5 ways to reduce your Days Beyond Terms

Experian™

Late payments are the silent killer in every business. The longer a business takes to pay its bills has a direct affect on your profits. A 10% profit margin quickly erodes with every month that passes before you get paid. In short, late payments cost you money. But by taking a few measures to lower your Days Beyond Terms (DBT) average and avoid late payments, you can protect your profit margin.

Here are five ways that you can lower your DBT average to minimise costs to your business:

1. See your total risk visibility

Before you can make informed decisions about which of your customers are most likely to pay late and crank up your DBT average, you need to get a single, high level view of all your accounts and ledgers. This gives you the vantage point to analyse your entire debtor base, calculate risk exposure at regional and group level, and see an overall percentage for current and overdue amounts. Only then can you expose the real cost of late payments and reprioritise your credit strategies accordingly.

2. Monitor payment trends as they happen

A business with a DBT of 30 can change to a DBT of 40 at any time, but given the unpredictability of the current economy, it can be hard to forecast who is most likely pay their debt on time and who will not or cannot. However, with on-going reports you can reveal the overall DBT for your whole ledger as well as individual accounts on a regular basis. This can help you spot risk behaviour straight away, so that you're in a position to act quickly should an account's average DBT start to slip. With swift, decisive action, you can recover monies owed more quickly and minimise the cost to your business.

3. Risk score all your customers

Once you have a complete overview of your accounts and ledgers and have established the DBT for each, you can begin risk scoring individual accounts. This allows you to see the risk of every business and can help you determine financial stability over a 12-month period. It's also a good way to differentiate between large debt and high risk customers, so that you know exactly who to target first.

4. Slice and dice your data

The ability to slice and dice your data can make a significant difference to how much insight you can capture from your accounts and ledgers. Set up bespoke reporting systems that help you dig a little deeper into how customers are paying you. See this month's payment trends – are they up or down? Who is over their credit limit? You can even start ranking accounts by specific data items and criteria such as the longest overdue or the biggest DBT increase. It can also help you find those cash cows. With this extra insight, you can set more accurate and measureable objectives and strengthen your decision making and credit risk management strategies.

5. Benchmark against your competitors

Once you can see payment trends across all your accounts the next step is to measure your performance against your peers. By seeing how businesses are paying you compared to other suppliers, you can start negotiating better payment terms. Benchmarking your DBTs against other creditors or suppliers will also help you unearth trends such as 'pay us late, everybody else late', 'pay us late, everybody else on time', and 'pay us on time, everybody else late'. With this added insight, you can proactively re-prioritise your credit risk strategies so profit margins aren't eroded.

Results

The financial health of a business is often dependent on that of its customers. So having a comprehensive view of payment trends across all your accounts and seeing risk behaviour as it happens, can mean the difference between a DBT trend that's falling and one that is rising, which has a huge impact on your overall profit margin.

For example, if you expect to make a 10% profit on £100K but a business doesn't pay you for 6 months, your profit margin can drop to just 6% - that's a fall in profit from £10k to £6k. However, by closely monitoring payment behaviour and looking for early signs of a late payment, you can often pre-empt payment issues and recover monies owed before DBTs start to rise – minimising the costs to your business.

Why Experian?

Experian holds the largest database of up to date payment performance data from independent sources, including over 6,000 ledgers and 22 million commercial transactions processed each month – the equivalent of £12 billion worth of transactions every month. This data lets you quickly find out how your customers are paying other suppliers and get a deeper understanding of your customers' financial situation.

For help analysing your payment information email us at creditservices@ uk.experian.com

To see how a ledger management system could benefit your business take a closer look at Ledger360 at:

www.experian.co.uk/ business-information/ ledger360-home.html