

HOW TO IMPROVE YOUR CREDIT CONTROL FUNCTION

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Introduction:

If your business sells products or services on credit then it is imperative to have a systematic credit control process in place to ensure that your business receives prompt payment.

Many businesses in the SME sector neglect the credit control function of their business allowing long term problems to build up in the background. The main focus of their business plan is to generate sales, tight credit control procedures can appear to be an impediment to this objective.

The consequences of poor credit control can be:

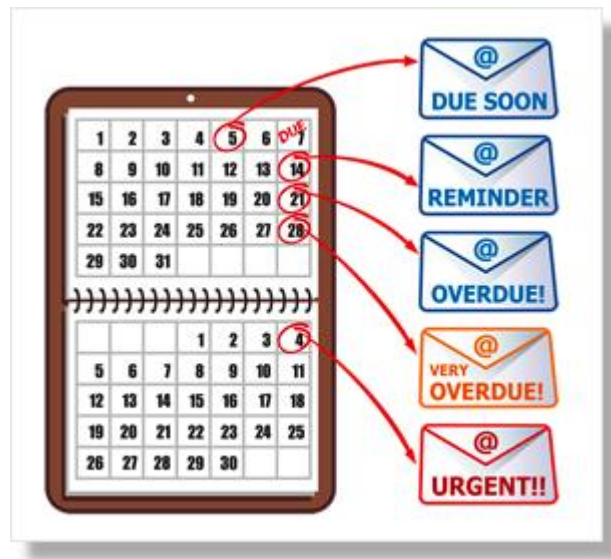
- Increased time period between issuing invoices and getting paid.
- The need for a bank overdraft
- Bad debts being incurred
- Financial stress leading to poor decision making

It's not always the credit controllers fault!

There are a number of issues that are outside the control of the credit controller that will negatively impact on his/her ability to obtain payment from customers such as:

- Under funding of the business
- Credit control policy not strictly enforced by management
- Unrealistic collection targets set by management
- External economic factors

Credit Control Policy



A written document should be produced to detail the credit control policy of the business. This document should note the type of customers who are entitled to receive credit:



Sole Traders/Partnerships:

- Sole traders/partnerships who have purchased a minimum of three orders on a cash on delivery basis prior to applying for credit.
- Sole traders/partnerships who are in business for an excess of two years.
- Sole traders/partnerships who have provided at least two trade references
- Sole traders/partnerships who have provide a bank reference
- Sole traders/partnerships who are willing to sign an agreement concerning adherence to the credit terms on offer.



Limited Companies

- Limited companies who have purchased a minimum of three orders on a cash on delivery basis prior to applying for credit.
- Limited companies who are in business for an excess of two years.
- Limited companies who have provided at least two trade references
- Limited companies who have provided a bank reference
- Limited companies who are willing to sign an agreement concerning adherence to the credit terms on offer.
- Limited companies whose directors are willing to sign a personal guarantee for any debts due by the company in the event of the liquidation of the company

By adhering to the above your business will be reducing the risk of non payment.

Customers who are not willing to go through such procedures should be treated with extreme caution as they may have something to hide. It is standard procedure for a bank to have similar criteria before issuing credit so why should your business put itself at risk by not doing likewise. If customers totally resist all attempts to follow your credit control procedure it may be worth allowing them to take their business elsewhere, allowing your competitors to deal with the risk of a potential bad debt.

Credit limits

Each customer needs to have their credit limit assessed individually. Careful consideration needs to be given to a customers credit limit as it is potentially the amount of monies that may not be paid in the future if the customer runs into financial difficulty.



The judgement criteria to assess credit limits can be based on a combination of factors.

- How long is the customer in business?
- If customer is a limited company are their accounts filed up to date at the companies registration office?
- If the customer is a limited company are the directors/owners willing to sign personal guarantees for monies due?

The ABC of credit control is Always Be Chasing!

There are various methods available to chase outstanding debts, some are more effective than others. The key to effective credit control is to ensure that debts are chased regularly and in a systematic manner.

Invoicing

An integral part of credit control is to ensure prompt issuing of invoices that are error free and easy to understand. If an error has been made it should be rectified immediately as this will avoid the debtor using the error a reason for non payment. If your business involves the provision of a services the invoice should give sufficient detail to justify the fee charged.

Statements

Within five days of the month end statements should be issued to all debtors. This reminds the debtor of monies due and gives the debtor another opportunity to issue payment.

Asking for payment

It is extremely important to keep a track of all communications with a customer when engaged in credit control as this will increase your ability to obtain payment.

Letters and e mails create an effective record to show that the debt is being pursued and put the debtor under notice that payment needs to be issued. Requesting payment by phone is one of the most effective methods of obtaining payment. Experience plays an important role when requesting payment by phone. Generally you need to remain professional, courteous but firm and always ask for the payment. Records of telephone conversations should also be kept.

Can't pay Verses won't pay

One of the skills a good credit controller develops is the ability to distinguish between a debtor who has the ability to pay a debt but refuses to do so and a debtor who simply cannot afford to pay a debt. A different approach needs to be adopted depending on what that of debtor you are dealing with. You can offer extended credit terms to a debtor who is in a difficult financial position if you believe they will pay. A debtor who simply will not pay without justification needs to be made aware of the consequences of non payment. Issuing legal proceedings is should be a last resort but if you have compiled a water tight case by following credit control procedures listed above you will increase your chances of winning a court case.



Credit Control Function Review

For a business or organisation with an established credit control department it can be a useful exercise to conduct a credit control function review. This review will identify issues that require remedial action and a template for action. Using the template in figure 1 below the process is as follows:

Step 1

Identify credit control matters that relate to internal organisational issues that impact negatively upon the collection of monies from debtors. Examples of such issues would be, does the organisation have a documented credit control policy? Is the credit control policy appropriate and fit for purpose? Is the credit control policy being enforced effectively? Is the billing system error free? The next step is to identify remedial actions that are needed to rectify problems noted.

Step 2

Identify credit control matters that relate to the individual credit controller(s) that impact negatively upon the collections of monies from debtors. Examples of such issues would be, do individual credit controllers have the appropriate level of skills required to execute their duties effectively? Do individual credit controllers have the appropriate level of experience in relation to debt collection? Are credit controllers evaluated by appropriate key performance indicators? The next step is to identify remedial actions that are needed to rectify problems noted.

Step 3

Identify credit control matters that relate to external factors that impact negatively upon the collections of monies due from debtors. Examples of such issues would be, is the economy in growth or recession? Do debtors fully understand invoices issued to them? Do debtors lack funds to pay? Are monies due to your organisation a priority to your debtors? Are debtors unconcerned with the consequences of non payment? The next step is to identify remedial actions that are needed to rectify problems noted.

Figure 1

