



active business

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Credit Management:



The Active Business Series

Credit Management



Good credit management is always crucial to the profitability of your business, but during an economic downturn it can become a matter of life or death.

With traditional sources of credit tightening, businesses are currently forced to manage their cash as effectively as possible. But if customers delay or default on payments the flow of cash becomes tighter and the very survival of the business is threatened.

Currently three fifths of UK businesses are experiencing cash-flow problems due to late payments and defaults.

What can you do to make sure payments are made on time and in full?.

We would be happy to review your credit management procedures. Call today to discuss how we can help.

How effective is your credit management?

Are you inviting delays?



Over two thirds of UK businesses regularly receive incorrect invoices from their suppliers, and most simply send them back and ask for a new one thus delaying payment even further! Do you check your invoices regularly to ensure they are valid and correct?

Many problems of late payment and bad debt can be avoided by making sound arrangements at the beginning of a trading relationship. How many of the following can you answer 'Yes' to?

- Do you run credit checks on new customers?
- Do you use credit application forms to gather key information on customers including where appropriate trade or banking references?
- Do you offer the minimum period of credit you reasonably can?
- Do you check that your terms are clearly understood by your customers?
- Do you insist on a written contract where appropriate?
- Do you include an 'all monies' retention of title clause in your contracts?
- Do you include your payment terms on all quotes, order confirmations, invoices, and statements?
- Do you have good relationships with your customers' accounts department and know who to speak to if a problem arises?
- Do you know when your customers' monthly cheque payments runs are and time your statements accordingly?
- Do you encourage customers to pay electronically?
- Do you offer discounts for early or up front payment?
- Do you stay in regular contact with your customers and keep your ears open for signs that they might be running into difficulties?

When is a sale not a sale?

Answer: When it hasn't been paid for! A sale is not complete until the cash is in the bank - and that requires good credit management procedures. Here are some suggestions:

- Make sure everyone in your business knows your credit policy and who the key decisions makers are
- Consider subscribing to a service that enables you to monitor the credit worthiness of all your customers on a monthly basis
- Raise separate invoices for each dispatch and send them immediately by first class mail
- Be one step ahead of potentially difficult customers by finding an excuse to contact them before payment is due
- Establish clear procedures for dealing with disputed invoices and give them top priority
- Conduct an aged debt analysis at least once a week and apply debt recovery procedures immediately according to the size and age of the debt



Electronic payments

Using an electronic payment system such as BACS is cheaper than processing cheques, gets the money to your bank much more quickly, and does away with the age-old late payer's excuse,

'The cheque is in the post.'

Time is money

By the time a debt is 60 days overdue, many businesses will have lost most of the profit on the sale. We recommend you develop an escalating strategy of debt collection measures and implement them as soon as payments become overdue.



Generally a phone call is more effective than a letter, and a visit is more effective than a phone call. While it is important to be decisive, it is equally important to be balanced in your approach. A heavy handed approach might alienate key customers and risk losing future business, whereas treading too lightly might give the wrong impression and encourage further delays.

When you are in a credit squeeze the last thing you want is to become a source of cheap credit for your customers, so you will want to consider exercising your statutory right to charge interest on overdue payments.

For intransigent debtors you might have to escalate to issuing a final demand with a threat of third party action such as a collection agency, solicitor, or court action if they continue to delay. Such measures are probably going to lose you the customer, so proceed carefully at this stage.

We would be happy to advise on this subject. Just call for an appointment.



The cost of debt

35% of UK businesses report that late payments cost them over £10,000 a year in bank charges and administration costs