Can cash flow finance help credit managers get paid on time…

and why we should be raising a glass to it at the AICM National Conference?

By Ian Smallman*


Ian Smallman MICM

As we all know, cash flow is one of the most important features of the health of any business, but how many people are aware just how far the cash flow chain stretches?

While many may see it as a two way street between them and the clients due to pay invoices, as credit managers know it's a much more involved process. Depending on how extensive a company's supply chain is, cash and invoices will flow on to a number of businesses. If there's a blockage at one point and a company is paid late, this then influences how they pay their creditors and starts the domino effect of non-payment up the chain.

While the variables that determine when an invoice will be paid are many, there's a solution that can benefit most members of the supply chain – cash flow finance. In particular, credit managers can benefit if their slower paying clients take up these services. By encouraging their clients to consider this option, they can increase the likelihood of getting paid regularly, as the people that owe them money have access to finance based on their invoices.

Are businesses getting the most out of cash flow finance?

For some businesses and most credit managers, understanding the benefits of debtor finance will be nothing new, but many SME's in Australia aren't even aware that the product exists, whereas in the UK it's very much a mainstream banking product. Put simply, cash flow finance takes the guess work out of getting paid, so late-paying clients can't disrupt your own DSO's.

According to the Debtor and Invoice Finance Association (DIFA), using cash flow finance (invoice discounting or factoring) is a business strategy that is maintaining its popularity with companies throughout Australia. The organisation released figures revealing that there are about 4500 companies who use it around the country.

There's a significant amount of turnover tied up in the invoice factoring sector as well, with the industry peaking notably this time last year – food for thought heading into this year's silly season! DIFA revealed that quarterly turnover for the industry usually sat at around the $15 billion mark, rising to well over $17 billion for the December quarter. This is a notable increase on the numbers seen just five years ago, as more businesses warm to the benefits of invoice factoring.

What do credit managers need to know about cash flow finance?

To ensure their clients are aware of this finance option, credit managers should be aware of how invoice discounting, or factoring, works and how to benefit from it. In many cases, credit managers are paid late because their clients are chasing their own late-paying debtors, reinforcing the idea detailed above. Every late invoice has a flow on effect – unless that debtor is supported by cash flow finance. On top of this, as we all know, late payments can strain business relationships.

One of the other key benefits inherent in using a cash flow finance solution is the time savings from not having to chase clients. This adds to the stress for businesses that are trying to secure payments from clients so they can settle their own outstanding debts. They're chasing money while being chased themselves, whereas if credit managers can sell their clients on the advantages of having a cash flow finance provider, it can potentially save both parties a lot of time and stress.

The benefits of invoice factoring goes beyond cash flow

While it's great receiving the cash owed to your business on time, the advantages for cash flow finance goes beyond just the money in the bank, as cash flow finance providers can incorporate credit insurance into the facility. If your customers are using cash flow finance, and debtor insurance is built in, it protects them against their own unexpected bad debts.

Why raise a glass to cash flow finance at the AICM National Conference?

Cash flow finance is used in a broad range of business sectors including labour hire, manufacturing, wholesale trade, transport and storage, agriculture and mining, business services and construction. However one industry that is benefitting from it right now is the expanding boutique craft beer, cider, wine & spirits market, as Australians are looking for more premium quality products and producers have responded. The extended payment terms of the highly concentrated major liquor retailers in Australia and the requirement for prompt payment of excise duty leads to considerable cash flow problems for brewers, wine growers and liquor importers and many of them are turning to cash flow finance to assist their growth.

Why does the education process need to start with credit managers?

Credit managers are the most knowledgeable people in an organisation when it comes to determining business risk. One of their key jobs is to detect the likelihood of clients paying late or defaulting and how that could affect their company. Because of this, they typically won't be aware of all options to ensure their clients can pay their bills. In most cases, cash flow finance will create a more stable relationship between them and their clients, as both parties will have an easier time receiving the money owed to them by debtors. ◆

*Ian Smallman is National Sales Manager for Earlypay. Earlypay is part of the CML Group, an ASX listed provider of payroll finance and employment services.
www.earlypay.com.au