Financial training
For non financial staff

ATTAINMENT TRAINING

The financial training specialists

Debt collection (1) (cashflow)

This story begins a short series about debt collection. Put yourself in the position of the directors as you read it.

It was an engineering company, the two directors had built it up from nothing over ten years. The directors were in their early sixties and looking forward to retirement.

They produced specialist castings for the aerospace business, and their biggest client was British Aerospace (this was back in the early 1990s). They employed about 50 people, and the business was doing nicely. Their main worry was the size of their biggest client – 75% of their business was with BAe, and that was a lot of eggs in one basket!

Then the interest rate went up. If you're old enough you'll remember the mortgage rate rising to around 15%. The business rate rose to about 20%. Every business responded by trying to reduce their overdraft: by putting pressure onto their customers to pay more quickly, and paying their suppliers more slowly.

Accordingly our company received a letter from BAe, saying they were increasing their standard credit terms with their suppliers from 90 days to 180 days. Our company had nearly £2m a year of business with BAe, and were only about £100,000 or so short of their own overdraft limit. The bank had made it clear that the overdraft limit would not be increased, and the letter from BAe implied "agree if you want to keep our business."

What would you do in the directors' position?