Effective Credit Control Management

Do you have control of your cash flow?

Take a look at these 10 effective steps to gain control of your cash flow, improve your credit control and management of bad debtors

Supporting your business growth...
visit us online www.outsourcedaccountancy.co.uk
As all business owners know ‘Cash is king’. Having a strong cash flow and avoiding bad debts are two critical objectives for any business to be successful, so setting up a good credit control system is the starting point to achieve this.

So let us share with you 10 effective initiatives to help you decide what approach is appropriate for your type of business and how you should handle different customers.

The key points explained:

- How to decide on credit terms for customers
- How to prevent late payment(s)
- How to deal with customers who cannot or will not pay
1. Before you give credit

1.1 Before you give credit
Gain critical information about your customer; to reduce your risk.

Each new customer should complete a credit application (or trading application) form.

This should include:

• Full name of the business, and whether the business trades under a different name.
• Registration number, if it is a limited company.
• How much credit is being asked for?
• Who the contact is for payment queries, including address details, telephone, fax numbers and email addresses.
• Where to send invoices, as this is often different from the delivery address. (Check the statement address, as this can be different again).
• Which bank the business uses - name, address, sort-code and account number.
• Details of at least two trade references, which should be regular suppliers.
• A request for consent to obtain a bank reference and a request for consent to obtain credit references.
• Details of who actually owns and who runs the business.

1.2 Payment Terms
You should ensure a client and prospect (when forming closer connections) is aware of your payments terms as soon as necessary. They should, however, always be explained and agreed at the order stage and have these terms printed on your credit application form (and on other relevant documents, such as invoices).

The payment terms should include:

• The credit period offered.
  o For example - whether payment is due 30 days from invoice date
• Details of any discounts or rebates you offer.
  o For example - for prompt payment or bulk purchases.
• Whether your prices exclude carriage charges (‘ex works’).
• Whether you charge interest on overdue accounts and, if so, how much.
  o NB: All businesses have a legal right to claim interest from late-paying customers in both large and small companies.
• It may be appropriate to include a ‘retention of title’ clause (saying that the goods remain your property until paid for in full – take advice from a solicitor for this)
2 Checking creditworthiness

Use the information you have been given in the credit application form to check the new customer’s creditworthiness. You don’t want to start doing business with a financially insecure organization.

2.1 Credit Ratings

You will need to pay a small fee, but it’s worth it, so do get an online credit rating, by paying a credit reference agency for an instant company search (also available through many Business Links). It can be on your desk in minutes and will cost as little as £10.

The credit rating should provide you with valuable information including:

- The last three years’ reported financial information, taken from the accounts filed at Companies House. (Some of this may be out of date, but it can often give you a good idea of the company’s financial strength).
- Details of County Court Judgments (see 2.3)
- Suggested credit limits.

Even a highly detailed report giving extra information such as comments on the company’s past payment record and comparisons against companies of a similar size can cost as little as £35 to £50. To reduce risk to your business it is highly beneficial.

2.2 Credit References

Take up credit references from trade suppliers. Make sure the referee is a genuine core supplier to the business. The questions to ask people giving references are:

- How long they have traded with your potential customer?
- What credit terms (limit and period) they offer the customer?
- Whether your new customer pays up within the terms offered?
- What your customer’s average-monthly spend is?
- Whether they are in any way associated with your customer’s business, other than as arm’s-length trade suppliers.
- If there is any other information they would consider relevant; generally nice to do business with.
- Encourage quick replies by giving a phone number, sending an SAE, or asking (by phone) for the form to be faxed back.
2.3 County Court Judgments
To safeguard your company when working with new customers, gain factual information about them. If you find a large number of judgments this is a flag to progress with caution.

It could be an indication that the company is in financial difficulties or has a tendency to hold up payments or dispute invoices. The cause of some of these disputes could be an administrative error, but this is unusual.

In our experience be wary of such companies.
To gain information write to the Registry of County Court Judgments at 173-175 Cleveland Street, London, W1T 6QR (020 7380 0133) or visit www.registry-trust.org.uk for details of all County Court judgments (CCJs) registered in the last six years.

The fee is currently only £8 (correct at time of report writing – July 2015) for a search against a single name or trading name at an address or against a Limited Company, so worth the time and money.

Be wary if a company has:-
- A large number of judgments against them, this is a danger signal. It may indicate that the company is in financial difficulties, or that it has a habit of disputing or not paying invoices. This information is available on individuals, as well as companies.
- Though the cost will be slightly higher, it is easier and much quicker to get details of CCJs as part of a company search (see 2.1).

2.4 Bank reference
Apply for a bank reference, but be aware that these are notoriously vague and may take a long time to arrive.
The response will use standard phrases and you will need to interpret these to decide whether or not they amount to a negative reference. A reference may sometimes be too ambiguous to be useful.

The fee for a bank reference is typically £10 to £15. Pay your bank’s fee up front and enclose the customer’s statement of consent.
3 Giving credit
It is your choice whether to provide credit to a customer or not. Don’t be pressurized, especially if you have a hunch things are right, your own instincts are more often than not right. Decide on a credit policy at the start and stick to it.

3.1 Credit Limits
When setting a maximum credit limit for each customer, consider:
- What credit does the customer want?
- Would the customer still place the order if you provided no credit at all? (The customer may prefer to receive a discount for ‘payment with order’).
- How much credit can you afford to give? (Long credit terms for large orders may be out of the question).
- How much of a hold over the customer do you have? (If your customer can easily switch to another supplier, your risk is greater).
- How much could you risk losing?
- Credit limits should be reviewed regularly. (You may lose business if customers are offered more credit elsewhere).

3.2 Credit Risk
Minimise the risks of giving credit.
- Give new customers a modest credit limit to begin with. (You can raise the limit when the strength of your relationship justifies it).
- Open a credit card merchant account. (Seek further information and advice about this from your bank).
- Consider taking out credit insurance for large transactions.
- Consider the cash flow and credit control advantages of factoring.

3.3 Payments
Monitor and establish how different customers pay their invoices.
- Many businesses will not pay unless there is an order number.
- Some businesses need the invoice passed to the accounts department by a certain date or it misses the monthly cheque or bank run. Make sure you are aware of their needs so your payments aren’t hindered unnecessarily.
4 Fulfilling the order

4.1 Get the order details right.
If they are incorrect, the customer may have every right to delay or even refuse payment. Ask your customer to confirm the order in writing, including an order number. If you are providing a service, such as consultancy, the order should specify the work to be undertaken.

4.2 Obtain proof of delivery for the goods.
A customer delay payment if they can’t find your delivery. If you are delivering to a large organization, deliveries can go astray if proof of delivery is not gained. To prove you have delivered your products, ensure a signature acknowledging receipt of the goods is obtained. Consider using Royal Mail’s recorded or guaranteed delivery services, or other reputable courier service. Include a packing note with every order, giving the order number and listing the items being delivered and keep a copy.

4.3 Ensure the customer is satisfied.
Don’t let problems drift on, always sort them out immediately. We all know things can go wrong even with the best laid down procedures and plans in place.

All good businesses understand problems can occur and it is often the manner in which a business deals with a problem that re-enforces the relationship they have together. A customer wants a supplier that not only is there when they need them, provides the products and services they want, but also responds well when a problem occurs.

Make sure you keep in contact with your customers, ask them if they are happy with your products, services and customer service.

A customer survey is a good way to gain feedback: good and bad, but remember although we all like good feedback, bad feedback can flag-up any issues or an area we are unaware of, which when rectified can improve your customer relationship, but as important, could improve your in-house procedures too.

Don’t let problems alienate you with your customers; communicate, monitor and look to constantly improve your procedures to meet your customer’s on-going needs, but also to set you out from the crowd and from your competitors.
5 The invoice

5.1 Invoice information
A clear, easy-to-understand invoice will encourage customers to pay more quickly. As well as the amount owing, make sure you include the following important details:

- A detailed description of the goods.
- A reference to the order number.
- The agreed payment date (in line with the terms of trade).
- Your full bank details, VAT number (if applicable) and address.
- Contact details, so somebody can contact you easily with any queries.

5.2 Invoice timing
Send your invoice out the day the goods are sent.

- Sending invoices out late sends the wrong message.
- Send the invoice to the right person. (Find out beforehand who this is, or whether the invoice should be addressed to the customer’s accounts department or to the accounts manager).

5.3 Statements
Send statements out as early as you can in the month, every month. Many businesses will not pay an invoice until they receive a statement. Include details of all current transactions, and your payment terms.

Again, don’t let a simple procedure hold-up any payments to your business, as this damages your cash flow.

6 Chasing up

6.1 If you want immediate action, phoning is one of the fastest ways to persuade late payers to pay up. Start chasing payment as soon as the account becomes due.

Always concentrate on:

- The largest debts first.
- Customers you guess may be in financial trouble.
- The older accounts - except in exceptional situations, it is unlikely that debts over a year old will be paid, so ensure your debtors don’t get to this.
6.2 Maximise the effectiveness of your chase-up.

- Ensure you have customer details, such as, invoice numbers, dates and amounts in front of you.
- Keep records of when you chased late payments (date and time), along with details of who you spoke to and what was discussed and agreed.
- Whatever was agreed, ensure you follow-up and make sure it happens.
- Having a system in-house to manage debtors is highly recommended, managing your debtors effectively and efficiently will save your business money.

7 Dealing with excuses

Always be sceptical of excuses, as they can often be simple delaying tactics. Put these customers high on your chasing list.

Adopt a professional, but friendly approach when dealing with the common excuses for non-payment.

Here are a few typical examples:

- ‘I haven’t received your invoice. Can you send a copy?’ - check that the invoice address is correct. Immediately email (or fax if this is being used) another copy of the invoice to the person you spoke to. Use the tools ‘recipient received email’ and ‘recipient opened email’ when sending, so you know it has been delivered successfully and opened. Also then phone to confirm and check when you can expect payment.

- ‘Your invoice is on the next cheque run.’ - check that the details on the customer’s purchase ledger are correct. Ask when the cheque run date is and call a few days beforehand to make sure your invoice is going to be paid.

- ‘I’ll deal with it shortly.’ – clarify this and ask when, so you can track accordingly.

- ‘Your invoice hasn’t been passed to accounts yet.’ - ask the buyer if there was a reason for this and then ask for the authorization of the payment. Phone the accounts office to confirm that the buyer has done so.

- ‘The cheque is in the post.’ - ask for the postal date and cheque number.

- ‘We’ve got a cash flow problem’ or ‘We can’t pay until we’ve been paid ourselves.’ This is an extremely serious warning sign. It may be necessary to halt all credit and send a letter of claim (see 9) immediately.
8 Stop lists

A stop list is a list of customers you do not want to give more credit to. This can be for various reasons, but it is an important document to create, to safe-guard your business. Ensure this list is integral to your accounting system and therefore available to the necessary person within your business, when agreeing credit and for any future sales orders.

Do remember, with ‘Stop lists’ to:

- Update the list regularly
- Circulate it to the appropriate employees, not just managers and accounting staff, but internal and external sales staff.
- Do not supply any more goods to these customers until they are taken off the list and all invoices paid
- Inform late payers that they are ‘on stop’.
  - This will generally encourage them to pay up, especially when they realise they will need to place further orders.
  - Also in some cases they may not realise there is a problem and will resolve immediately

9 Letters of claim

This should be the final stage and to assist the process of chasing debtors, it is important that you have a system in place that can manage these various stage processes. Having an in-house debtor system will assist the management of this and in most cases you won’t need to get to this legal stage.

An in-house system will enable your accountancy team to monitor the situation of outstanding debtors at any one time; it should also automate the various stages, saving you time, money and resource.

Managing your debtors, will benefit your business with improved cash flow and profitability, so ensure you have a system and procedures in place.

If you do have to resort to this stage then please be note the following:

9.1 A ‘letter of claim’ (or ‘seven-day letter’) is the first stage of the legal process.

- You cannot sue someone until you have sent that person such a letter.
- The letter tells your customer that if overdue invoices are not settled by a certain date (usually in seven days’ time) you intend to sue without further notice.
9.2 Letters of claim can be sent any time after an invoice becomes due.
- Some businesses have a policy of not paying until they receive such a letter.
- You do not need a solicitor to send a letter of claim.

You need to decide as a business, what time-frame you will allow before issuing a ‘letter of claim’ after an invoice is overdue and procedures you will follow before taking this legal action.

10 The human factor

It is important that throughout the credit control process, you do maintain a positive personal relationship with your customers. You are more likely to get the response you want if you adopt a friendly, but professional approach. If you have no alternative but to take legal action, maintain this approach by taking the following steps:

10.1 Discuss your situation with the customer.
- Explain that you value the customer’s business.
- Explain that you have been advised to take legal action.
- Make it clear that you only want to take this course if there is no alternative.

10.2 Speak to the managing director or finance director of the business, if possible.
- Problems can often be resolved by a director in your company talking to his or her opposite number, at your customer’s organisation.
- This conversation may give you an indication of whether the company has the money to pay you or not.

Debtor management is extremely important.
Managing debtors can be difficult and often people don’t like to talk to others, even when they owe them money as they feel awkward. It is crucial that you as a business and the person(s) responsible for such jobs do carry these tasks out in the correct manner and to achieve the right results for your business.

Not managing your debtors is to the detriment of your business.

Bad debts will impact your cash flow, making it difficult for you to pay your debts, which will include your suppliers, business bills, staff, etc., and so cause your business to become unstable.
Sollertia provides a range of outsourced accounting and financial services including a sophisticated and highly developed credit and debtor control processing system: Credit Knight, (www.creditknight.co.uk), which many of our clients use and have benefitted from reducing their debtor days, which in turn has improved their cash flow and profitability.

To find out more how Sollertia can help you and implement an inexpensive but effective online credit control system for your business, contact us now.

10 Crow Lane East
Newton le Willows
Merseyside
WA12 9UY

T: 0800 612 5775
F: 0845 0946 203

E: hire@sollertia.co.uk

W: www.outsourcedaccountancy.co.uk/hire