

## Hanging Onto Cash



It is an established fact that some companies hang onto their cash and take longer than others to pay their debts. Often the culprits may only owe you relatively small amounts, or it may be that it's the same group of customers each month. Occasionally it may be that larger sums remain unpaid for some inexplicable reason.

Unfortunately delaying payments has today become, for many businesses, a financial necessity. For others it plays an important part in their financial strategy. After all, it is the one and only source of financing available that attracts no interest charges.

However, in the vast majority of cases, they are simply people delaying payment for as long as they legitimately can. Whilst bad debt does exist, and is inherent in the risk of providing credit facilities, the instance in most companies is of a very limited nature.

In most companies 80% of customers present very little difficulty in obtaining payments within, more or less, the agreed terms. The remaining 20%, usually representing the smaller to medium value accounts that you deal with perhaps on a less regular basis, are the ones that involve the greatest activity. It is in this area when having taken into account the additional costs of financing and collection, that profit margins are eroded away very quickly.

In general the majority of debtors who delay payments do so for one of two reasons: It may be that they have insufficient funds to pay all their creditors; alternatively, they may have a policy that specifically dictates that payments are not made until the very last possible minute.

In the case of the former, all manner of excuses and reasons are employed to disguise the fact that their financial base is not as sound as they would have you believe. More often than not, they pay their creditors on the simple premise that he who shouts loudest gets paid soonest.

On the other hand, debtors these days who have sufficient funding very often make little or no excuse for non-payment. They, in many cases, simply ignore the creditors' requests, relying on either their own perceived importance as a customer, or the costs involved in both time and money to inhibit the creditor taking remedial action.

With very few exceptions the vast majority of customers you know will eventually pay you. Each one that is overdue, for which no genuine reason exists for non-payment, understands that at some point your applications for payment must be honoured. All expect you to invoke some method of collection against them just as you would expect it from them, if you were ever in a similar position with any of your own creditors.

The methods you employ and the actions you take against a debtor must reflect their value to you as a customer. They must be based unemotionally, upon profitability and the risk factor involved in allowing extended credit over your normal trading terms or reasonable expectations.

- Delaying payments financial necessity for some companies
- For others inherent part of financial strategy
- Only source of borrowing that initially attracts no interest

[www.crmc.co.uk/march\\_2006.pdf](http://www.crmc.co.uk/march_2006.pdf)

Credit Management Research Centre – Leeds University  
The Cost of Bad Debt to UK Firms.