

Business Services Common: Frequently paying outside suppliers' terms

The business constantly finds it difficult to meet its suppliers' terms because of the payment cycle it has established to control these payments. The business is incurring late payment penalties and/or is damaging its reputation with its suppliers.

Indicators

- The business is incurring considerable penalties as a result of late payment.
- Suppliers are constantly phoning regarding the progress of the payment.
- The creditors ledger is rarely up to date and is infrequently reconciled to the creditors statements.
- The business' reputation is suffering and the business does not have a good credit rating.

Causes of the problem

- The accounting and payment authorisation process (the payment cycle) is too cumbersome.
- Suppliers' terms are not in line with the payment cycle of the business.
- Suppliers' terms are too onerous.
- There is no schedule created to set out when payments are to be made.

Short term solutions

- Examine the accounting and payment process with a view of streamlining it so that no unnecessary delays occur (eg have payments reviewed, authorised, generated and sent from the one office).
- Examine the payment timing requirements of all suppliers. For those where the requirements are too onerous, contact the suppliers and try and negotiate more reasonable terms.

Long term solutions

- Make it a policy to use those suppliers who have more reasonable terms to a greater extent.
- Institute procedures whereby invoices are recorded with a required payment date. A daily report should be prepared which

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lists the payments due on a daily basis. Computerisation may help substantially in this regard.

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