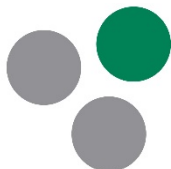




The Essential Guide to Credit Control

Hilton-Baird
Collection Services



Introduction

Effective credit control is one of the most important aspects to running a successful business. Without money coming in on time, your business's cash flow can be severely affected and the associated problems can quickly get out of hand.

It's a vital process that starts with knowing your customers before you sell to them and only ends once you have been paid. Here, we provide step-by-step credit control tips for businesses to follow in order to get paid on time, every time.

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Hilton-Baird Collection Services has created this eBook with the intention of sharing best practice amongst the UK's business community.

We hope that you find it useful. If you do, we would be grateful if you would share this with your colleagues and peers.



Before the sale

Credit checking potential customers is a must, as well as implementing strict credit control procedures that your sales and credit control team understand and follow...

1. Create a clear credit control procedure

By clearly setting out a day-by-day strategy from the moment the order is placed until the invoice is paid, your accounts receivables team can adopt a co-ordinated and professional credit control procedure. Ensure that the necessary levels of training are provided so that all stages are adequately completed, communicated and meticulously stuck to.



2. Know your customer

It is becoming increasingly important to know your customer before committing to offering credit terms. The first step is to obtain all the necessary business information by sending an application form for completion. Using this information, it is then possible to ask a credit expert to check the credit risk posed to your business through the extensive range of credit rating services on the market.

3. Review your customers' terms

It's important to check any onerous terms that your customer may enforce which might

trump your company's own Terms & Conditions of sale. Where possible, send out an order acknowledgement to reinforce your terms before delivery. Use this opportunity to explain your credit control procedure in the event of late payment, whether charging interest, taking legal action or referring the debt to a specialist commercial debt collection agency in order to demonstrate your authority.

4. Compile a stop list

For persistently late paying customers, or those with a poor credit rating, it can often help to place them on a 'stop list' or a 'watch list' to ensure diligence when selling to these companies in the future. Businesses on the stop list should be informed and not supplied with any further goods or services until all outstanding invoices have been settled at the very least, while those on the watch list should no longer be offered credit terms without an up-front payment or deposit.

Quick bite

"It's important to check any onerous terms that your customer may enforce which might trump your company's own Terms & Conditions of sale"

After the sale

From invoicing on time to maintaining regular contact with your customers, this is the most critical stage of successful credit control.

1. Invoice quickly and accurately

It sounds obvious, but it's imperative that invoices are sent to the customer as soon as an order is fulfilled, as any delays in invoicing will generally lead to delays in getting paid. The process can further be sped up by faxing or emailing the invoice rather than sending it through the post. Equally important is that the invoice is addressed to the right person, and that the information it contains is 100% accurate. Always make sure that purchase order numbers or vendor references are included where necessary.

Quick bite

“The more they like you, the less likely it is that they'll keep you waiting”

2. Clearly state your terms and conditions

Invoices must be clear and easy to understand, prominently displaying your credit terms, the actual payment date, and the acceptable payment methods and details on all correspondence.



3. Maintain a positive relationship

Building a friendly and positive relationship with your customers carries several advantages. Not only will it encourage them to purchase more goods and services from your business, it will also improve the chances of getting paid on time – the more they like you, the less likely it is that they'll keep you waiting. It is always worth calling before due date to ensure that your invoice is on the system, head off any disputes and ensure that your payment is top of the payment run.

Beyond terms

Chasing customers for overdue payment can be tricky, so it's important to act quickly and decisively to ensure the right result.

1. Review your sales ledger

A fundamental element of credit control is to know precisely when an invoice exceeds its credit terms. It is important that your accounts department or credit controllers regularly review your sales ledger to ensure that your customers' payment activity is always observed.

2. Chase as soon as credit terms are exceeded

Once an invoice exceeds its credit terms, the pressure's on as the likelihood of collecting the debt in full decreases as the debt grows older. It's therefore vital to speak to the person dealing with your invoice immediately to ascertain why you haven't been paid, and when they expect that you will be.

3. Don't be afraid to take action

Despite the fact it's rightly yours, asking customers for money they owe you can be a daunting task – particularly those larger than

you. What must be remembered is that, by not paying on time, they have damaged your business's cash flow and taken advantage of the trust you afforded them by offering credit terms.

Quick bite

"Once an invoice exceeds its credit terms, the pressure's on"

4. Bring in the experts

There will inevitably come a point when you've tried all you can to recover the debt, making it important you make the most of all the resources at your disposal. Specialist [commercial debt collection agencies](#) excel at the recovery of particularly outstanding debts, dedicating the time and attention to each individual debtor that you may no longer be able to afford.

Ongoing

There are always things you can do behind the scenes to ensure your credit control process is as efficient as possible, from benchmarking to insuring against bad debts...

1. Assess your performance

Always take time to analyse your business's credit control performance and ask yourself if the process can be made more efficient, if the team is too big or too small and how your credit terms contrast to those of your competitors. Central to this process is to compare your average debtor days with the industry norm. By reacting to the latest trends, you can make sure your business remains on the front foot.

2. Protect against late payment

Credit insurance protects a business's cash flow from the repercussions of late payment and bad debts by safeguarding the business from non-payment through insolvency or protracted default, and policies can be tailored to meet your specific requirements.

Quick bite

"Always take the time to analyse your business's credit control performance"

3. Outsource or hire a credit controller

Credit control ought to be an everyday business task given its importance to the success of your business – particularly for those with a large debtor book. It could

therefore be beneficial to hire a full-time credit controller who spends all their time keeping the business's sales ledger updated, building rapport with your customers' accounts departments and carrying out the basic credit control tasks.

4. Maintain a strong relationship with your bank

Because late payment can lead to considerable cash flow challenges for your business, it would be useful to be able to call upon your bank when your business is in need of short-term funding to fill the cash flow gap. It's therefore important to stay in regular contact, attend all scheduled meetings and inform them when you are experiencing any short-term cash flow difficulties.

5. Thank customers who pay on time

Finally, thank all your customers that pay on time! Not only does it show you're grateful for their punctuality, it is also good for customer relations and can lead to subsequent sales.



