NAFD FAST TRACK DEBT RECOVERY SERVICE

EYES WIDE OPEN: HOW MUCH DO LATE PAYERS COST YOU AND YOUR BUSINESS?

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Late payments are increasing across all businesses but are often higher amongst funeral directors.

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The Debt Recovery Bureau has previously looked at the statistics surrounding the £160 million outstanding to funeral directors, and this month we are turning a spotlight on what the real costs are to you and your business, both directly and indirectly.

DIRECT COSTS

It is relatively easy to quantify the direct costs, though businesses don't always do so. A quick look at your books should tell you how much you are owed at any point in time, how many outstanding invoices are aged debts and how old those debts are. Whilst this is a useful base figure, beyond this it is worth asking yourself a few questions.

How much time have you or your team spent chasing these debts in the last month, six months, year? Have you included this cost in your calculations? Depending on the hourly rate of the members of staff this can be a weighty figure. If you have been doing it yourself, what haven't you been doing in that time and what have you had to put off? It has been suggested that 39% of companies spend up to four hours per week chasing debt - how much is that in terms of your team?

INDIRECT COSTS

Indirect costs are those which are far more difficult to quantify. Have you had to find alternative funds to 'tide you over', either from an overdraft or a loan? Many small business owners will bolster their companies with their own personal funds or, perhaps, by taking a smaller salary in a difficult month.

The older a debt is, the more it will cost you to recover and the harder it will be. Many businesses will accept a lower payment as a settlement because getting some money in is perceived to be better than no money at all. This will immediately cut (or potentially obliterate) your profit margin for that invoice.

The obvious tactic, which is employed by numerous businesses in all sectors, is to delay payments to suppliers. As many as 32% of businesses pass the misery down the chain by paying their suppliers late. This is obviously not something we would advocate and it can have quite dire consequences. If you get a reputation for late payment you may find it increasingly difficult to find suppliers, or have to pay upfront on pro-forma invoices, so you

won't get the benefit of delivering your service before you have to pay out to your suppliers. You may find companies which use robust credit control will put footprints for late payment on your business credit score, making it difficult to find alternative suppliers.

Suppliers can add late payment charges and interest to your unpaid invoices, under late payment of commercial debt legislation, not to mention debt recovery agency fees. Bank charges may also be payable if you do not have sufficient funds to satisfy direct debits or to honour cheques when presented.

All these 'hidden' costs can increase the chances of your business getting a poor credit score and leave you struggling to get acceptable terms from your suppliers.

If you have a significant number of late payers it is difficult to manage cash flow and, in particular, to make cash flow forecasts because you do not know when the funds will be available to use. You can't use that money to pay wages, buy equipment, fund expansion or even pay yourself a salary.

Do you include all these costs when considering how much your credit control process costs you?

Then ask, is it the most cost effective way of chasing late payments?

THE END GAME

Without wishing to be unnecessarily pessimistic it is possible, in extreme cases, that late payers can cause your business to fail. It could be your business, your personal relationships or even your health that suffer. Research has shown that late payments are a primary or major cause of 23% of insolvencies amongst UK companies.

GET A GRIP!

You may well be one of those small businesses which either through luck or very good management do not face this problem. You have enough money in the bank each month to pay your wages and other bills. However, this provides you with a buffer to allow you to examine your processes and procedures to see how you can improve on that performance. Perhaps you could get money in even faster, or develop a more reliable credit control process providing the money for that new piece of equipment you need, or a new member of staff.

Watching the bottom line and acting quickly to recover late payments is the best way for businesses to survive. Add up the full cost of your credit control process and remember - you can always turn to the experts for help.

IF YOU WOULD LIKE MORE INFORMATION OR HAVE ANY QUERIES RELATED TO DEBT ISSUES, PLEASE CONTACT ME ON 0800 440 2358 OR EMAIL DMYNOTT@TDRB.CO.UK.

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