

6 Ways to Improve Your Cashflow

A healthy cash flow is vital for your business's survival. But, one of the biggest threats to your cash flow is the customer who always pays late.

For a free report on strategies you can take to protect yourself from this threat, just email us at pm@parfreymurphy.ie

What's certain is that for every day a customer delays payment, your profit margin diminishes.

The following will help to make sure both you and your business get paid on time.

1. **Establish your credit policy**

Every business needs a clear credit policy. Make sure you have a credit and collections policy that everybody within your business, and your customers, are familiar with.

2. **Existing customers**

Make sure that your customer is quickly made aware of any overdue invoices. You may wish to highlight this on their monthly statement, if appropriate.

Re-check the creditworthiness of any customer who continues to withhold payment, and consider withholding further supplies or services until payment is made. If the customer appears to be going through financial difficulties, try to discuss things with them in an understanding way and see if there are any acceptable arrangements that can be made.

If there's a change of ownership in any of your customers, reassess their creditworthiness.

3. **Have the right attitude**

Don't be embarrassed about discussing money. Remember, if you've kept to your part of the deal, you have the right to be paid. Reflect this in your attitude. Be polite, but firm.

Be aware that you are competing for payment with your customers' other suppliers. You are more likely to get paid on time if you establish a relationship with the person responsible for payment, and if your procedures are carefully designed and properly enforced.

4. **Keep clear documentation**

One of the main reasons for late payment is incorrect documentation. Make sure you send accurate invoices/statements to the right person, at the right time. Include the customer's order number.

Send out invoices and statements quickly. If you don't do this, you can't expect to get paid on time.

Make sure your credit terms and the actual date payment is due, are shown clearly on all relevant documentation - such as quotations, order acknowledgements, invoices and statements. Make sure that the address to which payments are to be made is also clearly stated.

Ensure that any disputes or queries are dealt with immediately.

5. Collect your money on time

Set a timetable for your collections routine and stick to it.

Keep clear records including a record of all telephone conversations. Whether or not you have a computerised system, ensure that you can organise your "Aged Debtors" list to show the largest debts first.

Give priority to your largest accounts. Do so by means of a personal visit, by telephone or by fax.

Even small amounts should be chased by telephone whenever possible. If not, then use a programme of letters.

Keep a follow-up system. If a promised cheque fails to arrive, chase it again straight away.

Tell the person who ordered the goods in the first place about the delay. They may be unaware of the problem and may be able to accelerate payment.

If all your efforts to obtain payments fail, don't delay. Ask a reputable debt collection agency or a solicitor who specialises in debt collection to collect the money for you.

Many small businesses feel at a disadvantage when they are particularly dependent on one or two main customers. This is, however, all the more reason to ensure that you follow a clear credit and collections policy.

Use your customer's need for further supplies of your product as a way to obtain payment. In such circumstances, don't be afraid to discontinue supplies to non-payers

6. **New customers**

Don't be embarrassed about discussing payment terms with your customers. Agree the terms in advance, as part of their contract. Make sure your customer understands that the price of your goods or services is linked to the credit terms you have offered.

Be specific about your payment terms. "Our credit is 30 days," is not enough. It's better to specify, for example, "Our credit terms are 30 days from the date our goods are dispatched".

Ask new customers to complete a Credit Application Form, and get them to sign it - agreeing to your terms and conditions of sale. This must include your payment terms.

Consider checking your customer's ability to pay before you offer them credit. The larger the deal, the more checks you should make. There are various sources of information available, including:

- A bank reference (with your customer's permission).
- Trade references.
- A report from a credit rating agency.
- Information from your employees, local press, trade association or Chamber of Commerce.
- Your customer's latest audited / management accounts.

If you have time, and it is practical, visit new customers. Assess their operation and establish a relationship.

Ask your customer for the name of the person who will be responsible for paying your invoices.

When you are satisfied that you have taken all the necessary steps to ensure your customer is reliable, you are ready to sell on the terms agreed.

Keep a close eye on new customers. Make sure they establish good payment habits from the beginning.

Free Report

For a free report on protection strategies you can implement to protect yourself from late payments just email us at pm@parfreymurphy.ie

Call Now

To see how we can help you to improve your business' cashflow and profitability why not call Seamus Parfrey today on **021 431 0266**.

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