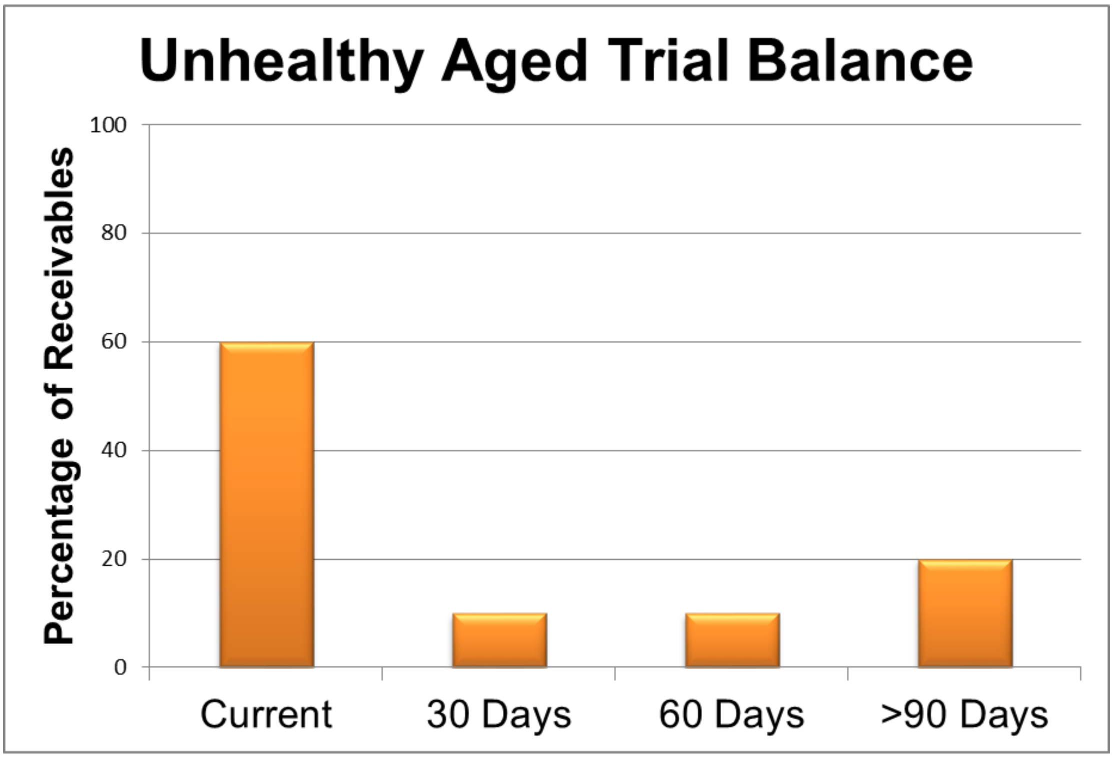
Returning more cash to the business sooner

Top Gear presenter Jeremy Clarkson makes a good point. He argues that it's not driving fast that kills you; it's suddenly stopping.

Credit Managers understand Clarkson's point of view. They know that a business can have all the sales growth, market share and profitability in the world, but if it runs out of cash, it's in real trouble.

At Credit Consultants, we're often engaged by businesses that look healthy on the surface, but their Aged Trial Balance tells us they are not in such good shape after all.

We find too many businesses have more cash tied up in receivables than is desirable. In the ATB chart below—typical of many we see—40% of receivables are overdue.



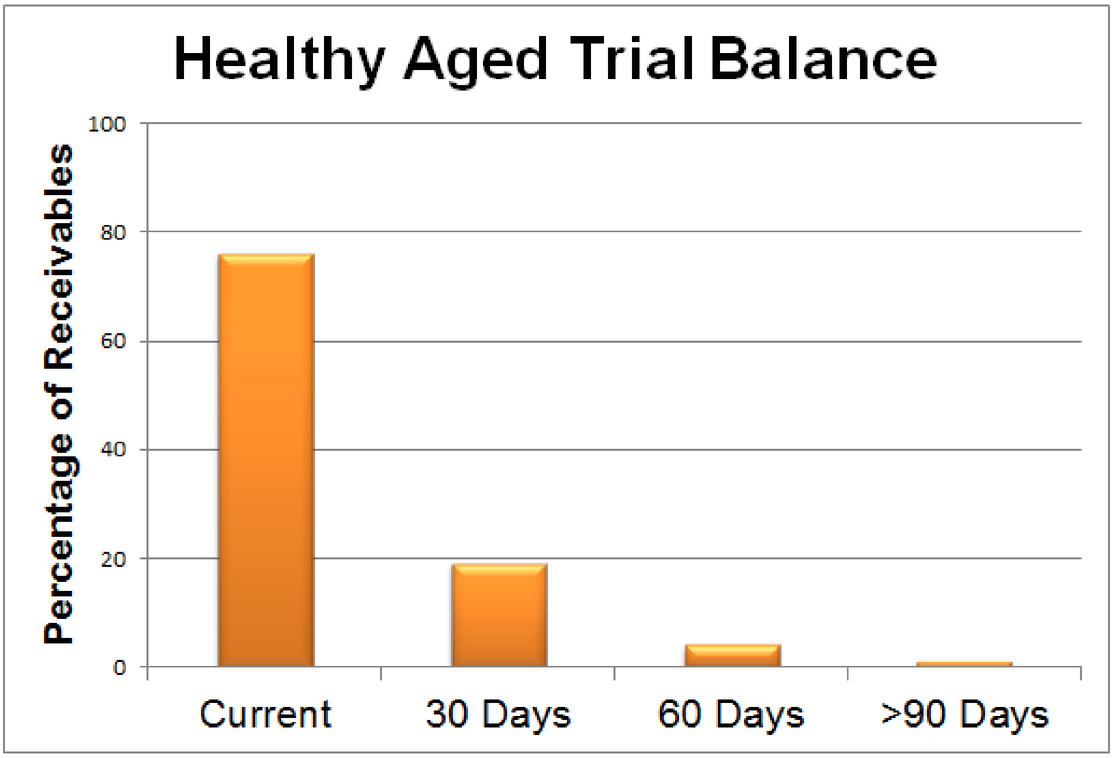
That's a lot of cash that could be put to better use:

- Invested in marketing and sales
- Invested in product development
- Invested in people
- Invested in technology

Because managing cash flow isn't as sexy as driving fast, credit managers often experience difficulty being heard, especially when a company is growing rapidly. There is pressure from Sales, for example, to 'lighten up' on credit policies, or not enough priority is given to systems improvements that would streamline the collections process.

Eventually, of course, the board or the senior management do notice the bulge in the 90 days column. A warning light goes on and suddenly the credit manager feels the heat to "get tough on debt collection".

But the solution is not that simple. Debt collection is a big part of our business at Credit Consultants. No one knows better than us, therefore, that the best way to improve the numbers in the 90 days column is to prevent them being there in the first place. In our experience, once a debt goes past 30 days, it generally stays there and so the earlier the intervention, the better the outcome…



In this illustration of a healthy business, the amount in the 60 days column is just a third of what it was for the unhealthy business and the amount in 90 days column just a fifth. That's a lot of cash.

What's more, businesses with healthy cash flows can generally service more customers and probably generate more sales. Frequently, when we ask clients' customers for the money, it emerges that they are withholding payment as a form of protest. No surprise, then, that the sooner their problem is resolved:

- The greater the likelihood that the money will be collected at all
- The lower the cost of collecting that money
- The greater the chance that they will remain a customer
- The fewer other people they will have told of their bad experience

Successful Credit Managers return more cash to their business sooner and lower the cost of doing so. At Credit Consultants we help them achieve those outcomes by:

- Bringing an external view. Helping you demonstrate to senior management the opportunities that exist within the business to enhance cash flow without inhibiting growth
- Helping you find ways to improve your internal credit management processes. Our experience equips us to highlight opportunities to make your processes more robust.
- Helping improve the effectiveness of your people by providing expert staff training.
- Providing outsourced, cost-effective early intervention solutions
- Helping you reduce the number of debtors reaching the 90 days column and so reduce the direct and indirect costs of debt collection.

Jeremy Clarkson would be delighted. Not only do businesses with better credit management significantly reduce their risk of stopping suddenly, they become healthier, more agile… and able to go even faster.