



SUSAN WALL ACCOUNTING SERVICES

TOP TEN TIPS FOR GREAT CREDIT MANAGEMENT

1. Know your customer

- application form - ensure it is comprehensive and every customer completes one
- request additional financial information from the customer i.e. latest management accounts
- credit check and monitor - consider using a company like, Experian, Dunn and Bradstreet or Equifax
- bank reference - with your customers permission, you can check their creditworthiness
- gain intelligence of your potential customer from others in the same business sector

2. Don't get too close

- check and double check everything your customer tells you
- if dealing with friends, make sure you carry out the same extensive credit checks

3. Terms and conditions

- ensure you have trading terms and conditions which clearly state your terms and expectations
- supply your terms and conditions to the customer and request they sign and return in acceptance. If a signed acceptance is not received, do not give a credit account

4. Credit limit

- set a credit limit and stick to it
- if the customer exceeds the credit limit, ask them to pay the excess
- annually review the credit limit and repeat the initial credit vetting procedures
- only increase the credit limit by following the same procedure when the credit limit was first established

5. Consider other forms of security or credit insurance

- holding goods until you are paid for the services rendered
- inland letters of credit / Bills of exchange
- debtor insurance / factoring facility

6. Invoicing

- ensure your invoices are comprehensive and clearly detail all aspects of the service or good supplied
- submit the invoice to your customer the day the service is completed or the goods supplied; preferably by email.
- know precisely who should receive the invoice and if a purchase order is required
- ensure your invoice shows your terms and conditions and when payment is expected
- ensure that a notice is on all invoices to state that in accordance to The Late Payment of Commercial Debts (Interest) Act of 1998, interest of 8% above base rate will be applied on a daily basis to the overdue account
- print your bank details on the invoice to encourage payment through the bank rather than by cheque

7. **Assertive credit control procedures**

- within five days of the invoice being despatched, call customer to confirm receipt of the invoice and establish if there are any queries
- if a query is advised, deal with it immediately
- set aside time on a weekly basis to review your debtors
- alternate between chasing customers A - Z one month then to Z - A the next
- keep comprehensive diary notes of each and every communication with your customer
- establish a graduated system of when you call and send letters. Remember, the personal approach of a telephone call is always more effective than an impersonal reminder letter
- establish a rapport with your customer - being friendly does work
- request payment through the bank rather than by cheque
- consider employing an experienced credit controller, preferably one who is a member of the ICM (Institute of Credit Management) or is an ICM graduate

8. **Credit management routines**

- review customers trading habits regularly
- if a customer who has always bought regularly starts to buy less, find out why
- if a customer has always paid on time but gradually are paying later and later, investigate
- if a customer starts to part pay their account, monitor closely
- monthly check the total credit outstanding across the whole business to determine debtor days. For example, in a business with sales of £1,000 a day (annual sales of £365k), total credit outstanding of £44k represents 44 days sales. If the days sales figure rises, you are being paid more slowly

9. **Delayed Payments**

- if payment is delayed, immediately contact the customer by telephone and find out why
- if payment is not immediately forthcoming, be assertive
- ask if they are experiencing financial difficulties
- ask for a payment on account
- be wary of early warning signs such as "cheque in post, signature not available, missed payment run" etc.
- send a final demand, with copy invoice(s), proof of delivery, purchase order, etc., by email, fax and hard copy which should be posted by special delivery. Recorded delivery letters are not guaranteed and go through the general postal system. Special deliveries are handled individually
- if no satisfactory response is received, consider taking legal action. Litigation costs can be high so you need to think whether the debt is worth chasing. Also, you need to consider if the claim will be defended

10. **The Credit Management Mantra**

- A sale is not a sale until it is paid for - repeat this every time the phone rings and you make a sale

Good luck. Credit management is an absolute passion of mine and an area of finance that I have truly relished and thoroughly enjoyed part of for the past 30+ years. It is the life blood of all business. Without a firm and comprehensive credit control policy, a business will fail. So, start off on the right track from the instigation of your new business and you will see your new venture blossom.