

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.

How effective is your credit management?

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. Here are some suggestions for good credit management:

- 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 or email
- 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

Contact us if you require assistance in this area.