

# Debtor management nuts and bolts

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Be comfortable with your debtors ledger and get used to monitoring it for updates on your business.

## The aged debtors report

It is good practice to review the aged debtors' report throughout the month. On the day after payment falls due, check the mail and bank account to confirm payment has been received. Or better, delegate this to someone you have trained in sound debtor management techniques and ask them for timely reports.

You'll have better results from following up on bills that are only a bit overdue than you will from debts that have been outstanding for ages. The smart money's in the 30 days column (or the 7 days column, if that's how you bill).

## Debtor days

Work out your Debtor Days. Divide the amount owed to you by debtors by the invoiced sales figure (credit not cash sales) from your profit and loss account. Then multiply by 365 (days in a year). This gives you the average number of days it takes you to collect debt in your business.

Use this as a benchmark. If your first results show it takes you an average of 42 days to collect debts and your credit terms are strictly 30 days, you can set a goal to reduce the average collection time to as close to 30 days as possible.

## Credit and collection

Who should be responsible for the credit and collection function?

Usually it is not sound to place credit and collection management in the hands of sales staff. There is often a conflict of interest, which could defeat your credit policies in the long run. On the other hand, the sales and credit functions should co-operate and co-ordinate their interests.

The main objective on the part of each should be to retain customer goodwill and to ensure that the customer keeps returning (and keeps paying). This is not achieved by overselling to the customer or by adopting loose credit policies and collection procedures. It is often in the best interests of the customer to be restrictive rather than liberal if it is thought that they are getting out of their depth.

Where a credit management function is set up, the credit officer is the logical person to control this. However, it is the characteristic of many small to medium sized businesses that these responsibilities rest upon an office employee, simply because the organisation cannot provide for a specialist credit officer.

Alternatively, debt collection can end up back with the owner of the business simply because they are the one most passionate about their business and the most closely concerned with cashflow. Their customers know them so there is a certain weight to a phone call from a business owner that a call from an office assistant simply doesn't have.

However, while tempting, this isn't best use of your time. And some separation is essential between the relationship you have with your customers – which you want to be as good as possible – and the 'dripping tap' approach which a good debt manager should have.

## Systemise

Systemise your debtor management strategy:

- have a clear process for following up with debtors
- delegate responsibility for debtor management to one person
- train them in your process and give them the tools for the task

The sooner you chase the debt, the more likely you are to get paid. You need a system to identify any overdue credit sales as soon as they become overdue.

Remember! Your debtors will pay on time if:

- your trading terms are crystal clear (first meeting, quote or estimate, agreed date for completion of work)
- your clients know when they are supposed to pay. Always have a specific 'Pay By' date
- you invoice as near as possible to supply of the goods or completion of the work
- debtors are reminded as soon as payment is late and followed up systematically

### **Debtor management as a financial control**

Make sure you have good financial control systems to give you regular oversight of all transactions. There have been too many cases in New Zealand of theft by a person in a special relationship to ignore this as a potential business risk. Such cases have devastated organisations large and small.

If credit control and debtor management are the province of a single person, it can be too big a temptation for abuse. Separate them out and make sure you have adequate oversight on both. Financial control systems safeguard your business.