***Managing working capital: Debtors***

Getting customers to pay on time is the biggest challenge to good cashflow. Unpaid customer invoices are usually (not always, but usually) the biggest element of working capital, so it’s a vital area to crack.

3 issues to consider are negotiating terms; enforcing our terms; and not shooting ourselves in the foot.

**Negotiating good terms**

We wouldn’t dream of making a sale without agreeing the price! The pricing policy of “Pay me what you like” would be disastrous. Yet so many businesses fail to agree payment terms with their customers.

Just as most businesses want high customer prices, but low prices with their suppliers, they also want quick payment by customers whilst taking longer to pay their suppliers. They often aim for 30 days credit with customers and 60 (or 90) days with suppliers.

So if we don’t negotiate good payment terms with our customers, we risk waiting 60 or 90 days to get paid. Which could prove fatal to our business.

So it’s essential that we negotiate payment terms.

Not just how quickly we expect the customer to pay the bill, but also when we will send the bill. Do we bill when the customer places the order, when we start to supply it, or when we finish supplying it?

And can we negotiate a deposit? If the customer pays 10% when they place the order, not only does that mean they’re less likely to pull out, it also means we have cash in the bank before we start to pay cash out on the order.

**Enforcing terms**

Of course we chase our customers for payment! But how serious are we about it? And when do we start?

Many businesses start chasing customers after the invoice is overdue. But we can start long before then.

A call a couple of days after the invoice has been sent can work wonders. “I’m just checking you’re happy with the delivery, and that you’ve received the invoice and are able to approve it for payment. Is there anything else we can help you with?” Customer care, quality control, sale, and credit control rolled into one call! This call should help pick up early indicators that there’s a problem with the invoice or delivery, so that we can correct them in time to receive payment by the due date.

Another call 10 days before the invoice is due could go: “Our invoice number xxx is due for payment at the end of next week; I’m just confirming it will be paid by a week on Friday.”

Keep a note of your contact’s response as well. If they’ve told you they can approve it for payment and it will be paid by the 23rd, they will be more likely to help ensure their promises get fulfilled.

Also, find out about your customers’ payment processes. If they only make payments to suppliers once a month, on the 20th, it’s no good chasing up your invoice on the 21st. You’ll have to wait until next month! You’ll need to call them long enough before the 20th to give the customer time to add your payment to the list.

**Are you the problem?**

Make a list of all the reasons your customers give you for paying late. Don’t be surprised to discover that half the reasons are your fault!

These reasons can include: there was no PO number; the price was wrong; it was addressed to the wrong person; delivery is still incomplete; there’s an outstanding query; the supporting paperwork hasn’t been received. And so the list goes on!

If we can identify and eliminate these reasons we’re much more likely to get paid on time.

**Putting it into action**

Here’s three things you can do to put this into practice.

1. If you’re responsible for invoicing, make sure you follow the invoices up until they’re paid. Which customers pay on time, which ones pay late? What can you do to encourage the late payers to pay on time?
2. What excuses do your customers give for paying late? How many of those are self-inflicted, and what can you do to help ensure your customers aren’t given those excuses any longer?
3. Get a list of aged debtors from Finance. This report lists every customer along with how much they owe us, and then breaks that total down into how long they have owed us that money. How much of a problem is late payment for your business, and what can you do to help alleviate it?