



THE CREDIT DEPARTMENT, INC.
SMART BUSINESS. STRATEGIC VALUE.

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“Improving cash flow and earnings through strategic credit management.”

Cash-flow Solutions for Small Businesses

Small companies don't need to suffer the burden of diminishing cash-flow. They do, however, have unique challenges in managing their accounts receivable portfolio.

Cash is more critical now than ever for both you and your customers. They will be stretching their payables and transferring the burden of cash-flow management to their vendors. Small businesses don't always have the leverage to hold their customers to credit terms by restricting orders, so they must use alternative methods to improve their cash-flow problems.

What can small businesses do to solve the problem? Take these steps now to ensure your receivables are turned quickly and risks minimized.

- **Communicate with customers up front.** You need to clarify and get agreement on terms BEFORE the sale. If the customer has no intention of paying you within terms and/or won't agree to sign an agreement to your terms, then find out before you set pricing or any other agreements into place.
- **Price for payment delays/risk.** If you know before the deal is set that you won't be getting paid within your standard terms, you must price your product or service to allow for this cost. If it costs you 6% per year in interest to borrow funds, add the 1/2% onto your pricing strategy if the customer tells you he'll pay you in 60 days vs. your standard 30 days.
- **Negotiate, Negotiate, Negotiate.** Find out the channels within your customers to get into the "exceptions" list. Every company has a list of "exceptions to the terms" rule. Find out how you can

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circumvent these policies to get you paid faster. If the company outright refuses to make an exception to pay you on time, go back to 2).

- **Ensure you have updated credit risk evaluations on customers paying you slowly.** You must make absolutely sure that the customer is financially fit and that their own financial difficulties aren't causing slow payments. Pricing for risk of **slow** payments shouldn't turn into risk of **non-payments** without knowing the difference. Risks like these can happen quickly if you aren't fully aware of the latest solvency risk of your customer.

If these aren't working for you, try using leverage to hold orders until current.

If you can afford to use this type of leverage without losing customer sales, tell them you can't continue to ship product or provide service without prompt payments.

Strictly adhering to your terms sends the message that you don't tolerate late payments. Make sure you use the good news/bad news approach: "We have an order we'd like to process for you right away, but we need payment on the past due invoices.....".

This approach will set the tone for a positive conversation to get you paid and to minimize your cash-flow challenges.

For more information on improving your cash-flow management e-mail us at info@tcd.com or phone us at 800-451-0164.

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