CHECKLIST

Get customers to pay on time

If your business does not have a system to check on payments from customers, it can cost many thousands of pounds. Many businesses have problems with debts from customers. Bad debts can even lead to the failure of your business. If you develop a way to control debts and collect payments from customers, you will keep the effect of debts on your business to a minimum.

This involves:

1. setting up a system to get customers to pay on time
2. putting the credit control system into practice
3. reviewing the effects of credit control system on your business

What you need to do

- accurately work out the amount of debts owing to your business
- confirm aims and targets for controlling credit
- set terms and conditions for controlling credit that are in line with your credit control targets and the law
- develop a system and process, including paperwork, for keeping debts to a minimum and encourage customers to pay early
- identify different ways to collect debts and assess their costs and benefits
- choose the most cost efficient way to collect debts in line with your credit control terms and conditions
- keep in regular contact with debtors to identify any problems they may have in paying
- use suitable debt collection options for clients
- assess credit risks in advance for all new accounts, and at regular intervals for current accounts
- regularly monitor the costs and benefits of your systems and processes to control credit
- regularly measure the effects of debts on business effectiveness
- monitor the credit control systems and identify problems with controlling credit
- change credit control targets to meet any new business needs
- explain the details of how you control credit, including any changes that are made to it, to relevant people

What you need to know and understand

Setting up credit control

- how to work out the effect of debts on your business in terms of costs and cash flow
- how to work out:

    the costs of debt-collecting options (for example, loss of client business, administrative expenses and professional fees); and

    the benefits of good credit control (for example, improved cash flow and interest receipts from faster payments, reduced bad debts, write-offs and lower long term administration costs).

- what targets to set for controlling credit. (For example, collecting payments, improving cash flow, reducing the number of bad debts and for debt write-offs.)
- how the following laws affect your credit control:

    Consumer Credit Act 1974 (for credit arrangements up to £15,000);

    the Late Payments of Commercial Debts (Interest) Act 1998;

    and Data Protection Act

Implementing credit control

- what types of documents and methods are suitable for use in credit control
- what credit control systems will keep bad debts to a minimum, including:

    keeping track of the differing lengths of time debts are left owing (aged debtor analysis);

    offering discounts to clients for paying quickly (settlement accounts);

    working out if clients are likely to pay their debts (individual client risk analysis);

    credit references and ratings; and

    assigning general and individual credit limits.

- what options there are for collecting debts. (For example speaking to the debtor by phone, sending written reminders, legal action, using debt-collecting agencies or a factoring agency to advance funds against debts)
- how to decide the costs and benefits of meeting credit control targets and business targets:

  costs (for example, losing customers, administration costs, legal fees and agency commissions); and

  benefits (for example, reducing bad debts, getting higher interest payments, healthy cash flow, keeping recovery costs down and keeping customer loyalty)
- what the legal and ethical limits are on credit control
- how to keep in contact with debtors and creditors and how often to communicate

Monitoring credit control

- how to assess risk in relation to volume of business expected from the customer. (For example, through their credit references, credit rating, bank and trade references, accounts and financial statements and other known creditors.)
- what problems there could be from putting credit control systems into practice. (For example, the overall proportion of customers who are in debt to business, customers who go bankrupt or go into liquidation, unusually large orders, breakdown in customer service, failure by business to keep delivery promises, changes in staff or making promises.)
- how to get accurate feedback from clients about credit control
- who needs to be informed about credit control systems. (For example staff and clients)

Information and advice

- where to find help about credit control. (For example business associates, business advice centres, business advisors, mentors, counsellors, specialist consultants, non-executive directors, accountants, banks, tax authorities, credit agencies and debt factors.)