COMMERCIAL BRIEFING - NO. 22

Debtor Days

A business can be profitable on paper and still run out of money. It is one of the most common and least understood ways small businesses get into trouble. It almost always comes back to one number: how long customers actually take to pay. This briefing explains what debtor days measures, why it matters more than most owners realise, and how to bring it down.

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IN SHORT

A business can be profitable on paper and still run out of money. It is one of the most common and least understood ways small businesses get into trouble, and it almost always comes back to one number: how long customers actually take to pay. That number is called debtor days, and most business owners have never calculated it. This briefing explains what it measures, why it matters more than most realise, and the practical steps that bring it down.

1.

What debtor days actually measures

Debtor days tells you, on average, how many days it takes your customers to pay an invoice after you raise it. It does not matter what your payment terms say. It matters what actually happens.

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Trade Debtors ÷ Annual Sales × 365
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Worked example. If your business has £40,000 currently owed by customers and annual sales of £400,000, your debtor days are (40,000 ÷ 400,000) × 365 = 36.5 days. If your stated payment terms are 30 days, that gap tells you customers are paying slightly later than agreed, on average.

2.

Why this number matters more than most owners realise

Wages still need paying on the last working day of the month. Rent still needs paying on the quarter day. Suppliers still expect payment on their terms. None of that waits for your customers to settle their invoices.

A business that is profitable on paper can run out of cash entirely if the gap between when costs go out and when revenue comes in grows too wide. Debtor days is the clearest single measure of that gap on the income side.

The businesses caught out by this are often doing well. Growing revenue. Winning bigger customers. Bigger customers often negotiate longer payment terms, or pay late simply because they can. Growth without managing debtor days is one of the fastest routes to a cash crisis in an otherwise healthy business.

3.

What good looks like

As a rule of thumb, your debtor days figure should sit close to your stated payment terms. If your terms are 30 days and your debtor days are consistently around 30 to 35, that is healthy. If they are sitting at 50, 60 or higher, a significant proportion of your customer base is paying considerably later than agreed, and it is costing you in ways that do not show up directly on the P&L.

4.

What drives debtor days up

- Invoices not raised promptly when work is completed
- Payment terms that are unclear, inconsistent or not stated on the invoice itself
- No follow-up process when an invoice passes its due date
- Large or important customers allowed to set their own informal terms
- No one in the business with clear ownership of chasing payment
- Disputes or queries on invoices that are never resolved quickly

5.

How to bring it down

Invoice immediately. The clock should start the day the work is delivered, not whenever it is convenient to raise the paperwork.

State terms clearly, every time. Payment terms should appear on every invoice, in plain language, with the actual due date calculated and visible.

Build a simple follow-up process. A polite reminder before the due date. A firmer follow-up the day after it passes. A clear escalation point if an invoice goes significantly overdue.

Review terms with your largest customers specifically. The customers with the most negotiating power are often the ones with the worst payment behaviour.

Consider early payment discounts. A small discount for payment within 14 days, properly costed against your margin, can be a cheaper way to improve cashflow than borrowing to cover the gap.

ABOUT MOOR & CO & 3DMAI

We help small businesses fix the gap between profit and cash.

Moor & Co works with small businesses across North Staffordshire and South Cheshire to build cashflow visibility and credit control processes that bring debtor days down and keep them down.

The intelligence platform behind the practice is **3DMAI**, built specifically for UK SMEs, giving you a live cashflow position rather than a year-end surprise.

Free discovery call moorandco.co.uk	**Free commercial tools** 3dmai.co.uk

NOTE

This briefing explains a commercial cashflow metric and what it means for decision making. It is not accounting or legal advice on debt recovery.