ACCOUNTASSYST

Online Credit Management for Businesses

The Seven Deadly Sins of Credit Management and how you can avoid them!




1. If you don't know who you're dealing with...

It can tie you in knots. You are chasing that overdue debt but you are getting nowhere. The information you have on the debtor is incomplete.

You can't hope to successfully collect all monies that are owing to you in the longer term if you do not know the exact legal entity of the debtor you are dealing with – is it Fred Bloggs Limited OR Fred Bloggs UK Limited OR even Fred & Martha Bloggs trading as Fred Bloggs?

Fail to determine the right information and you're unlikely to elicit any sympathy or resolution in a court of law.

It can cost you dear indeed when you realise after the event of supply that you're not 100% sure of the entity that you have allowed goods or services to on credit. You may end up writing off wasted court fees and your actual invoices in some cases.

Online help is at hand. The AccountAssyst new customer account opening facility ensures that your problems in this particular area are all but eliminated.

2. Terms and Conditions are absent or barely there!

Startling but true – many successful and professional businesses have inadequate terms and conditions, or worse still, none at all.

If that's you, don't turn over! When the going is good and you are being paid and, there are no glitches in your supply chain, it's tempting to overlook the importance of terms and conditions. But, they are crucial when relationships turn sour with a customer or a customer queries an order. You should have basic Terms and Conditions in place as an integral part of your process when offering credit to other businesses.

Ideally your terms and conditions should specifically and clearly have been acknowledged and agreed to in writing, or similar, by your customers before trading commenced.

All too often small medium businesses risk their entire stability for the sake of saving £500-£1000 with a solicitor for watertight T's and C's!

Online help is at hand. If you don't have any terms and conditions the AccountAssyst credit account opening facility provides an immediate 'stepping-stone' solution providing basic T's and C's. But only use as a stop gap – invest in your own professionally produced terms and conditions.

3. Sloppy Paperwork and Lax Administration

It's unlikely that you will be consistently paid on time, every time, if you are lax with your paperwork. Sometimes you may not even get paid at all.

Errors on your part that can lead to you not being paid on time include:

- setting up your customer's details wrongly on your accounting records – common mistakes being name and address/typographical errors,
- failing to quote order numbers on invoices
- unsigned proof of deliveries (or time sheets)
- a failure to make clear and get specific agreement to your credit terms

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Attention to detail is paramount. When did you last check an order received from a regular customer to ensure it was from the exact entity you had set up on your accounting records? Always worth checking regularly!

Don't fall foul of any unscrupulous practices or ordering systems engineered to have you unwittingly supplying a lesser established company as the 'fall-guy' just in case a project goes wrong. Wherever possible, your credit limits and dealings should always be with the company within the group that is financially able to pay out even when a financial problem occurs with their trading division.

Occasionally, you might like to seek cross-company guarantees and/or directors' personal guarantees where merited.

Should you need to seek any assistance in the areas of guarantees relating to company transactions don't hesitate to contact us to discuss your needs.

4. Complacency. They have always paid us before...

"We have dealt with them for ages and they have always paid us before" ... the words of comfort often uttered by suppliers facing for the first time an unpaid invoice from a regular customer with little sign of it being paid without recourse to legal action.

In fairness, this is perhaps the most challenging deadly sin to handle internally, often because you feel awkward. You've built up a degree of trust with your more established customers – and they too will often feel that they have earned your trust and the right to ongoing credit with no questions asked from you. However no matter how comfortable the relationship with a customer, it's not a justifiable reason for ignoring warning signs that come your way.

It is sound credit management practice to monitor your customers.

There are many ways to do this, some internal – including monitoring their payment habits and how often you might have to chase them for your monies, and indeed whether they keep payment promises or not.

Others might include access to a credit reporting monitoring service which alerts you to any meaningful change in the credit status of your customer. Be cautious of sole reliance on this type of solution however as it is far from failsafe – it's often based on outdated information, such as the latest accounts filed at Companies House. It is an unfortunate fact that when you receive a warning that a company has a new judgment recorded

against it then it's more often than not too late for you to have any chance of getting paid (please ask for a copy of one of our many AccountAssyst case history examples to better understand this).

You must also be a realist when assessing how important you are on your customers' priority list for payment.

Are you easily replaceable or are you irreplaceable?

If the latter it could well be the case that you are oblivious to a customer's difficult financial plight until the day that dreaded insolvency notice arrives in the post and the reason for your lack of payment becomes all too clear. Don't let it get to this stage. Be on your guard with more subtle alternatives (such as the Register of Outstanding Invoices ROSI Monitor service for example – please ask us to explain how this is so important).

By way of illustration, let's take a printing company experiencing financial difficulty. Their turnover is down but they're hanging on in the hope of

securing that major order or contract that will reverse their fortunes. Sometimes this happens but more often than not it doesn't.

So which suppliers may be oblivious to their situation and which suppliers might have good warning they are in difficulty? The Bank – certainly not – the printers would be unlikely to risk exceeding their overdraft facility to pay all bar a supplier that keeps the presses rolling. Oblivious! The paper merchant? Without paper the presses are not rolling either. Also oblivious! The key ink supplier? Oblivious! No ink = no print. Water and electricity? Without these no print. All of these suppliers are oblivious to the true financial problems of this business.

So who finds out first then?

The answer is the non-essential and/or easily replaceable suppliers of the business – in the case of the printer this could be the courier delivery firm or the stationery supplier – both easy to replace with a queue of competitors keen to supply in their place. But when will they be paid? And if they have failed to gather the right information at the outset and overlooked terms and conditions will they in fact ever be paid?

When gaining a new customer try and elicit the answers to these questions:

1. Why is this company opening an account with us?
2. Is it because they have finally been worn down by our dynamic sales effort?
3. Were they perhaps unhappy with the delivery service levels or pricing structures of their previous supplier?
4. ARE THEY COMING TO US SIMPLY BECAUSE THEY ARE ON STOP ELSEWHERE?

You may catch out those companies using you purely as an emergency credit lifeline.

5. Failing to chase overdue monies promptly and regularly

A robust and rigid credit control policy in place is essential to successful recoveries. Start by setting it out in bullet point format on a single sheet of paper. (We have a template, please ask for it).

Failings in this area are generally more commonplace in smaller companies where the focus of the business owner is on the day to day running of the business. Having a credit risk strategy and chasing monies is all too often replaced by a 'we chase money only when we need it in' attitude. Sometimes a business is reluctant to chase a customer, concerned it may jeopardise their good relationship.

At the other end of the spectrum is AccountAssyst with its online automated credit control system and process; helping to instil good payment habits in customers and thereby significantly reducing the amount of time needed to chase.

It's worth remembering that credit is not a right of your customer – it is very much a privilege that you have offered them. To abuse it beyond terms puts them in the wrong, not you. If a customer wishes to avoid being unhappy at the tone of a chase letter or phone call received for an overdue account they should pay on time.

6. Be prepared to turn down potential write-offs

It can be tough in credit management when you appear to be fighting against the sales team. It's even tougher when in some organisations the sales team comprises the directors, owners and shareholders themselves!

To quote the oft repeated phrase that focuses everyone on to the same goal "a sale is not a sale until it is paid for."

Being realistic though, all businesses, and in particular SME's have to take calculated risks with credit from time to time. However any risks should be based on the potential of a profitable return and they should be educated risks.

There is little point in being turnover rich, profit poor. Equally there is no value to be had in having

many suppliers that end up in credit notes or write-offs. A balanced common sense approach is always the answer.

Visit your customers and gauge their enthusiasm about their own business but as mentioned earlier do find out why each new customer is considering giving their business to you.

Taking a credit report and doing as much 'digging' as you can using resources such as the Register of Outstanding Invoices is vital.

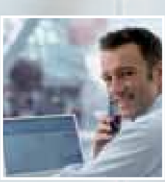
Every day debt claims for huge sums that end up in write-offs, are brought to solicitors and debt collection agencies by clients chasing customers with many major warning signs including numerous court judgments recorded against them – how can this possibly happen?

The answer almost always lies in supplier ignorance and incompetence.

Sometimes this is because a supplier failed to take a credit report or set up adequate credit management systems – all for the sake of saving a few pounds in either purchasing a credit report or monitoring their customers through such means.

It is a hard and expensive lesson to many. If it has happened to you before it's time to change. Address it properly now.

- Keep a watchful eye on the orders you are receiving to ensure they are profitable and not being despatched to parties unlikely to pay you.
- Be prepared to turn down new credit account applications from companies that would not get a credit limit elsewhere and offer them pro-forma only – they may be used to this.
- Be prepared to withdraw and/or reduce credit facilities with already established customers if their credit rating goes down or detrimental information is filed against them for any reason – a bank would not hesitate to do so and nor should you. You can make it easier on yourself by blaming your 'credit insurance company' or 'the bank' for the decision if you wish to perhaps make it a little less personal.



7. Knowing your customer – before, during and after

Managing your relationship with your customer from the start of your dealings with them can help reduce write offs.

Successful businesses that survive the tough times and thrive in the good times have robust processes. They will start with a prospect check before beating a sales path to the door of their new prospective customer. What do we mean by this?

Well, let's say a sales representative has 50 prospects he would like to approach there is little point in him spending two weeks chasing one or more only to find out that they don't pass the company policy on account opening.

A quick 'prospect check' through AccountAssyst can save much time and it will indicate whether that prospect is the next golden customer or a potential liability.

When the sales person does come to opening an account on credit the data they collect before the sale is processed is also crucial. Therefore having a comprehensive credit account application form (with distinctly separate ones for limited companies, sole traders and partnerships) that asks the right questions will help should problems arise in the future. This is all part of the AccountAssyst offering.

If you would like some recent examples as to how collection of relevant data can prove to be so important in effective collection of future accounts then please do not hesitate to ask us – we have many examples.

We look forward to hearing from you. Contact us for a free trial of AccountAssyst and for genuine case studies of the many businesses that are benefitting tremendously from this pioneering system.

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