **just** sending a bland reminder notice. Speaking with clients adds a personal touch and provides an opportunity to develop rather than cruel a relationship.

Letters and emails can then be used as a supplementary reminder. Hall says it pays to stay in touch.

“It is extremely important to have an open communication line with your customers with reminders and statements.”