



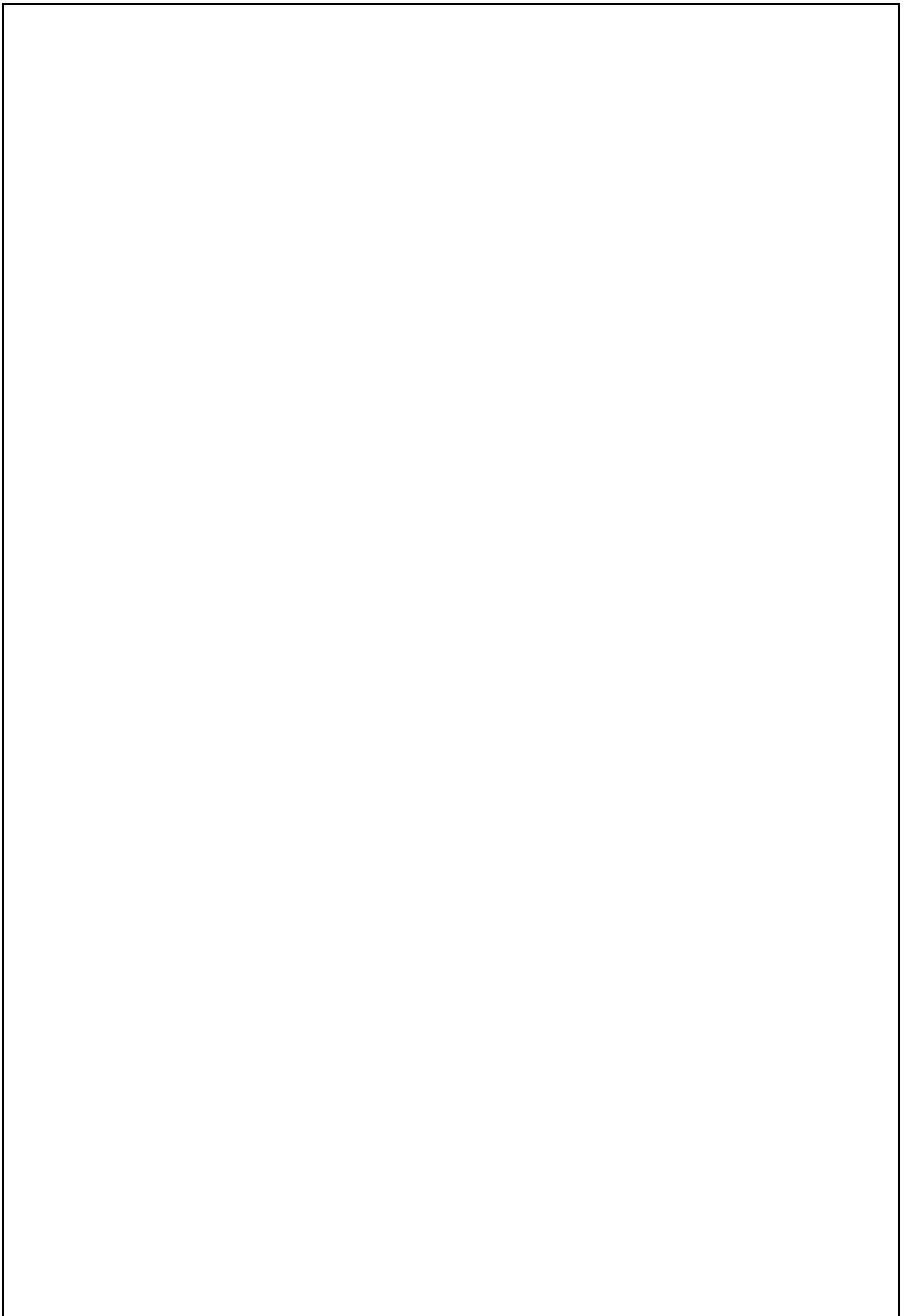
SMALL BUSINESS GUIDE TO GETTING PAID ON TIME



AN ACS  
GUIDE TO  
CREDIT  
CONTROL

EFFECTIVE CREDIT CONTROL

Advanced Collection Systems Ltd | 2014



## **WHO HASN'T PAID YOU THIS MONTH?**

An ACS tips and advice guide  
to setting up an effective credit control  
system, reducing your unpaid invoices  
and increasing your bank balance

## **80% of small business failures are caused by poor cashflow**

For most businesses, supplying goods or services before you get paid is a fact of life.

If you run a small business you already know that the majority of your customers expect you to grant them credit.

If you deal with large companies, their own processes will often make it difficult for them to pay on delivery - not giving credit will probably cost you the sale.

So you have to give credit, but as the saying goes;

**“A sale is only a sale when the money is in the bank”**

Unfortunately, there is a late payment culture in this country. You need to know that in all likelihood more than **half of your customers will pay you late**. This will put pressure on your cashflow and finances, increase your costs and possibly cause you to become a late payer yourself. To avoid these problems you need a credit control system.

If you don't have a system, if you leave it to your customers to decide when to pay you, inevitably you will end up not getting paid when you should. This will hurt your bank balance and more than one profitable business has been forced to close due to a lack of cash. A credit control system, in a nutshell, is the process by which you manage customers who owe you money and ensure that you get paid when you should.

## **There are other benefits too**

Apart from keeping you in the black, a good credit control system can give you early warning when a customer gets into financial difficulty, allowing you to manage the risk of bad debt to your business much more effectively.

## **How do you know if you need to focus on your credit control?**

Do you need to worry? To work that out, you need to know your numbers.

## **The magic number you need to know is 8%.**

If the money you are owed is more than 8% of your turnover then your customers are taking more than the standard 30 days to pay and your money is in the wrong account.

The other number you need to track is your average debtor days. If this number starts to reduce, it is a sign that the actions you are taking are working for you. If they start to increase, or are a lot higher than your stated credit period, you need to implement some changes.

The formula for calculating your debtor days is as follows;

$$\frac{\text{Total Debtors (Net of VAT)}}{\text{Total Net Sales (last 12 months)}} \times 365$$

So, if your sales for the last 12 months total £1,000,000 and you are currently owed £250,000, your debtor days are 91, meaning it takes your customers, on average, 91 days to pay

their invoices. If you give 90 days credit then that's not too bad, but if you only give 30 days then it's not so good.

What does this mean? If we continue with the same example, to get your average debtor days down to 30, you need to collect £168,000 of your outstanding invoices.

**Put another way, there is £168,000 of your money sitting in someone else's bank account.**

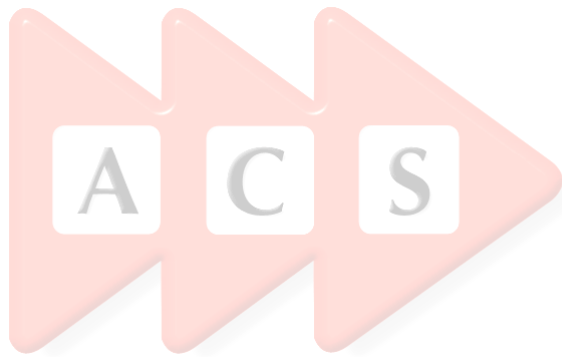
If you don't do something about that, you will need to either get extended credit from your own suppliers or pay for extra funding in the form of an overdraft or a loan to avoid cashflow issues of your own.

**That is why effective credit control is so important.**

ACS have been collecting overdue invoices for our clients since 2000. We have experience of all types of company, from the small business with no system at all to large multinationals with hundreds of credit control staff. Every business has different needs so there is no single system that will suit everyone, but there are common factors in all of the good systems we have seen.

This guide to setting up your own effective credit control system has drawn on that experience and the recommendations of the Credit Managers of our most successful clients.

These tips have helped them and we know that they will help you too.



## 1. Assess the risk

Simply put, it should be an absolute minimum requirement that you carry out a credit check on any company or individual that you are considering doing business with.

If they have a poor score, do not be afraid to advise them that you are unable to grant credit until you have at least 3 months trading and payment history with them.

There are sometimes reasons for a low score and a professionally run business will understand your caution and accept your requirement. If someone with a low score is dangling the carrot of a big order but only if it is supplied on credit, I would say that is a clear sign you should walk away from the deal and let them try and find someone else to take the risk. If they really want to deal with you, they will do so on your terms.

Ensure you also have a routine of checking existing clients on a regular basis as well. Credit scores change and most good credit checking systems allow you to set up trackers that will alert you when key indicators change.



## **2. Have a clear new customer process**

Good credit control begins with educating your customers.

Before you sell them anything, have them fill in a credit application form. Use the form to tell them in advance what your payment terms are, how they should pay you and what will happen if they breach your terms of trading.

If that seems a little stern to you, finish off by telling them to contact you if they run into a cashflow problem and will be late with a payment. It won't help you or them if they avoid dealing with the problem and you might be able to assist them if you know what the situation is.

While you are at it, review your terms and conditions and make sure they are clearly stated on your invoices. Display when payment is due and how to pay on the invoice front and print your other terms on the reverse.

From our years of experience collecting debts for our clients, there are a few things that are often missed in standard terms; ensure that you retain title to any goods until they are paid for and it is worth noting that unless you specifically state that you will pass the costs of any debt recovery action on to your customer, you will only be able to claim statutory fees and interest.

### **3. Make sure you invoice the right person at the right time**

You would be surprised at how often we find that the contact details for a customer have changed or are incorrect. If your invoices aren't getting to the right place, how will they get paid?

If you carry out decent checks up front then you can ensure that the address on your invoices is correct but you should also get in the habit of asking your customers to update or confirm their information on an annual basis.

Credit terms start from the date of the invoice, so once you have the right details, make sure you send your invoices out on time; don't leave them lying around until you can get to the post office.

If you can send them by email then do so, but check the options box in your email program to ensure you ask for delivery and read receipts.

#### 4. Create a Credit Control Strategy and stick to it

This really isn't as technical as it sounds. A strategy is simply what steps you follow in order to get paid and then what you do if payment isn't received. A really simple strategy might look a little like this:

Statement>Statement Overdue Letter>Account on Stop>7 Day Letter>Pass to Collections

It doesn't matter that it is simple if it works. You can always add additional steps like phone calls or follow up emails if you need to improve your cash collections. What does matter is that you put the strategy on a timeline. If your statement run is at month end, that is a fixed point in time. Every step in your strategy should occur a defined number of days after the previous step. So if you expect to be paid within 7 days of your statement, now your strategy might look like this;

Day 1: Statement>Day 8: Statement Overdue Letter>Day 10:Phone Call>Day 15: Account on Stop>Day 17:Phone Call>Day 22: 7 Day Letter>Day 30: Pass to Collections

Once you have defined your strategy, **it is important that you follow it.** It makes you much more consistent in your actions and that in turn will improve payments to you because you are educating your clients that you do what you say.

If you are unsure about your strategy or would just like confirmation that you have covered everything, we can conduct a free strategy review for you.

## 5. Review the letters you send

Each stage of your strategy should involve a letter and each letter needs to include an action, a consequence and a time frame. The tone and consequence should escalate throughout the process, so the letters get more serious each time you have to send one.

For example, you could send a letter with your statement that says something like;

Your statement is enclosed. Please check that you have received all the invoices and if any are missing, request a copy. If you have any invoice queries please ensure you pay the undisputed amount by the due date and email accounts with details of your query so we can resolve it quickly for you.

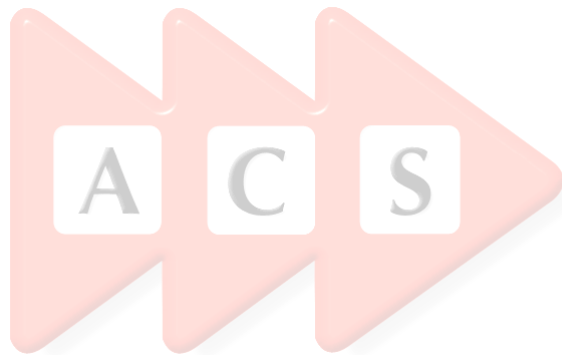
The payment is not even due yet, but note that there is still a clear instruction of what to do, a timeframe and an implied consequence (that not following the instruction will cause delays).

If you don't get paid on time and there are no queries raised, your next letter needs to escalate matters and might say something like;

Your payment is now overdue. As you have not raised any invoice queries with us we assume it is just an oversight on your part. Please ensure your payment is received within the next 2 days otherwise your account will be put on hold.

See how the tone is just a little sterner? There is still a clear instruction and timeframe but the consequence (account put on hold) is now clearly stated.

Review all your letters and ensure that they follow this format and that at each step the tone and consequence gets more serious.



## **6. Follow Up and Follow Through**

Don't just follow the steps in your credit control process and send a bunch of letters. You have to follow up the letter with a phone call and be prepared to apply the consequence as well.

The phone call will ensure your letter has been received and apply a bit of pressure to get your invoice paid. If payment isn't made, then apply the consequence - if your letter says that their account will be put on hold then you have to put it on hold. If your letter states that you will pass the account to a debt collection agency in 7 days, then on the 8<sup>th</sup> day you must pass the account.

Anything else just teaches your customer that you do not mean what you say; they will push the boundaries and inevitably gain additional credit from you.

Once a customer has stretched their credit terms with you it is much more likely to happen again and then your money will sit in their account not yours.

## 7. Get telephone trained

It can be quite hard for your credit control staff to know how to chase for payment on the telephone.

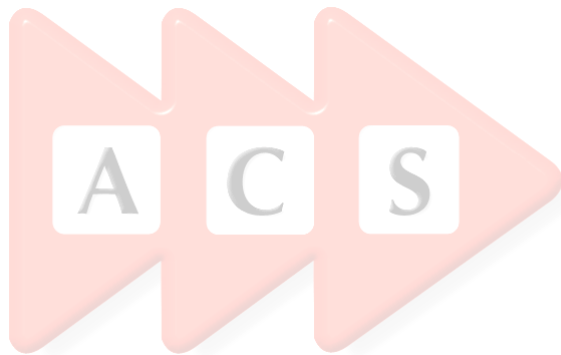
On the one hand, there is the customer relationship to maintain. On the other, there is a need to be firm and definite in order to collect your money. If your staff have dealt with the customer for any length of time, they will most likely have built up a rapport with them.

You don't want to damage that relationship but there is a very real risk that your employees will feel uncomfortable if they find themselves in a position where they need to make a collections call. All too often in our experience, that leads to your customer controlling the call and delaying making payment.

If you have the resources, consider having a different employee make the collections calls when your credit controller needs them to. If that is not an option, then there are techniques that can be taught to help your team deal with these difficult situations.

It can also be a problem for untrained staff to know how to handle the common excuses and delaying tactics they will undoubtedly be given. Do they know how to respond when your customer says "I haven't been paid yet, so I can't pay you?" or "I've not seen the invoice, pop a copy in the post and I will deal with it for you."

A small investment in telephone techniques for debt recovery will help your staff understand how to approach the call, how to deal with excuses and objections and *will* result in more money in your bank.





## **8. Engage a Debt Collection Agency**

The last stage of your strategy will be to pass the account to a collections agency. You shouldn't delay applying your consequences for any reason so you need to already have a relationship set up, even if you don't have a debt yet.

Their job is to handle the inevitable disputes and excuses and the more information you can provide the agency you select, the less often they will need to refer to you to answer queries. The agency will need to have a good grasp of your business and what you do. They should ask to see copies of your trading terms and understand your strategy and where they fit into it.

If you involve them early in the process, their success rate will be much higher and the fee charged to you will be lower, so it is definitely in your interest to contract with a reputable firm as soon as you can.

When choosing a collections partner, beware of agencies who charge up front fees or sign up charges. Any good agency will be happy to work on a 'no collection, no fee' basis so there is a zero cost for you to appoint someone.

If you amend your terms and conditions as I suggested in Chapter 2, choose an agency that is prepared to add their fees onto the balance and chase your debtor for them. Every pound of the fee they collect reduces the actual cost to you, in some cases making it free.

Our aim in writing this guide was to highlight to you the importance of establishing good credit control habits from the start.

We know that for most small and medium sized businesses your most pressing need will usually be to find more customers or to deliver great service to your existing clients, which is why credit control is often left to last, but a little time and effort spent now will pay for itself over and over again, helping you build a better business.

There are steps you can take right now to create an effective credit control system and start getting more money into your bank account.

It can sometimes seem a daunting task to manage and reduce the impact of late payment on your business, so we trust that you have found the information in this guide useful. If there is anything you would like further advice on, please get in touch.

Advanced Collection Systems Ltd  
Steele House  
126 Great North Road  
Hatfield  
Herts  
AL9 5JN

01707 252 900  
sales@advancedcollection.co.uk

Established in 2000, ACS Limited is an experienced debt recovery agency

This guide has been produced with the help and insight of the credit managers and accountants from our most successful clients.

You can find further information and resources that may be of use to you, including a downloadable checklist of the information you should obtain before extending credit to anyone, on our website. To obtain a copy for your own use, please visit:

**[www.advancedcollection.co.uk/resources](http://www.advancedcollection.co.uk/resources)**

