

WE KNOW

FINANCE

CREDIT CONTROL POLICY

QUICK GUIDE

WHAT IS A CREDIT CONTROL POLICY?

Many companies still rely on personal relationships and connections that the credit being extended to the customer will be paid, and paid on time. This opens up a business to a lot of risks, and can seriously affect your cashflow.

Why would you extend credit to a customer, when you do not know whether that customer has the ability to pay you?

A credit control policy should be:

- Well thought out – bearing in mind the limit of credit your business can afford to carry
- Distributed and used by everyone in your company
- Able to be understood, have the support of, and be able to be implemented by your staff
- Not so tough that you end up losing sales, or too relaxed that your bad debts increase
- Realistic
- Should be developed with input and agreed on by all departments involved.

All too often companies that have a credit control policy do not train or remind their staff on the policy. Everyone in your business should know what your credit control policy is and support the policy. A sale is not a sale until the money is in the bank.

RULES FOR EFFECTIVE CREDIT MANAGEMENT

- Assess your customer's ability to pay
- Consider your credit limits – this may vary from customer to customer depending on how long you have been doing business with them
- Invoice your customers regularly – and ensure you follow up any queries on invoices and overdue accounts promptly
- Review your debtors ledger regularly – preferably weekly – as this will provide you with a good picture of how much money is outstanding and by whom
- Monitor payments made by your customer – and adjust the credit limit extended accordingly
- Ensure you know your own cashflow – how much do you need to collect monthly to ensure you can pay your bills
- Aim to invoice promptly after delivery – if your customer is happy they are more inclined to pay quickly.

ASSESSING CUSTOMER RISK

When extending credit to customers, every customer needs to be assessed on their risk. There are a number of resources that can be used to assess your customer, including:

- Credit checks – through credit agencies such as Dun & Bradstreet, Veda Advantage.

- Online information – some of these are free, while others incur a small charge for searching:
 - Companies Office (www.companies.govt.nz) – search current details, directors and owners, including their involvement
 - Receiverships, insolvencies and bankruptcies (www.insolvency.govt.nz)
- Reference checks – they will no doubt have provided you with their ‘best’ references, however calling them may give some indication of whether the company tended to stretch their payments
- Industry contacts/other suppliers – contact others in your industry as the company may have been rejected by your competitors for a good reason
- Financial statements
- Public records

Don't confine your assessment to customers know as ‘problem payers’, as these were probably once considered good payers at some stage. Put time aside to review and assess all your customers.

SETTING UP A CREDIT CONTROL POLICY

Establishing a process for assessing credit control processes and determining credit risk of customers is essential to managing your accounts and cashflow, and avoiding bad debts.

The checklist below will aid you in setting up your credit control policy.

DOCUMENTATION	CONSIDERATIONS	FURTHER DETAIL
Credit application	Does it adequately identify the entity?	Follow-up on any essential information they have left off the form
	Should be signed by applicants	
Terms of Trade	Are they appropriate for the type of business?	Have it checked by your lawyers
	Must be attached/signed with credit application	
Credit checking	What/how many credit references?	
	What type of references?	Same industry and/or different
	How to check references?	
	Directors/shareholders	Run checks - where closely held companies
	Company reports	Determine what size potential business is before purchasing detailed reports
Company checking	Check Company Office records	
	Check other companies where Directors/Shareholders also involved	What is their personal reputation like?
	How long company has been established	May be a signal of other companies difficulties
Guarantees	Personal guarantee from Directors/Shareholders?	When will guarantees be required/not required?
	Ensure guarantees are properly executed	Must be signed separately to credit applications
Granting credit	Who can grant?	What limits to amount?
	Setting limits	What criteria are applied
	Reviewing credit limits	Timing/ad hoc
	Increasing limits	Who/what criteria? What additional checks?

	Stop credits	What triggers should apply? Who authorises?
Account adjustments	Gaining credits	Who can grant?
	Minor account adjustments	Who can grant? What limits?
Account write offs	What constitutes a write off?	Who authorises it?
Follow-ups	When do follow-up start?	Consider as soon as payment is due
	Who is responsible for follow up?	When do more senior people become involved?
	Payment arrangements	Who can negotiate? What rules/limits apply?
Collection/legal action	What triggers action?	Who decides?
	Who can initiate action?	
	Type of actions	Pass to debt collectors or legal action through courts?
	Court actions	Who prepares claim? What actions claim?
Disputes	What constitutes a dispute?	Who makes the decision?
	What action to resolve?	Who is responsible? What limits?
	If can't resolve...	Who decides on next step?
	Disputes Tribunal	What criteria for filing a claim? Who prepares claims? Who attends hearings?