

7 STEPS TO IMPROVE **CASH FLOW** & REDUCE SLOW PAYERS



BUSINESS & CASH FLOW

Just as any living organism needs a healthy, steady flow of blood to maintain its vital systems and to support growth, businesses also need a healthy, steady flow of cash to meet its financial obligations and to fund future expansion.

Many businesses struggle to adjust their own cash flow to accommodate:

- Changes in the economy; or
- Changes in their sales & revenue; or
- Changes in margins; or
- Changes in fixed costs; or
- Changes in their clients/customers circumstances.

Failure to constantly be aware of these changes potential effect on your business will lead to stress and painful decisions – too often being made quickly rather than in a considered way.

The solution is to maintain **consistently positive cash flow**. That is critical not only at times of economic contraction but during periods of growth. Accounts receivable is a key part of that solution. Here are the seven critical steps you should know about (right).



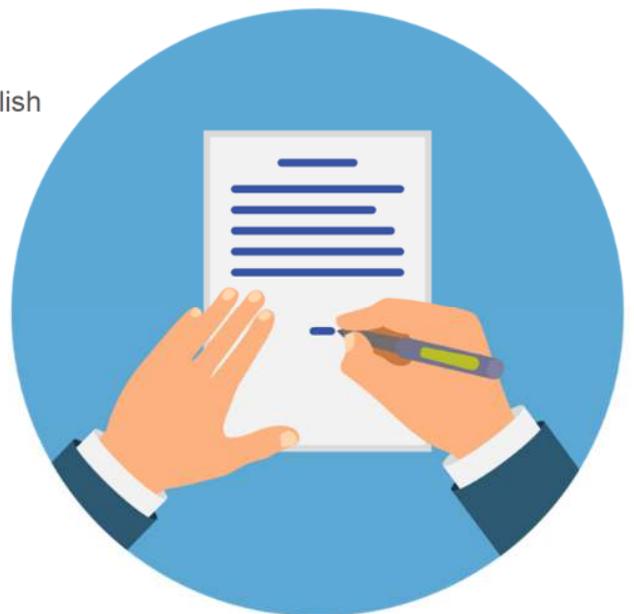
STEP ONE: TERMS OF TRADE

Terms of Trade

Get this right and you'll be better placed if your other forms of credit go wrong. **Terms of trade** help establish your legal relationship with your customer. If you are serious about your business don't copy other businesses terms of trade as a cheap cheat. Invest in some specialist advice to ensure your terms of trade protect you and give you every chance to get paid.

Finally, ensure your customer agrees and signs your terms before you supply goods or start work.

They might not apply if you don't!



BONUS TIP



Instead of using the confusing credit period the '20th of the following month' – be very specific with something like 'Due 14 days from invoice date'.

Rest assured this is important.
Ask us why.

STEP TWO: CREDIT ASSESSMENT

Credit Assessment – Initial & Ongoing

Before you give credit, make sure you know who you are giving it to and their track record in repaying other people (i.e. Credit check your customers).

Individuals credit ratings (their ability to repay debt) change over time; even more so with a business. It is important if you have an ongoing credit relationship that you continue credit checking your customers.

Don't be the last 'mug' to find out things have changed.



BONUS TIP



Credit agencies have a service whereby you can set up 'credit alerts' that might tell you when one of your customers has a negative credit event.

You are welcome to ask us how to set these up.

STEP THREE: PAYMENT OPTIONS

Payment options and methods

Generally, your customers will want to pay you. Make it as easy as possible for them by providing multiple payment options and methods. Don't become your client's bank with slow paying debtors.

Offer multiple payment methods such as credit card, cheque, Paypal, payment plan and internet banking. Similarly, offer multiple payment options – e.g. A discount for upfront payment or 50% now and 50% on completion OR instalments over 12 months with smartAR Fee Funding.



BONUS TIP



Many clients prefer a streamlined billing/payment process. We recommend you use an [online payment page](#) to curate all your payment options.

Contact us if you would like to arrange yours – it may even be free.

STEP FOUR: PROMPT COMMUNICATION

Prompt Communication

When you don't get paid within your terms of credit (e.g. 14 days from date of invoice) DO NOT leave it another 30 days before contacting your customer for their explanation and to request payment.

If you email or post monthly statements before following up by telephone it might quickly be 70+ days overdue before you make personal contact. That means you are acting like a bank for your customer – giving them free credit.



BONUS TIP



The most effective and cost-efficient method to address slow payers is by telephone.

Ask us for a copy of our tried and proven telephone script.

If you don't like making the calls (who does?) consider using a [managed ledger service](#) (e.g. smartAR Outsourced Ledger Management) to make them for you.

STEP FIVE: PLANNED ESCALATION

Planned Escalation

Expect that sometimes customers will be slow payers and others may default completely. Work out in advance what your options are to escalate recovery and how you will respond to different scenarios.

When customers ask: 'Can I pay you when I get paid?' – What will you say? At what stage will you charge interest? When will you stop supplying goods or services? When will you send to a debt collector? Be prepared, then follow your escalation timeline.



BONUS TIP



We have developed a debtor escalation guide - proven to help hundreds of businesses get on top of their debtors.

Ask us for a free copy which you can personalise for your own business.

STEP SIX: CONSEQUENCES

Ensure there's consequences for slow payment

Slow payers are just like naughty children. If you threaten them with consequences but do not follow through, they will take advantage.

They will also 'play off' two of your team (e.g. Accounts Receivable and Management) if you don't BOTH know your facts – e.g. excuses made & payment promises broken. You should always be in control, have notes of prior conversations and know your options to implement consequences if they do not pay.



BONUS TIP



Avoid the temptation to threaten ultimate escalation too soon (e.g. 'If you don't pay, I'll send you to a debt collector' and then not).

A good tactic is to have some early consequences that are small (e.g. losing an early payment discount) to demonstrate your intentions to follow through – which you then **MUST** do.

STEP SEVEN: RESOURCE OR OUTSOURCE?

Resource or Outsource?

If you choose to manage your credit policy and accounts receivable yourself, then make sure that you have the right people, they have the right tools & skills and enough time is allocated for them to do a great job.

Here's a quick checklist:

- **People:** Are they trained & enthusiastic to do the accounts receivable job?
- **Skill:** Do your accounts receivable people know any appropriate legislation, your escalation process and negotiation skills to facilitate payments?
- **Time:** Is chasing slow payers a priority or a job squeezed in around other priority roles – meaning slow payers are followed up sporadically.



BONUS TIP



You may be like many businesses: too busy doing current work or developing new business to follow up slow payers.

In that case contact us to discuss our [Outsourced Ledger Management service](#).

We GUARANTEE you will have more cash, fewer slow payers and no hassles.

