

Squash the bad-debt bugbear

A single non-payment experience is enough to send some small businesses to the wall. Here are a few strategies to help avoid defaulters and slow payers, writes **Gayle Bryant**.

The director of the Sydney start-up printing business Genii, Marcus Smith, says his business is tracking very well but he would place bad debtors among the top three risks it faces.

“My previous experience working within a large print business showed me that it can be incredibly difficult to get the credit decision right and, when faced with bad debtors, very difficult to recover funds,” he says. “You can refer to a debt-collection agency, which charges high percentages to recover the debt, or you can

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Colin Porter, CreditorWatch

threaten legal action, which is very expensive and often ineffectual. After that, your options are limited and protracted.”

The director of marketing and corporate affairs for the credit-reporting agency Dun & Bradstreet, Damian Karmelich, says the first step a company should take to guard against bad debts is run a credit check of new customers.

That will show the business at least two things. “One, it will show them whether they are able to pay but, two, it will also show whether they have a history of paying,” Karmelich says.

“Where businesses often fall down is that they are unaware a customer typically doesn’t pay for 90 days and if they are relying on early payment, it can get them into trouble.”

Businesses should also be getting the basics right, Karmelich says.

“We did a survey on why businesses weren’t being paid and found that often there was something wrong with the invoice – for example, it had the wrong purchase order number,” he says.

“To avoid this happening you need to follow up quickly by calling the company a couple of days after you’ve sent an invoice to see if they’ve received it and if there is any problem with it.”

Karmelich says if you wait to call until the bill is overdue and find there is a problem, this further delays the process. He adds you should also not let a bill become excessively overdue.

“The longer the debt is overdue, the harder it is to get paid,” he says. “And if you need professional help, get it.”

Another step to avoiding bad debtors is via the CreditorWatch website. It was set up by Colin Porter, who was tired of chasing bad debtors in a previous business. CreditorWatch is an online community of Australian businesses who share information about bad debtors in order to make better credit decisions.

“Our platform allows you to report bad debtors and to receive alerts when the businesses you deal with, or are planning to deal with, are reported by CreditorWatch members,” Porter says.

Users view the default history registered against the businesses they deal with and can get access to a credit report on any business in Australia. Porter says at the begin-

ning of a relationship it is fundamental to do good background checks on customers, which includes setting up agreements that stipulate payment terms.

He says large corporations are very specific about what happens if payment is not received and small and medium enterprises (SMEs) should follow suit.

“There are signs to watch out for,” he says. “You should monitor any changes in payment and question if a customer starts to pay late regularly. Provide an extension if it’s needed but always remind them what will happen if bills aren’t paid.”

Porter says SMEs need to be a “squeaky wheel”.

“It is not a negative to enforce credit terms; SMEs work hard but it’s almost a dirty word to ask for money,” he says. “What’s the point of doing the work if you aren’t going to get paid?”

Genii’s Marcus Smith is registered with the CreditorWatch website and says it has already paid off.

When he set up the company, he says it was clear additional tools were needed to analyse clients before extending them credit and to help recover debt from slow payers.

“CreditorWatch has become a crucial tool in our commercial decision making,” he says.

“We were close to taking on a \$20,000 job when CreditorWatch flagged that the client had a suspicious payment record and in the end we declined the work. We heard later that client never did pay the print bill, which would have seriously damaged the cash flow of our business.”