

## How to keep your business debt under control

**Managing debt can help you keep your business out of financial trouble.**

Sometimes you can't avoid debt in a business. You may have to take out a loan, for example, to increase production or expand your business offerings. But piling up a lot of debt may leave your business in financial difficulty or, worse, bankrupt. So it's vital to manage your debt before it gets out of hand. Here are some practical suggestions to consider.

### **Keeping tabs on your finances**

Understanding your business's finances is a good first step in managing your debt. Having a record of your creditors and debtors and the amounts involved may help you keep track of your debt.

If tracking your business finances requires more than just a simple spreadsheet, consider using a bookkeeping system to make monitoring your finances easier.

### **Prioritising debt payments**

Once you have a good understanding of where your business stands financially, you can begin to prioritise your debts. This requires identifying which debts you must repay now and which ones you may be able to put off paying or put on a payment plan. You can prioritise debts according to their urgency or the importance of the creditors to your business. Also consider the penalties and interest charges you may have to pay, and the risk to your business credit score.

Paying wages and bills such as rent and electricity is critical to keeping your business running. If you have built good relationships with some of your suppliers, you may want to prioritise them to avoid losing their goodwill or trust by missing payments. Also think about prioritising meeting tax obligations on time to avoid fines and penalties.

### **Negotiating with your creditors**

Even after prioritising your debts, it could still be difficult to catch up on payments. It may help to speak to your creditors about your business situation. You could ask if they have any hardship provisions or to have your due date extended. Talking to your creditors promptly may save you from having to pay more penalties. It could also be a good chance to negotiate for better terms and rates on your business loans.

### **Collecting outstanding payments**

You may want to chase outstanding debtors for payment to help improve your cash flow. If you have a long list of debtors, you could prioritise them by going after the biggest accounts first.

If sending friendly reminders to your debtors doesn't work, perhaps send a letter of demand. As a last resort, consider engaging a debt collection company. Keep in mind this option could strain your relationship with your debtors and may add to your costs.

### **Protecting your business**

You can also take steps to protect your business from risks that might affect its ability to continue running. Taking out a business insurance policy, for example, could help you better protect key elements of your business and help ensure its continuity. The policy may help you replace lost income and potential lost profits, repay a business debt or maintain cash flow.

Your financial adviser may be able to help determine if business insurance might work for you.

This editorial and the information within, including tax, does not consider your personal circumstances and is general advice only. It has been prepared without taking into account any of your individual objectives, financial solutions or needs. Before acting on this information you should consider its appropriateness, having regard to your own objectives, financial situation and needs. You should read the relevant Product Disclosure Statements and seek personal advice from a qualified financial adviser. From time to time we may send you informative updates and details of the range of services we can provide. If you no longer want to receive this information please contact our office to opt out. The views expressed in this publication are solely those of the author; they are not reflective or indicative of Licensee's position, and are not to be attributed to the Licensee. They cannot be reproduced in any form without the express written consent of the author. RI Advice Group Pty Limited ABN 23 001 774 125, AFSL 238429.