

# Good Credit Control Procedures

## Introduction

Allowing your customers to pay you in instalments or after you have delivered the product or service is often an essential part of doing business. If your competitors offer it, or you operate in the B2B world then there may be no way of avoiding it.

But giving credit to your customers can also be a valuable sales tool you can use to help you win business, stand out from your competitors and build long term partnerships with your customers.

## Balancing Credit Risk

When offering credit to customers there are two risks you face:

**Late Payment Risk** – There is a risk the customer will not pay you on time. This could be because they cannot afford to pay you, or sometimes they simply have bad processes and procedures in place. Late payment is best avoided through solid cash collection procedures which we will cover later on.

**Risk of No Payment** – the worst case scenario is that the business does not pay you. As long as you have evidence of the goods or services you provided and there is no dispute you can pursue the debt with legal action. Although if the company goes bust you will be unlikely to get anything back.

## Cash Flow Impacts

Providing credit to your customers will mean you are incurring costs before you get paid. This will have a negative impact on your cash flow.

It is important that you are regularly checking how much money is owed to you and when it is expected to come in.

You will need to keep a close eye on the total amount owed to you, and ensure you are not overly exposed to cash flow difficulties should a customer pay you late.

# Before The Sale

## Know Your Customer

Before you give credit to customer it is always a good idea to do some due diligence first because you want some comfort you are going to get paid.

You can access basic information about the business using companies house to check the information such as registered address, number of years trading and who the directors are for free.

There are specialist agencies such as Dun and Bradstreet or Credit Safe that will be able to provide information about the company for a fee. However particularly for small businesses, the publicly available information can be limited and you are unlikely to get information such as turnover. The credit agencies will usually provide a credit score and a suggested credit limit which can be particularly helpful if you do not understand financial information well.

You can also ask the business directly for copies of their latest accounts and ask them any questions directly. If they have nothing to hide and want to build a long term relationship with you they will often be very co-operative.

## Negotiate The Terms

You need to agree with the customer what payment terms you will give them and set this out in writing. You should also set out how frequently you will review the terms for example. annually, or quarterly.

There are 2 elements:

- Credit Limit -this is the total amount of money you will allow them to have outstanding at any time
- Credit Terms – this is when the invoice must be paid.

Remember, you are essentially providing a loan to your customer for no cost to them. Therefore they will want the maximum terms you can give them as it is a free line of credit.

But there is a cost to your business of providing this credit. You could be missing out on interest if that money was in your bank account, or better still you could be using it to fund more marketing or other activities that grow your business. Do not give more credit than you need to give to win the business.

## Terms & Conditions

You need to have clear T&C's that state what the legal position. You need to think about things like:

- Transfer of ownership of goods – This usually happens when you deliver the goods, but could be delayed till payment is received. It means that if the customer doesn't pay you, you have the right to recover goods.
- Failed Payment part way through a project – Is the customer liable only for work completed so far and what happens if failed payment delays any future work.
- Interest – do you want to charge interest on any late payments?

It is good practice to send a sales order confirmation re-confirming your T&C's.

You need to be careful that you do not agree to any T&C's the customer may stipulate on you, that will trump your T&C's. Big business in particular can do this.

Get legal advice if you are unsure, particular if you are dealing with large business and high value projects/contracts.

## After the Sale

This is the most critical stage of credit control and is often the area where you can make the most difference in ensuring there are no late payments.

1. It sounds obvious but send the invoice at the earliest possible point as per what has been agreed with the customer. Ensure the invoice is accurate and contains all the necessary information.
2. Follow up 7-10 days later to check the invoice has been received and if there are any queries. This is just a courtesy call which will allow you to identify any issues, you are not being pushy or requesting early payment.
3. 7-10 days before the due date – follow up and enquire about the status of the invoice. If it has not been approved for payment yet, ask why and what you can do to expedite this. If it has been

approved for payment ask for a promised payment date which is the date you should expect payment.

4. Check your bank account on the promised payment date/due date to make sure it has been paid OK.
5. If the payment has not been made as expected contact the customer immediately. There is often a simple explanation so do not panic and remain polite and helpful to the customer. Something along the lines of :“I am contacting you as your invoice was due for payment on xxx , I wanted to check if there are any issues I can help with”.

*For all of the above actions you should take a collaborative and helpful approach when communicating with your customer. Your primary goal is to provide excellent customer service at all times and build a good relationship with them.*

## If the Customer Doesn't Pay You

If the customer doesn't pay you then it is inevitable that your tone and language will need to become firmer.

It is good practice to put the customer on stop as soon as they become overdue. This means you stop providing goods or services to them. This can give the customer an incentive to resolve the issue ASAP, and will also limit your exposure to any further unpaid invoices.

It is standard practice to issue a 1<sup>st</sup> reminder, 2<sup>nd</sup> reminder and letter before action. You can speak with the customer over the telephone, but always follow up with emails afterwards so you have a record of any communication.

There is no minimum or maximum time you need to leave between the communications below. 5-7 days is standard as this allows the customer time to send a 3 day bank transfer or cheque.

- 1<sup>st</sup> Reminder – Include the invoice number, value and due date.
- 2<sup>nd</sup> Reminder – Refer to the first reminder, restate the debt is overdue.
- Letter before action – This is a final letter that says if you do not pay by XX date, we will commence legal action.
- If the payment is not received and the customer has not raised a formal complaint with you, you will need to take legal action.

## Taking Legal Action

Legal action is fortunately very rare, and is not as scary as it sounds.

It is fair that you get paid for the goods or services you provide and the legal system is there to support you.

If the debt under £10,000 then you can pursue this yourself via the small claims court. There is a short form to complete where you attach evidence such as a copy of the invoice and the email communications chasing the debt. It is dealt with online and you do not need to attend court. When you win your claim the defendant will also have to cover the costs.

For more information refer to: <https://www.citizensadvice.org.uk/law-and-courts/legal-system/small-claims/>

If the debt is larger, or you are not comfortable pursuing it yourself then you can use a debt collection agency or legal advisor. But there is of course costs associated with this.

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