

## *Financial training For non financial staff*



*The financial training specialists*

### **Debt collection (2) (cashflow)**

“Revenue is vanity, profit is sanity, cash is reality”. So the saying goes. By revenue we mean sales, but it is pointless making sales if we don’t get paid for them.

So we can tell the sales team: “We don’t want you to make sales, we want to be paid for profitable sales.”

It’s only when we get paid that we realise the profit. If I buy something for £450, and sell it for £1,000, I’ve made £550 profit – haven’t I?

If I sell it, but don’t collect the cash, I’m £450 down – so I’m worse off than if I hadn’t made the sale in the first place. Once I collect the £1,000 then I have the £550 profit in the bank.

So how do we increase our chance of getting paid? First we negotiate the credit terms, then we enforce them.

We wouldn’t dream of making a sale without agreeing the price! So we must agree the payment terms as well. “But our standard terms are 30 days.” What if our customer’s standard payment terms for suppliers are 90 days? We send a quote (30 days), they place an order (90 days), we acknowledge the order (30 days), and they confirm (90 days). What credit terms have been agreed?

And the terms shown on our invoice or statement are least helpful – they are post contractual, unless they have been agreed first.

Next time we will look at some of the issues about enforcing the terms.