

Developing Effective Credit Policy

In business, effective credit policy and proper management of your receivables are paramount. It's important to get the sale, but if clients can't or won't pay you - what's the point?

Listed below are steps designed to assist and improve your existing credit policy:

1. Before providing credit to a new client, consider sourcing credit reports or checks to investigate their credit rating. This is prudent if they are applying for a large amount of credit and should help to prevent any problems later on.
2. Your credit application document should include a request for information such as middle name, date of birth, home address, telephone and mobile telephone, 3 x trade references and also a secondary contact with their telephone and address.
3. Seriously consider implementing a directors or personal guarantee document for the client to sign at the outset. This can act as a filter to deter bad payers and can greatly improve your chances of recovering the debt if further action is necessary.
4. Clearly explain your terms of trade at the start of the relationship. Display it on all invoices and avoid changing the rules - never give debtors an excuse not to pay.
5. Change your monthly client statements to show: Current | Overdue | Pay Now |. If you offer the traditional: Current | 30 days | 60 days | 90 days | then this system tells clients that payment in three months time is acceptable.
6. Monitor your receivables on a regular basis. Rank debtors according to value and risk.
7. Review any reports that indicate a change in buying habits or client spend. A change in volume could be an indication that other suppliers are revoking credit.
8. Keep your finger on the pulse. Ask your sales team to report directly on any information they may pick up in the field about a client.
9. Consider deducting bad debts from the figures of your sales reps. Structure it so you do not pay commission or bonuses when the client doesn't pay you. This will improve the quality of new clients and your bottom line.
10. Be sure to keep your systems simple and paperwork orderly. Retain signed delivery dockets to avoid potential misunderstandings or disputes.
11. If an account goes beyond your trade terms, telephone the client and ask for payment. At this stage your reminder should be polite and inoffensive.
12. If a client requests extended credit this should be interpreted as a red flag. Probe thoroughly and make a decision based on their particular situation and your cash flow requirements.

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13. If the account remains unpaid, stop supply to this client immediately. Implement this procedure as standard. Advise the client of your decision in writing or via the telephone. Try to uncover the nature of the problem or dispute and work towards an arrangement that suits both parties.
14. **THE GOLDEN RULE:** Never allow any client to owe you an amount of money so large that if they don't pay you, your business will not survive.

By incorporating these simple rules and tailoring them to suit your particular business; you can help prevent costly problems with delinquent debtors and bad debts down the track.

Remember, you are not a charity organisation.

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