



Debtors' Days Outstanding "Silent Killer of Modern Business"

Australia is lagging the rest of the world in terms of late payments described as the “*silent killer of modern business*” by the Australian government’s Small Business Ombudsman, Kate Carnell late last year. ([Australian Financial Review Article](#))

An international study of 30,000 invoices from 80 countries undertaken by UK-based “Market Invoice” found that Australian businesses were being paid 26.4 days later than the traditional payment period, far later than the next latest country, Mexico with 18.6 days or South Africa with 16.5 days late.

Based on the traditional 30-day payment terms, this means that Australian small businesses are being paid on an average of 56.4 days.

Ms Carnell said that “*In Australia more and more small businesses are falling victim to the unscrupulous payment practices of some big businesses – and even government departments – that are quite frankly a drag on productivity*”.

The Small Business Ombudsman’s office has indicated that “90% of small business failures are due to poor cashflow. Small businesses are owed \$26 billion in unpaid invoices and the average owed for each small business at any one time is \$13,200.

If you were able to deduct the “cash only businesses” from the total of small businesses than the average debtors' balance for each small business would be significantly higher than \$13,200.

“*Chasing overdue payments causes stress and anxiety; it’s a waste of time and it fundamentally stymies growth by forcing the business to focus on surviving rather than thriving*” Ms Carnell said. “*If small to medium size businesses start falling off a cliff, economic conditions in Australia will certainly follow; so it’s incumbent on big businesses and governments to follow best practice and pay their bills on time*”.

Whilst the report from the Small Business Ombudsman identified that some big businesses and some government departments are slow payers, there is another significant reason for the high debtors' days outstanding in Australia and that is that many small medium enterprises have not instigated [an appropriate debtors' system in their businesses](#).

This is where accountants and advisers come in!

For about a one-day consultation (fee around \$2,000 plus GST) accountants/advisers could conduct a detailed review of the effectiveness of a small/medium enterprises Debtors' Management System. We expect that this would make a significant contribution to the reduction in debtors' days outstanding.

For a business with credit sales of \$1 million per annum; this equates to average daily credit sales of \$2,739. If that business had debtors representing 56.4 days outstanding; this would mean that \$154,520 was owed by debtors.

If, through improved management processes resulting from the establishment of a proper Debtors' System, debtors' days outstanding could be improved by 10 days this would generate a cashflow benefit of \$27,390.

In the various surveys of small business conducted over the last 15 years, "cashflow management" is one of the key areas identified as one of the key areas with which small business operators would like more assistance from their accountants/advisors.

I expect that the majority of small/medium enterprises will welcome their accountants/advisors' commitment to assisting them to improve their cashflow by reducing debtors' days outstanding and would welcome the debtors' management review.

The key areas to be reviewed in a Debtors' System Due Diligence Review include:

- procedure for "opening debtors' accounts".
- implementing procedures so that the SME has undertaken an appropriate "risk analysis" on the new customer before the sale is made, not after.
- issuing a "new customer letter" including "terms of trade agreement" and "retention of title agreement" for signature by the new customer.
- implementing systems to follow-up the new customer to ensure that the "signed terms of trade agreement" and "retention of title agreements" are received back from the new customer.
- implementation of appropriate systems for the registration of a customer on the "Personal Property Securities Register" (this will assist in the small/medium enterprise being able to reject liquidators' preferential payment claims).
- review of the system to ensure that "tax invoices" are being prepared and dispatched promptly.
- review of debtors' monitoring procedures, including the use of "[digital monitoring](#)" to improve "debtors' days outstanding".
- system to show the client's team how to calculate debtors' days outstanding so that your client is regularly monitoring this key figure.
- guidance on how to implement "debtors' reduction strategies".
- assistance with the establishment of ongoing staff training relative to the debtors' system.

You will also be able to discuss with your client the desirability of the establishment of a Customised Debtors Systems' Manual for their business.

ESS BIZTOOLS has developed a Debtors' Management Package to assist accountants/advisors to undertake a detailed review of a client's Credit Sales/Debtors' System with the aim being to implement systems which will contribute to the reduction in debtors' days outstanding and improve the businesses cashflow.

Accountants/advisors do have a very important role to assist Australian small businesses to remove the indignity of having the highest level of debtors' days outstanding in the World.

This indignity is truly the "Silent Killer" of small business.

You can gain access to the Debtors' Management Package in one of three convenient ways:

- ESS BIZTOOLS Gold package subscription whereby you gain access to all of the products produced by ESS BIZTOOLS. Please [click here](#).
- ESS BASIP - you can access the Debtors Management Package as a standalone product please [click here](#).
- ESS BASIP – Smart Start Package comprising:
 - Business Advisory Services Introduction Training Package ([Click Here](#))
 - Debtors' Management Package ([Click Here](#))
 - Chief Financial Officer Services Package ([Click Here](#))
 - SME Debtors System Manual Package ([Click Here](#))
 - Business Advisory Services Mentoring Session ([Click here](#))

Smart Start Package - Information Webinar. Register now for this step-by-step webinar guide to help your firm start, or continue, on the business advisory services' journey on **Tuesday 28th February 2017** at 1pm (AEDT); 12-noon (AEST); 12.30pm (ACDT); 11.30am (ACST) or 10am (AWST). To register to participate in this **FREE** webinar, please ([Click here](#)).

If you have any questions you would like discussed during the webinar, please send us an email on peter@essbiztools.com.au.

If you have any questions on any aspect of our Debtors' Management products or any other products or services offered by ESS BIZTOOLS please do not hesitate to contact us at peter@essbiztools.com.au or telephone 1800 232 088.

Have a wonderful day.

Peter Towers

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