

# 3 tips for limiting bad debt

Bad debt may be a curse on forecasting and the bottom line, but it compels businesses to be more forward-looking. Since many bad debts have their roots in supply chain risk, the whole loss relationship comes down to how close every player is to that risk. Bad debt doesn't occur in a vacuum either. Understanding at what point it becomes, or is more likely to become, an issue is a potential opportunity for businesses. Leading indicators such as DSO monitoring can help with this.

## 01

### Understand who you are dealing with

In a world where your customers are increasingly interconnected and fast moving, the question is: 'Who in the organization should we be talking to?'

In the event of an overdue bill, some individuals will be more concerned with recovering funds as opposed to exploring mitigating options. Knowing your principal contact and establishing an open dialogue from the outset is critical to setting mutual objectives when issues arise.

Be sure to also arm yourself with specific market data, including DSO averages, collection practices and the wider business context, such as local regulations and legal systems. This will help you look at your customer from all angles and consider the bigger picture when working together to make more informed decisions.

## 02

### Improve your customer credit management

It is essential to put in place a robust process for ensuring your business is not unnecessarily exposed, and can react appropriately when it is. This starts with assessing your customers' credit worthiness, and setting appropriate credit limits. The more you can learn about your customers, the better equipped you can be. For additional security, you can create a more specific charging structure, such as implementing progressive payments.

Next, you should ideally implement standard terms and conditions, and make your customers aware of them. In the event your customer pays late, you may consider introducing penalty charges, or even reconsider your terms, including revoking your credit. Chase your invoices as soon as they are due – every day lost makes it less likely that you'll be paid. Remember that a fast and accurate credit control system will balance your needs with those of your customers.

## 03

### Define your tipping point for chasing debts

Sometimes, the cost of pursuing a debt that has turned bad is proportionate to, or even greater than, the original amount of credit. Larger debts may require legal action, and the burden of proof is on you to show the debt is uncollectable. Ultimately you will need to measure the cost and the benefit to find your bad debt 'tipping point'. Some important factors to consider are your customer's sector and location.

As long as there has been money, there has been debt – both good and bad. But with a disciplined approach, and a willingness to embrace its inevitability as well as its cost, steps can be taken to build a better, more resilient and more profitable business.

