

RELATIONSHIPS

DEBTORS AND CREDITORS

Psychology of Debt Administration.

Never apologise to your customers for requiring debts to be paid. Never allow your dependence upon a particular client's business to cause you to back away from requiring payment on time. Allowing accounts to balloon means that you become an indirect financier of customers' businesses. In turn this means that you borrow more, assuming you cannot finance the debt out of cash, and the customers borrow less until one day your banker says to you, "That's it, there is no more." At this point of time you are in trouble. You are indirectly encouraging customers to take on an ever-increasing debt load. One day they may be unable to pay you or any of their other creditors. The customers (debtors) do not come to realise that you are not going to push for your money nor are you dependent upon their patronage. In either situation debtors are in a psychologically stronger position in the relationship than is the creditor. If you have an arrangement or make a demand for payment which is not met, then you should take action immediately and stop supply. In this way, debtors will respect you and understand that any financial obligations to you have to

be honoured. The debtors will be conditioned to know that yours is one account that must be paid otherwise no more credit will be given.

Any customers who do not pay on time are unworthy customers in which case you would be much better off if you severed relationships and spent your time more productively finding replacement customers.

If you cannot immediately find replacements, then you may be well advised to gear your operation down to a size commensurate with the customer base which you have. You may be surprised to find how profitable a smaller operation can be.

REMEMBER ALWAYS THAT THERE IS NO COMMERCIAL SENSE IN PRODUCING PRODUCTS for OR PROVIDING SERVICES to a customer unless you are paid. IT IS ALWAYS CHEAPER TO PRODUCE NOTHING because you have not had to pay for raw materials or labour involved, than to produce goods and services and not be paid.

THE CUSTOMER (DEBTOR)

When a business supplies goods to a customer a contract is entered into whereby the customer agrees to pay an agreed price for the said goods on

or before a certain date. If the time for payment is not stipulated, there would be an implied condition of the contract that the time allowed would be reasonable.

If a customer is given time to pay the debt due under the contract, the debt only becomes due for payment when the time given has expired. This simply means that a creditor cannot sue for the money until the debt becomes due for payment.

THE SUPPLIER (CREDITOR)

This is an important relationship although its importance is not apparent to many. Of the supplier creditors, there are those whose supplies are essential to the operation of the business and those whose supplies are only incidental. Of those suppliers of essentials, there are those whose goods or services cannot be obtained from alternate sources. To lose any of them would be devastating. This situation could arise if the supplier were taken over by a competitor, had gone out of business, or more importantly had severed relationships with the company (debtor).

Any relationship with a creditor is important, because it is a part of the network of commercial relationships and a breakdown in one can lead to a breakdown in the network.

The length and quality of the relationship of your business with a supplier

is important, especially if you need an extension of credit for say 30 or 60 days, or even extended to 90 days, to see you through a difficult time or a growth phase. Without that credit limit you would be financing those purchases through the bank and paying dearly for the privilege.

It is therefore important that the businessman understands and respects the relationship and pays accounts on time as a breakdown in the relationship is not likely to be in the best interests of the business. Furthermore, if and when it becomes necessary to ask for some indulgence in times of business difficulty, a supplier creditor no doubt will be guided by the quality of the past relationship.

THE LANDLORD

The relationship between the proprietor and the landlord arises out of a contract which is usually in the form of a lease. It is desirable to try and negotiate a short-term lease with a number of options for renewal rather than a long one. So that if the business runs into difficulties, it is able to review its accommodation options. Obviously, it is more difficult to negotiate in boom times when there is a strong demand for accommodation.

If the premises are highly relevant to the business, then you should consider what happens at the end of the lease. Is the landlord in any way likely to operate a similar business out of the premises in order to take advantage of your good will?

The landlord normally investigates your credentials as a tenant. It is important too that you find out about the landlord and be satisfied that he/she is the type of person whom you would like to be associated with in a business relationship.

PROFESSIONAL ADVISERS

All too often the professional advisers are avoided, possibly because of an apprehension that the costs of their services will be high.

Relatively speaking, it is much cheaper to obtain advice of the preventative kind sooner rather than later. It is when the professionals are called in for remedial advice that the expense can be felt. It is important that a relationship of mutual trust and respect develops between yourself and the advisory professionals you have chosen. They should be encouraged to know the business well and to become a part of the business team.

The accountant, through regular discussion, can give meaning, reality and understanding to the monthly figures of the business. Whilst it will be unnecessary to involve solicitors on a regular basis, they should be at least acquainted with your major business dealings. If at some later time a problem arises, the solicitor has background knowledge and understanding of your business and this will be reflected in the cost of the service to you. The solicitor, who faces the same problem without any depth of understanding of your business, must of necessity spend costly time learning and understanding it.