



## 22 ways to improve your credit control

Over the next 22 days implement any steps that you don't already have in place to improve your chances of getting paid on time.

### **1. Do you fill in a credit application form for new customers?**

One of the main things that we find when doing credit control for our customers is that they don't always have full details for their customers. These include a correct company name and address, whether the company is limited or sole trader, a VAT number, contact name for accounts if needed.

If you don't have a "new customer form" to fill out for your new customers, or for them to fill out and send back to you, this is the place to begin. Your customer form should include your terms of business and all the details needed to do effective business with your customer.

[Here is an example template to use and download for free](#)

### **2. Are your payment terms clearly defined to your customers?**

What are your payment terms? Some companies have varying payment terms for different customers, which is based on the credit health of the customer. Many companies have standard payment terms that apply to all customers, for example "payment required within seven days."

When you take on a new customer, before they have completed their order, re-inform your customer of what your payment terms are. Tell your customer how you accept payments too, whether by bank transfer, card, cheque etc. Make sure your invoices also state your payment terms on them too. Update all of your policies, software, invoice templates, new customer form templates to include your payment terms, if you don't already show them in advance to your customer.

### **3. Are there signed agreements of your terms of business?**

The way you do business should be clearly illustrated and explained to your customer. Don't be afraid to let them know how you operate. If you set your standards high and show people what you expect, it will make things clear and professional from the start. Terms of business puts in place a clear structured agreement between you and your customer. Ensure it's signed and returned before you continue to do business.

## **4. Do you run credit reports and check the status of potential customers?**

If a customer has bad credit or CCJ's against their name or business, they are at a higher risk of non-payment, as opposed to a company that doesn't have any.

If you don't check the status of your customer, you are gambling with your money. There are various ways for you to quickly do a credit check on your current and new customers. Even running a "one time" report for £4.95 is better than risking not being paid.

[>Credit Reporting Online](#)

## **5. Do you set credit limits and credit ratings for your customers?**

A credit limit is the maximum amount of loan that you agree to provide your customer with. It should be set at the maximum amount that you are willing to lose should the company become insolvent.

Circumstances can change very quickly, make sure that you monitor your customers regularly. There is a useful little tool on the [companies' house website](#) which allows you to follow and monitor your customers (for free). You will receive an update when anything changes at companies' house, for example a proposal to strike off the company!

**"Something to think about: 50 percent of a credit manager's time is spent resolving people problems related to poor communications and follow-up."**

## **6. Do you have a clearly written credit policy in place?**

A credit policy is a clearly written and structured policy that must be followed by all relevant members of staff and yourself of course. It should include your terms and conditions for supplying goods on credit, what your procedure is when you don't receive payment and what steps you take in case of customer delinquency.

[>> Useful information to help write your credit policy](#)

## **7. Do you have a system in place that recognises limits and hold orders?**

Sometimes you may need to place a customers' order on hold for credit reasons. There are systems available which will evaluate order information relating to a customer to establish whether to allow the order or not. If you feel your company is not large enough to warrant purchasing such a system, then you need to come up with another process for yourself and staff to follow so that your customers keep within a manageable affordable credit amount. If you don't have this process in place, and your customer keeps placing orders, before you know it, your customer could owe you a large amount of money and not have the means to pay it back right away. This will of course have a detrimental effect on your cash flow.

[>Find or develop a system that will work for you.](#)

## **8. Who is responsible for removing a hold barrier & who has the authority to make decisions?**

If you have placed a customer's account on hold, have you determined who your members of staff should speak with to confirm if the customer's account can come off hold? This needs to be implemented and put in a written process for all to follow. Perhaps give members of staff the power to do this themselves, based on certain criteria (written down in your core processes – See Number 10).

## **9. Is the following information included on your invoices?**

- Name of the business you are trading with
- The customers business address
- Order number or reference
- The description of the order/service/product
- Delivery date
- Price of goods or services
- Vat Number, amount, and rate
- Total payable
- Your Bank details
- Terms and conditions of business and sale
- What date you expect payment by
- Your payment terms

Ensure that you issue an invoice within the first 24 hours of the delivery of goods or services. Some companies even issue invoices before goods or services are provided/delivered.

Confirm that your customer has received the invoice and re confirm when you expect payment to be made by.

**Check all of the points above and make sure you include all on your invoices / invoice templates.**

## **10. Do you have written procedures in place for your credit control core processes?**

This is the process that you and/or your members of staff should follow each time the credit control process is applied. Write it down on one document for accountable members of staff to follow each time. This is a very effective exercise to do.

### **Example process:**

1. Order
2. Credit Checking
3. Obtain personal guarantee (If required)
4. Set credit terms
5. Deliver goods
6. Invoice
7. Follow up proactive call to confirm receipt of invoice
8. Payment received

9. Payment not received – Follow up call and email to request payment after 1 day over due
10. 1<sup>st</sup> Reminder letter issued after 7 days
11. Notice Before Proceedings letter issued after 14 days
12. Court / Legal / Mediation / Debt Recovery company

## **11. Is work routinely applied using the 80/20 rule? (Pareto analysis)**

Don't freak out! This is a simple and effective way to quickly obtain the largest amount of money owing to you. Run an ageing ledger report and export it into Excel. Place a data filter across the top and in the "total column" set the filter to start with the "largest sum first." This will then show you your top 20% of customers that owe you the largest amount of money. By contacting your top 20% of customers to chase them for their overdue payments, you will increase your cash flow quickly by collecting the highest amount of money owed first.

## **12. Do you have regular and ongoing customer monitoring?**

Did you know that on the [gov.uk](#) website you can find information out about any LTD company? Of course you did! But, did you also know that when you find the company you are looking for, you can "follow" that company. If any changes are made with companies' house by that company i.e. "*a proposal to strike off the company*" you will be sent an email to inform you of this change. You can then write to companies' house if that business owes you money and object to the company strike off. This will give you opportunity to collect and recover any outstanding monies owing to your company.

There are online credit monitoring systems available, however the gov.uk site is free to use and is basic. But it will at least keep you in the loop. Perhaps you can include this as a process to implement when you take a new customer on board.

## **13. Are time scales for letters and phone calls kept to a minimum?**

Once the payment becomes overdue, how long do you wait before contacting your customer to chase the payment? How long do you wait before issuing a notice before proceedings letter? The faster you contact your customer regarding the money owed to you, the faster you are likely to combat any disputes raised, and obtain your monies owed. Make a note of the time scales to chase your customer and how you do it, before you involve a debt recovery agency or issue a notice before proceedings letter before court action.

[>Link to download example credit control cycle template](#)

## **14. Is a third-party debt recovery company used when your collection process fails?**

Often by using a third-party debt recovery company it will increase your chances of receiving outstanding monies owed to you. This is because your customer will know that you are serious. Debt recovery is not all about sending “heavies” around to businesses and threatening them anymore. It’s done professionally and most of the time in writing and with phone calls.

[>>The Benefits of hiring a debt collection agency](#)

## **15. If you use a debt recovery agency, are they cost effective and successful?**

Finding the right debt recovery agency for your company is never an easy task. You must consider how much they will charge you to recover your debt for you. Then you will need to weigh this up against the time it may take you to do it yourself. Will it be cost effective? Is the debt collection agency working on a no win no fee basis? Have you compared their prices against other companies? Will they support you from the initial enquiry through to legal action and/or mediation if needed?

Does the debt collection agency work within your company ethos and ethics? Are they professional, open, and honest. It's not always about the lowest price, ensure you vet them correctly before you jump right in to anything.

To give you an example, our company has a 90.4% success rate on debt recovery. We charge 9%+Vat for the collection of debts over £450. Our company directors and members of our team have over 25 years' experience in the industry individually. FJCM always receives outstanding reviews from our customers, we have many case studies to reflect what we do and the way we work. Finally, some of the companies that we have chased for debt for customers thought that we did it so well, that they also became our customers!

## **16. Do you have support through a credit management system?**

To enable members of staff to make quick and accurate decisions on your customers, especially if you have a lot of customers, a credit management system may be needed. Credit management systems provide risk management, cash allocation, collection tracking, risk assessing amongst other things needed. Look up suitable credit management systems for your business.

## **17. Are your staffing levels correct?**

*“The research on payment culture found that 44% of businesses who have strict credit control facilities were much less likely to have a serious issue with late payment, than the 16% with informal set-ups.”* This shows that credit controllers clearly have their place in a business.

Can you ask an existing member of staff to take over the credit control role given the relevant training? Do you need to hire someone with experience? Approximately 10-14

customers can take up to 1 hour for a good credit controller to look after. Work out your ratio of how many hours per month of credit control will be required based on the above.

Outsourcing has become very popular over the last few years, and outsourced credit control even more so. There are many benefits to outsourcing your credit control, such as saving time, money and you gain a credit management expert on tap whenever you need.

>More benefits of outsourcing credit control

## **18. Do you have a good query management system in place?**

How does your company handle queries from your customers? Have you implemented a process or system to effectively manage and resolve issues with customers? Type up your own policy for handling queries and put it into place. You will be surprised how effective this is for your business. Taking the time to work on your business instead of “in it” all the time will bring vast improvements.

There are also online systems that will effectively manage queries for you.

## **19. Do you prepare end of month reports?**

As part of your daily credit control tasks you need to create management reports so that you know which customers owe you money. In doing so, you can determine the appropriate actions that you need to take to collect it.

### **Reports include:**

- Aged Debtors Reports
- Customer Transaction reports
- Monitoring Payment Trends
- Customer statements

## **20. Do you achieve realistic DSO performances?**

DAY SALES OVERDUE (DSO) is used to measure your average invoicing collection process. It shows the average number of days that it is taking for your customers to pay invoices. It also measures the number of days it takes to collect a payment from your credit sales. We created a free tool on our website for you to be able to work this out easily – its here: <https://www.fjcm.co.uk/tools/>

Setting targets to reduce and improve your company DSO is important so that you can see how well your credit management processes are working.

## **21. Are your staff fully trained in professional credit management skills?**

To ensure you are getting the best results in credit management and credit control from your members of staff, it is worth investing in their education to develop their skills further. This may improve their collection performance, how they use the Small Claims Procedure, the credit management process for management and other effective credit control solutions. Credit control, despite what some may think, requires certain skills and training and often this gets left by the wayside.

## **22. Do you set targets for credit control staff that are incentivised?**

Are you doing everything you can to encourage your credit controller/team to collect payments on time? Incentivising your credit control staff will certainly help with this. However, it is also important to note that incorrect incentive's and targets can make a proactive credit controller become a debt collector! Rather than rewarding with a "monetary/cash bonus scheme", a team day or spa day for example is a better incentive. This is often better than giving cash bonuses, which can become part of an employees regular salary that they might become reliant on.

People have told us that by following the guide above, they have been able to successfully improve their cash flow and develop their core processes within their business too.

We would love to know if this guide helps you.

Spend a few minutes each day to implement the above and see what great changes it brings to your business.