TIPS FOR IMPROVING THE MANAGEMENT OF CREDIT AND RECEIVABLES

Having credit policies in place, performing credit checks on customers, having a partial payment policy and being clear and upfront about your payment expectations both in person and on your invoices will go a long way towards ensuring that your small business gets paid and doesn't get stuck with high levels of bad or doubtful debt.

The following tips aim to aid small business develop a framework and consistently apply processes to manage their credit and accounts receivable:

1. Run credit checks on potential customers

Do not automatically extend credit to new customers – run a credit check on potential customers before entering a relationship. This should include checking business and trade references for larger customers. Regularly run credit checks on existing customers, particularly where their circumstances change, or in difficult economic circumstances. Don't be afraid to withdraw the privilege of allowing a customer to purchase on credit if they cannot pay on time.

2. Set a credit limit

Based on your credit checks, set credit limits for each customer. Ensure these limits are recorded and inform your staff to monitor against them. Regularly review credit limits, with a customer's history of paying on time, or economic circumstances informing your decision.

3. State payment terms visibly and clearly

Based on your credit checks, set your payment terms for each customer; for example, 30 days from date of invoice. These terms may be different for each customer depending on their history with you and economic circumstances.

Go over the payment terms with your customer and obtain their acknowledgement of such terms. If the payment terms are specifically pointed out to the customer, they may indicate up front whether they are able to meet such terms or whether they require an extension.

Document the payment terms on every invoice, regardless of how long you have been dealing with a customer, for example "payable within 15 days from date of invoice" or "payment due date".

4. Invoice promptly

Send invoices as soon as work is completed or at agreed intervals. Delays in issuing an invoice may signal to the customer that your business is indifferent to getting paid on time and react accordingly. Small business accounting software and POS (Point of Sale) systems should make quick invoicing easy.

5. Set up a customer database

Create or update a database of your customers' contact and commercial information to enable you to locate debtors, make contact and collect unpaid debt. Verify their current contact information and monitor for changes to this information (while ensuring security and confidentiality of customer data).

6. Take partial payment in advance and provide incentives to pay early

If it is appropriate, ask for a deposit or retainer up front, especially for big ticket products or services. Also, you could use tools such as "early payment discount" or store credit/points to incentivise customers to pay early.

Note: Make it easy for customers to pay. Offer them the ability to pay via direct debit arrangements and credit card, among others. Offering e-payment options with e-wallets that have promotions such as cash rebate, petrol cash back, reward points, etc. may also have the potential to encourage timely payment by customers.

7. Monitor your accounts receivable (AR) on a monthly basis (or more regular intervals)

The more quickly you follow up on a missed payment, the better your chance of getting paid. So, set up a system for flagging late payments. Run regular reports to identify both when payments are due and habitual late payers. If a customer thinks you have forgotten a bill, it may become a low priority for them. Contact customers before the due date for payments, particularly payers with poor payment history. Make arrangements for non-paying customers, such as a payment plan. Do not let non-payment go unaddressed.

8. Establish a follow-up procedure for customers who miss payments

Do not be afraid to chase up late payments – it is your money after all. Increase directness gradually. A straightforward call reminding the debtor that the account is overdue is usually persuasive. If you have the time, pay the debtor a courtesy visit. Be sure to ask when the bill will be paid. You may then document that via an email. You want to come across as friendly and polite, not threatening in any way. Sometimes the person has just forgotten or missed seeing a bill and a quick phone call is all it takes.

9. Follow up on your initial contact

If personal communication does not produce payment, follow up with an account statement or a letter detailing the amount(s) owed, the prior invoice(s) date and the date on which the goods were delivered, or services provided, requesting the customer's immediate attention to the matter.

If payment is not forthcoming following late-payment notices, send collection letters expressing the need for the customer to pay in stronger language. If the payment is still outstanding, consider using a debt collection agency or a lawyer.

You do not want to create a reputation as being soft on late payers as it may lead to further late payments. Do not give up easily when a customer stonewalls.

Note: Keep copies of all your collection attempts and consider employing more than one channel of communication with customer on this matter, depending on the size and importance of the debt.

10. Deal with delinquent customers personally

If a customer continues to be a poor payer, meet with them to discuss. If, after that, they continue to be a poor payer, refuse to provide them further goods or services. While this is easier said than done, the time and effort you are putting into this customer may not be worth it as it can mean spending less time servicing good customers or finding new customers.

Note: To mitigate delinquency, ensure you have positive relationship with your customers and meet with them regularly, especially key customers.

11. Empower the right people

Depending on the structure of your organisation and nature of activities, it might be better to assign one person the task of Accounts Receivable (AR) review and debt collection rather than have the sales people handle their own

Accounts Receivable. Designate a lead and provide support, training and incentive to them to do the job right. Where the relationship is “owned” by the sales staff, have them support the designated AR/debt collection lead. If selling on commission, you could consider paying commission to your sales staff when the payment is received, as an added incentive for them to bring in good payers, not just any customer.

Note:

- Create an awareness amongst staff (at all levels and business functions) of the importance of good cash flow and how lapses in practice impacts the business and your employees.
- Be a good payer yourself. If you are not a good payer, you must assume your customers will learn about this and wonder why they should pay you on time. Similarly, such behavior may disincentivise your staff in their efforts to improve timeliness of customer payments.