

Article

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Surviving turbulent times: Protecting assets from bad debtors

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Hit hard by the global economic tsunami, Australian businesses face the growing issue of slowing sales and even slower paying customers. Reports that the nation's companies and governments are the fifth worst in the region in settling their accounts have reinforced the need for careful management of debtors to avoid losses in the event of customer insolvency.

From first-hand experience of the last recession of the early 1990s, businesses need to start reviewing their customer accounts now, before the worst case scenario eventuates.

It's a warning worth heeding following a disturbing survey by Dun & Bradstreet, which found Australian companies and governments lag behind countries such as India and Indonesia in paying their bills.

The December 2008 quarterly survey of trade payments analysis showed 31 per cent of accounts were being paid at 30 days or longer. Australian businesses took an average of 56.5 days to pay their accounts, governments took 57.1 days and big business was the worst at 61.5 days. Those providing services to customers in the electric, gas and sanitary services industries faced even longer payment delays, with an average of 63.5 days.

These delays are placing daily pressures on cash flow, particularly for small businesses, whose sales are declining in the current economic climate. With so many small businesses struggling to find cash to pay all their accounts, invariably some customers will not pay and businesses will be faced with limited options for recovery of their overdue accounts.

These options include:

1. Stopping or limiting credit for key customers;
2. Referring debts to a collection agency; and/or
3. Spending thousands of dollars on legal fees in applying for the customer's liquidation.

Many of the above options can be unpalatable and have the potential to damage a company's relationship with its customers. But when faced with a choice between business survival or continuing to supply goods to a customer with a poor payment history, many business owners need to be selfish and put the interests of their own businesses, families and employees first.

One of the ways of protecting against customer failure is inserting a retention of title clause in the supply agreement.

The absence of a simple retention of title clause in many supply arrangements has resulted in numerous suppliers losing tens of thousands of dollars of inventory on the liquidation of their customer. If a supplier is able to at least recover their goods in the event of insolvency, they can at least resell the stock to another customer, thereby minimising their losses.

But even with retention of title clauses, other problems may arise when suppliers attempt to recover their goods. These can include a lack of signed purchase orders or credit applications, incorrect company details or guarantor details, and failure to adequately identify goods.

Missing any one, or more, of these critical issues, can mean the difference between recovering valuable goods and money and losing everything.

BDO Kendalls' Business Recovery and Insolvency team provides clients with a simple audit checklist for assessing customer accounts, trading terms and documentation, with the aim of ensuring they have the best possible protection in the event of customer failure.

In addition to reviewing customers' credit applications and trading terms, debtor insurance is another possible form of protection.

Debtor insurance provides a quick, simple and effective way to ensure payment in the event of default – particularly worthwhile in the current environment of rising insolvencies.

Checklist

1. Do you have a signed credit application?
2. Are all the customer details current and correct?
3. Do your invoices and credit applications include retention of title clauses?
4. Are your goods clearly marked with your company name and a serial number?
5. Is your customer outside their seven, 14 or 30 day account trading terms?
6. Is your customer above their credit limit?
7. Is your customer delaying payment of their account?
8. Do you have debtor insurance?

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