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Tougher on debts

BUSINESSES aren't as confident as consumers about the new economic conditions, with many taking a tougher attitude to recouping debts, according to debt collection agency **Prushka**.

Prushka CEO Roger Mendelson said his agency has seen an 80 per cent increase to March 2010 in new clients wanting to recover debts, compared to the corresponding quarter in 2009.

As well, he said, 59 per cent of **Prushka** debt collection staff reported an increase in the number of payment instalment arrangements being set up in the three months to March 31, 2010.

"The experience of the last two years has not been forgotten, with the number of instalment arrangements in place indicating creditors have prioritised recouping new and old debts," he said.



persistently delinquent payer.

Implement an efficient accounts receivables process that stipulates when you expect payment.

A signed contract should spell out what you will provide and when; what the customer must pay and when; how disputes are to be settled; and the penalties for late payment.

Invoices should be issued promptly if you want to get paid promptly.

Have a robust process in place to track accounts receivable, including monitoring invoices as they head towards the end of the standard 30-day payment term.

Start the collection process the day after the bill comes due: The longer a debt remains outstanding the less likely it is to be paid, D&B says.

Once over the deadline, SMEs are advised to gradually escalate pressure rather than crashing through customers' doors on day 31 just in case a bill is genuinely lost or overlooked.

Allow for individual circumstances such as a case where a customer experiences a short-term problem or they have a valid reason for non-payment.

You'll have to decide if it is worth your while extending the customer's credit terms.

But if this becomes a persistent problem, D&B advises that the best option is to end the credit agreement. The extension of credit on overdue accounts should cease, although it is tough to do, particularly if an SME deals with big business.

In some cases, you may decide to outsource debt management to professionals such as D&B, which is a credit reporting agency, debt collectors such as Prushka, or debtor financiers such as Oxford Funding or Bibby Financial.

Prushka's chief executive, Roger

Time is money

- The number of businesses that can no longer pay their bills is falling but not disappearing.
- The longer a debt remains outstanding the less likely it is to be paid.
- Have a cash flow management system in place that can alert you to any worrying trends.
- Invoices should be issued promptly to get paid promptly.

Mendelson, says more businesses are paying attention to effective credit and collection functions based on a significant increase in new clients since January.

"We are currently more than 35 per cent up on our annual average," he says.

Debt referrals increased by more than 50 per cent this January and February.

"Eighteen months of recession talk has resulted in businesses becoming more hard-headed and focusing on cash rather than growth," observes Mendelson.

Another trend he has seen is more clients requesting a solicitor review their trading terms. "Many businesses, if not most, have quite inadequate trading terms."

For many SMEs that cannot squeeze outstanding payments out of their customers in time, one growing and attractive option is invoice financing where businesses can convert between 70 per cent to 85 per cent of the value of their invoices into cash almost immediately, instead of waiting until the invoice is paid.

The remaining percentage is

returned on payment of the invoice, less a fee.

If the invoices are late being paid, the financier can chase up the debt, although the original creditor may elect to undertake that task.

Oxford Funding's chief executive, Rob Lamers, says invoice discounting and factoring products increased as more businesses outsourced their debtor collections because of the knock-on affects of the global financial crisis.

The global financial crisis affected the cash flow of many SMEs last year, stretching out debt payment terms even further, he says.

"Our sales have grown by an average of 20 per cent per annum in recent years," Lamers says.

After experiencing growth of 24 per cent in 2009, Bibby Financial Services expects demand for invoice financing to grow by about 20 per cent this year as small businesses seek better ways to manage cash flow and more flexible business finance arrangements.

According to NAB's *Monthly Business Survey and Economic Outlook* in January, expected GDP growth for 2010 was 3 per cent and unemployment was expected to fall by 4.75 per cent by end 2010 and 4.25 per cent by the end of 2011.

Official cash rates increased to 4 per cent in March and may rise in May, June, August and November with a peak of 5.5 per cent in mid 2011.

Despite the improving economy, financiers warn that pressures remain on cash as interest rates increase, insolvency appointments rise and average trade payment times deteriorate, making it more important than ever before to have effective cash management systems in place.

