



white paper

Surviving the credit crunch

News reports regularly explain the “credit crunch” in terms of the US sub-prime mortgage sector, the plight of international banks and erratic behaviour of capital markets. But tightening economic conditions have a direct impact on small businesses. Loans and overdrafts are more difficult to negotiate, interest rates are higher and it gets harder and harder to get debtors to pay up.

This Sage whitepaper explains how equipping your business with suitable financial systems will help you cope not just with current financial difficulties, but for the years to come.

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How you can respond to the credit crunch

The most dramatic effect of the credit crunch is the increasing number of company failures, but credit specialist Atradius also points to a sharp rise in the number of firms delaying payments or seeking to extend their credit terms to three and four months, or more.

Businesses caught in the squeeze have a few simple things they can do to maintain a healthy financial condition:

- **Cut costs** - reductions can be sought in running costs and overheads, for example through better management of stock.
- **Reduce debtors and manage cash better** - many successful small businesses manage cash first, and then worry about profit. Taking a more systematic approach to debtors helps cash flow, reducing the need for bank overdrafts and loans. Monitoring how the cash position is changing compared to your plans and forecasts can alert you to problems before they get out of hand.
- **Review your processes** - are they as effective and economic as they could be?
- **Make time to chase debts** (many small businesses do not do this)

Sage has experience supporting hundreds of thousands of businesses with software and advice. The suggestions and checklists in this paper are based on techniques that have worked for other companies and are backed with features built directly into Sage accounting applications to help companies control their costs and cash flows.

Cost cutting tips

The easiest way to tighten your financial belt is to look at discretionary costs such as entertainment. Review your outgoings to find unnecessary costs and look at supplier contracts for opportunities to renegotiate.

If you are a stock-based business, a lot of your working capital can be tied up in stock. Take a disciplined approach to managing your stock. Being able to keep levels to a practical minimum will save you money. If cash is particularly tight, consider discounting the price of excess stock to reduce your holdings and generate cash. If you're a service based business, you may want to consider tracking your jobs and setting more accurate budgets etc.

How Sage 50 can help:

- **Invoice data** entered into the system will let you analyse costs and overheads to identify budget overruns and potential areas for savings.
- **An effective stock management module** to record receipts and issues, helping you maintain control over inventory.
- **Cash flow forecasts** can be built by drawing on data from previous financial years and year-to-date figures
- **Setting and reviewing budgets** - stock, sales, purchases, jobs
- **Project Costing**

Cash management tips

Cash is the lifeblood of any business and the likelihood is that slow payers will be undermining your profits.

In difficult times, it can be tempting to improve your cash situation by delaying your own payments. But this can be counter-productive. As well as straining your relations with suppliers, late payment can raise alarms about the health of your business. Some companies will become more reluctant to trade with you or will impose harsher terms and conditions if you are known as a late payer. It makes good business sense to know and comply with clearly defined credit policies - and you may be able to take advantage of preferential terms for good payers.

The principles of good credit control

The principles of credit management are simple, and applying them consistently will give your business solid financial foundations. Make it clear to your team that the company is in business to earn cash from customers; a sale is not complete until it is paid for. Tell customers your credit terms from the outset and rigorously enforce them applying them consistently through a regular routine.

- **Set clear credit terms and priorities.** A credit policy document should set out internal rules for handling sales and cash collection - it will help your team maintain good customer service levels. State your payment terms on each invoice and statement you send out.
- **Know your customers** - run credit checks and set appropriate limits. Your sales figures will improve if you focus on sound customers rather than chasing less well documented prospects. Identify and record the person in each customer's purchase ledger department who authorises payments. Even when someone has become a regular customer, monitor their payment habits
- **Invoice promptly and accurately.** Invoice within 24 hours of delivering the product or service. Make sure you're sending invoices to the correct financial person and include details of the sale and payable amount, payment terms and due date and customer order number or authorisation code. Ensure you have fulfilled your side of the transaction to avoid disputes.
- **Offer as many ways of getting paid as you can** - be clear who cheques must be paid out to and give your bank details to accept BACS payments. Card payments can be a convenient way to accept payments on the spot.
- **Be clear and confident** about what you expect to be paid and when you expect it. Contact customers before important bills are due to make sure payments will arrive when expected. Follow up immediately if payments do not arrive by the due date.
- **Resolve disputes/queries promptly**
- **Send statements regularly**
- **Step up pressure on late payers.** Explain what will happen if they do not pay and stick to your guns. The Late Payment of Commercial Debts (Interest) Act 1998 allows small businesses to charge interest on business debts - let customers know if you are going to use this right. Keep records of your conversations with reluctant payers; your notes could be useful evidence if you ultimately need to seek a county court judgment for an outstanding debt.

Cash management tips cont.

Credit control countdown

- Day 1** - Issue invoice
- Day 30** - Due date
- Day 35** - Overdue reminder
- Day 42** - Reminder letter
- Day 48** - Stop credit [credit stoplist - check]
- Day 54** - Final reminder
- Day 60** - Refer to collection agent
- Day 75** - Instruct solicitors

What next if a customer won't pay?

Collection agencies will take on the hassle of collecting payments for a percentage of the debt. There is an increasing variety of methods available for dealing with your debtor list besides the traditional debt collectors. Factoring turns your outstanding debts into a form of finance. You outsource your sales ledger, credit control and collection a specialist organisation that will advance you cash based on the amount to be collected. You can conduct your transactions with some factors over the internet and if you wish, some can appear to operate as a seamless part of your organisation.

How Sage 50 software can help:

Because credit management is a repetitive discipline that works best when clearly defined methods are followed, it is ideal for computerisation. Many of the key reports and procedures are built into the latest accounting software from Sage are designed to support efficient collection processes:

- **Up-to-date credit dashboards** detailing top debtors, deadlines, and follow-up tasks
- **Contact management database** of customer contacts, with facilities to record credit control actions and communications that have taken place on each account.
- **Credit control reports** - a host of tried and tested formats for scheduled reports, including: aged debtors; disputed items; time taken to pay sales invoices; overdue accounts; promised payments; customer credit limits and balances and summary reports for credit managers.
- **Electronic invoicing and payment.** The internet is now part of the credit controller's armoury and electronic remittance systems such as BACS can save time and money on paper, envelopes and postage. Sage 50's accounting and sales order processing modules can dispatch electronic invoices and generate BACS payment instructions for you.

Reporting and forecasting tips

As well as helping you to gain control of your cash situation, automating your accounts can help you by producing regular summaries of how you are doing financially. Comparing your current data to previous periods can highlight the progress you are making, or underlying problems that you need to address. Building forecasts based on these trends and figures is a good way to make your budgets and growth plans realistic.

- **For stock-based businesses**, good inventory control is essential. Stock management software will report the monetary value of the stock you hold and alert you to excessive stocks or where levels are dropping towards your minimum threshold.
- **Know your customers**: as well as keeping an eye on debtors, analyse your customers to identify the best ones by revenue, region and payment performance. Work hard to keep them happy, perhaps with preferential terms or special offers. Management reports can also alert you to changing patterns - any sign of slowing payment trends or increases in account queries should be triggers for follow-up checks.
- **Cash flow forecasts** can help you anticipate cash surpluses and shortfalls before they arise, giving you time to adjust. The forecast should be tied to your budget and compared against actual performance. Don't treat the cash flow forecast as a one-off. Well run businesses often base their strategies around their cash flow forecast, adjusting it as conditions change to stay on top of the cash position throughout the financial year.
- **Sage 50 Financial Forecasting** allows you to do all of the above, enabling you to effectively plan the future of your business.

How Sage 50 Accounts can help

- **Good accounting software** such as Sage 50 Accounts comes with readymade reports covering all these areas, and more.
- **Sage 50 Accounts** presents you with a Dashboard of important information such as the current bank balances, overdue invoices and monthly sales trends.
- **In addition to standard reports** that highlight peaks and troughs in income, expenses and cash flow, Sage 50 Accounts built in Report Designer lets you adapt and create custom reports to answer queries that relate to your immediate business concerns.

Choosing software to help you survive the crunch

1. Know what you are looking for

The first step towards streamlining your finances is to identify where you want to improve and then define the specific functions that your software will need to tackle. Your goals will be shaped by the kind of business you run, the number of transactions you process and your credit control and management information needs. Talk to your accountant or bookkeeper about their concerns and consider the following issues as you draw up your specification:

- **Order processing** - you may want to record sales at the order or quote stage, when an invoice is issued, or when the customer pays. Look for a system that will support the method you use.
- **If you want to print sales invoices**, credit management reports and track customer accounts, make sure the application you choose can do this.
- **For a fast moving business**, you may also want daily or weekly reports on sales, by product or service, by sales value and gross profit.
- **If you make a lot of payments**, you may want to batch them up into a monthly run. A batch payment facility will list all the outstanding supplier invoices for you to choose the ones you want to pay, and the program will automatically generate the payments, together with a BACS file that you can send directly to your bank.
- **If you want to grow your business**, is there an upgrade path available if you start to outgrow your accounting software?

2. Budget, timetable and project management

If the whole point is to improve your financial discipline, make sure you apply all the same rules to your software purchase as you would to any other aspect of the business. Set a budget for what you can afford to spend, set out the improvements you expect and devote adequate resources to ensure you achieve them. In particular, do not scrimp on training - making sure you and your colleagues know how to use the software properly is one of the most cost-effective investments you can make.

Involve people from different functions in your deliberations. Finance managers, credit controllers and sales & marketing people all need to understand the benefits. Make sure that the program you choose is appropriate for their needs and IT skills.

3. The selection process

Your business requirements and budget will help you narrow down the most likely candidates for your accounting software. Find out what you can about the different options from sources such as AccountingWEB's IT Zone, your business advisers and from other similar-sized businesses.

Choosing software to help you survive the crunch cont.

When you have an idea of the programs that are most likely to work for you, put them to the test. Ask potential suppliers to show you how they work using order forms, invoices and other data drawn from your existing processes and documents. These demonstrations will reveal whether the accounting application can accommodate the way you work. But also use them as an opportunity to consider whether the software would help you improve your financial processes.

4. The supplier

Who supplies the program is as important as the software itself. You need to pick a supplier who understands your business and talks your language. If you are reasonably experienced with accounting and technology, you can buy direct from the software author, who should provide you with regular product upgrades and technical help.

If you're not that confident, your accountant can be an essential source of support. They may offer to sell and install the software for you and can provide ongoing telephone help. With packages like Sage 50 Accounts, the accountant will be able to take copies of your data at the end of your financial year to make any required adjustments and speed up production of your annual accounts.

Or you can turn to an IT reseller, for example a company that has specialist expertise in your industry. Whichever route you chose, don't just install the software and let relationship with your supplier fade away. They will usually have valuable insights about your business. Keeping in regular contact will let you tap into that knowledge to identify and implement further improvements to your system and processes.

For direct customers, Sage offers a comprehensive SageCover package to take care of all your support needs. Or it can put you in touch with suitable resellers or experienced Sage accountants in your area.

We have a range of software and services to help with your finances. Take our software for a TestDrive by visiting www.sage.co.uk/testdrive and clicking on the TestDrive logo. Alternatively, visit our webshop www.sage.co.uk/store or call us on **0800 44 77 77**