



Your Guide to Credit Control

WHAT IS
CREDIT CONTROL?

WHY IS CREDIT
CONTROL IMPORTANT?

THE BIGGEST CREDIT
CONTROL MISTAKES
BUSINESSES MAKE

TOP 10 TIPS FOR IMPROVING
YOUR COMPANY'S CREDIT
CONTROL PROCESSES



What is credit control?

Businesses work according to a range of different payment models. Retail businesses, for example shops and restaurants, mostly take payment for a product or service at the time of delivery. Others, like B2B businesses, will often deliver their products and services before presenting their customer with an invoice which must be paid within a certain timeframe. They are effectively acting as a bank, offering their customer a short-term loan for a product or service they have benefited from, but not yet paid for. Unlike a bank, however, the loan comes with no interest, no security and only the hope that the customer will pay up!

Credit control is the practice of managing your accounts receivable to ensure that your customers pay what is owing on time and in compliance with the payment terms set by your business. This might involve:

- Performing credit checks on new and existing customers to ensure they are in a financial position to pay for your services
- Setting clear payment terms before you make a sale
- Having systems in place to check customers have received their invoice, issue reminders and chase up late payments
- Appointing somebody to take responsibility for your company's credit control processes.

Why is credit control important?

Credit control reduces late payments and their impact on your business. It is vital to avoiding bad debt and maintaining a good cashflow. Essentially, it ensures that cash – the very lifeblood of your business – is healthy and functioning well. If your payments are continually exceeding your receipts due to late or unpaid invoices, this will impact your ability to meet your own financial commitments.

Having good credit control processes in place has strong reputational benefits. You are less likely to come into conflict with customers as a result of unpaid invoices, resulting in better working relationships based on mutual respect. Your own ability to consistently pay your suppliers on time will also bolster your reputation and make it more likely that they will continue to work with you. Importantly, it helps demonstrate your creditworthiness in the eyes of lenders, ensuring that you can access business finance should you have plans for growth.

Another noticeable benefit of having good credit control processes in place is the time it frees up for your business. With modern accounting software, you'll be able to automate most of these processes, enabling you to spend less time chasing invoices and more time doing work that is profitable for your business.

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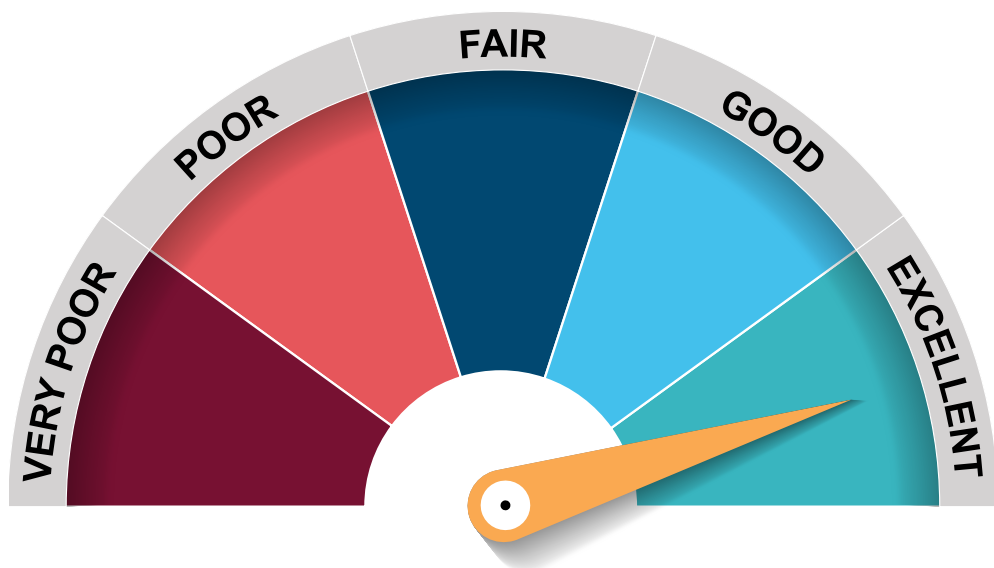
TOP 10 TIPS FOR IMPROVING
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TOP 10 TIPS

for improving your company's credit control processes



1

Perform credit checks and monitor performance



Make sure you always perform credit checks on your customers. Circumstances can change quickly, so it's important to review this regularly – even with existing customers – and particularly if they are doing an increasing amount of business with you.

A credit report and continual credit monitoring can provide you with some really useful insights into

your customers' potential to pay their invoices on time, even during periods of financial difficulty. It can also inform your decisions when choosing how much credit to offer and setting credit limits to minimise your risk exposure.

Credit reports can also highlight changes in your customers' pattern of behaviour, which is often a good indicator of early signs of trouble.

2

Review your existing procedures



You might be happy with your current credit control procedures, but there is always the risk of falling into the trap of 'doing things as they have always been done' when in fact they could be

done better! Conducting regular reviews means that you'll have opportunities to assess what's working and what isn't, and to update your processes if anything is lacking.

3

Set and enforce payment terms and conditions



Ensure your customers have signed your terms and conditions of trade and agreed payment terms **BEFORE** you trade with them. Remember the old saying, 'good fences make good neighbours'? Being clear at the outset will help foster a positive relationship.

A standard credit application form is a great way to collect the relevant data about your customers, including a signature demonstrating that your customer is in agreement to your terms and conditions of trade, including your payment terms.



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TOP 10 TIPS for improving your company's credit control processes... (continued)



Don't delay sending invoices



Invoice as soon as you supply your product or service – don't wait until the end of the week or month. The sooner your customer has been invoiced, the sooner they'll pay.

Your invoice should clearly state all the information your customer needs, including:

- What the invoice is for, and where it was delivered
- Your customer's order number or reference

- How to pay (with bank details)
- Payment terms.

Make sure you follow your customers' preferred processes for where and how to submit invoices.

Sending a monthly statement of account will also help highlight missing invoices before they become overdue.



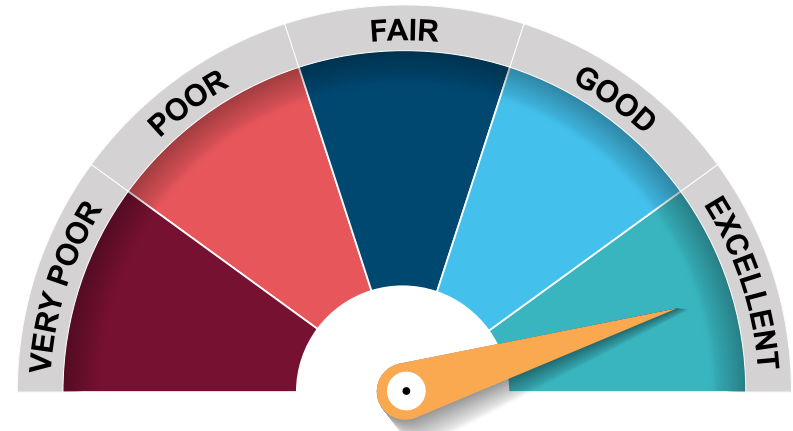
Make it easy



There is a huge choice of payment methods available these days, and everybody has their own preference. Customers are more likely to pay if you make it easy for them, and offering a wide range of payment methods is a great way to do just that.

Available payment methods might include:

- Cash
- Debit/credit card
- Bank transfer
- Direct debit
- Mobile payments (like Google Pay)
- Payment over the phone.



Set credit terms



You don't have to follow the general 30-day rule when it comes to setting your terms. You can set whatever credit terms you like, including not extending credit at all. You could ask for full or part payment either up-front or on delivery of goods and services.

Setting your credit terms is just like any other term or condition of business – stick to any credit terms you set and make sure your terms are transparent and agreed from the outset.



Consistency is key



A strong and consistent credit control process is vital – it's not something you can do on an ad hoc basis. There should be a dedicated person within your organisation with the responsibility and authority to ensure you are paid.

Conduct regular reviews of who owes you what, how long it has

been outstanding and the reasons for non-payment. This will help you spot changes in trends and patterns.

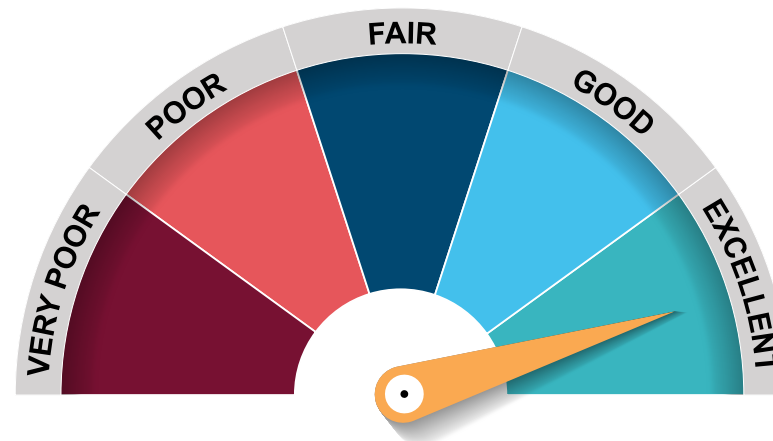
Have a clear credit policy in place and ensure your credit controller has the authority to enforce it. Credit control is about managing the balance of risk, rather than preventing sales.





TOP 10 TIPS

for improving your company's credit control processes (continued)



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Get strict with late payments



It's actually fairly normal to feel uncomfortable about chasing up late payments – but it is so important to do so swiftly and firmly. After all, it's your money!

Contrary to how it might feel, a business that adopts a clear policy – and sticks to it – will be seen as smart, professional and efficient. Send a first reminder, second chaser and third final demand as appropriate. If you're emailing, make sure you're also sending it to the right person, and get a read receipt.

Penalising late payers rarely helps. Instead, it's better to find positive ways of encouraging payments. For example, could you accept

payment in instalments for a valued customer? Or suggest payment via direct debit? You might even decide to incentivise them with a slight discount for early settlement.

In some circumstances, you may be able to retain the title of goods until payment has been made.

The best way to stay on top of late payments is to put in place a system to measure the level of debts outstanding and their age. Regular reporting of aged debtors and debtor days is essential to see early trends. If a customer repeatedly fails to pay, you might want to consider whether doing business with them is worth the risk.

9

Keep good records



Keep your accounting records up to date, tidy and accurate. Obtain and keep a proof of delivery, where appropriate. Keep notes of all

conversations with customers and what has been agreed. All of this will come in useful if there are any disagreements down the line.

10

Have a dispute resolution process



Your terms and conditions should clarify how quickly disputes should be notified to you.

Where no compromise is forthcoming, a solicitor's letter may be more effective.

Failing that, you might seek reparation from the small claims court via a County Court Judgement (CCJ). The maximum claim is currently £10,000.



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At Insight Associates, we're more than just bookkeepers or accountants. We help ambitious, growing business put in place the solid financial foundations they need to thrive. We provide them with award-winning software and implement standard operating procedures to elevate their finance function to a place where it can better support their future growth.

We believe that good, accurate financial data is vital to the performance of any business. Once we have established strong foundations, we provide our clients with regular financial reports and analysis, so that they always have visibility of their key performance indicators and the insight they need to make good decisions about the future of their business.

Our team of financial management specialists is always on hand to provide our expert opinion of the financial data we provide, and our interpretation of what it says about your business's situation. Where appropriate, we're not afraid to challenge our clients to think differently about their approach, highlighting opportunities they may not have thought to take advantage of and finding the best ways of developing and improving their business.

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