

Managing credit and payments



Given the impact the floods have had on many businesses, companies may find that the receipt of customer payments has been adversely affected. This can lead to significant cash flow problems. Communication with customers and thoughtful credit management will help you manage the impact on your cash flow and can help your company avoid writing off large amounts of bad debt.

Start by considering whether you have spoken to your customers to check on their well-being after the floods. Where this is practical, it will not only ensure your customers realise your concern for their welfare; it will also assist you in understanding where your customers stand in relation to fulfilling their financial obligations to you, as well as providing insights into any impact on your business as your customers get back on their feet.

With an understanding mind, review debtors for anomalies on a continuing basis and keep the lines of communication open. Where customers have not been affected by the floods, consider tightening up collection procedures. For instance, if an amount due 30 days after shipment hasn't been received by the deadline, call the next day for payment – don't wait another 30 days.

You could also consider accelerating debt collection by accepting alternate payment methods such as credit paypal, cheques, etc. But ensure you factor in all the cost implications and any impact on your reputation. This will make it easier for your clients to do business with you.

You might then offer discounts, or some other modification of terms, to facilitate faster payments. If you go down this path, however, the key calculation to make is how the effective annual rate of any discount compares with the highest available bank interest rate.

The following checklist may help strengthen your company's credit control operations

- Have you identified slow payers for possible credit limitation? Do you understand the circumstances behind slow payment?
- Could internal credit procedures be tightened?
- Are queries dealt with promptly to avoid delays to settlements on grounds of outstanding queries?
- Are all credit notes authorised?
- Have you communicated to your customers the impact of the floods on you?
- Have you evaluated the costs and benefits of introducing settlement discounts?
- Have you reviewed all sundry debtors, staff loans and advances to ensure repayments are received promptly?
- Have you investigated other forms of assistance available for staff whom have been affected by the floods such as government grants instead of providing staff loans?

It is also worth considering whether your collection efforts could be improved by more prompt issuing of invoices and statements, early follow-up calls of payment delays, seeking payments on account or in advance, charging penalty interest, encouraging payment on an invoice rather than a monthly statement, and making personal contact with the customer.

Delaying payments

The second way to improve your cash flow is to effectively manage your own payments. The principle here is the opposite to the one used in credit control – try to extend, rather than narrow, as much as possible the time between delivery and the final transfer of funds.

In other words, the policy should be to delay payments to suppliers and others for the longest acceptable period. Suppliers may be willing to extend trading terms to you if you communicate how you have been affected by the floods.

In practice, this means not paying bills before their due date and releasing cheques at the latest possible time. It also means using any latitude in credit terms and renegotiating uncompetitive terms with suppliers – if not changing suppliers altogether.

It should be noted, however, that it is important to take care of the relationships you have built with suppliers. Consider contacting them to see whether they have been affected by the floods and to communicate directly with them about the best way forward.

The questions below are designed to help you focus on the strengths and weaknesses of your disbursement procedures, and thus determine whether action might be required:

- Do you have a formal policy of releasing payments to suppliers at the latest acceptable date?
- Have you obtained the best possible credit terms from your suppliers (you may be able to negotiate extended terms for a short period of time)?
- Have you considered whether better credit terms are available elsewhere?
- Have you considered entering into consignment arrangements with suppliers so goods are only paid for after being consumed or sold?
- Have you evaluated the costs and benefits of cash discounts, quantity discounts and other incentives offered by suppliers?
- Have you imposed controls to ensure you don't end up paying for goods you have not ordered, or which cannot be used because they do not meet specifications?
- Do all orders placed with suppliers request the appropriate stock for the short-term trading conditions?
- Can payments for services such as insurance be delayed further, or paid in installments without prejudice?
- Is there any discretionary expenditure that can be postponed e.g. can you communicate using technology rather than unnecessary travel?

If you would like to discuss this further, please contact your regular PwC contact or phone Jason Daniels on (07) 3257 8536.