GUIDE TO CREDIT CONTROL

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...to grow together

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What is credit control?

Credit control is anything you do to reduce the wait between supplying a customer and getting paid. Your customer owes you, so you're extending them credit – but you're trying to do it in a controlled way.

Credit control is a delicate balancing act. While it's important to get your money as soon as possible, customers might leave if you're too aggressive.

Why you need a credit control policy

Not many small businesses have credit control procedures when they first start. They just issue invoices and hope for the best.

But fewer than half of invoices are paid on time and, before long, that takes its toll. Cash flow can become an issue, and chasing payments is a pain and time-consuming.

If that sounds like you, it would probably help to develop formal credit control procedures.

Write up some credit control procedures

Effective credit control will get you paid faster, and that's good for business. Write down some formal processes that explain how you'll issue invoices, and what you'll do if they go past due. Make sure your policies and processes take into account some of the things we will discuss today, communicate them to your team. You'll be on your way to better cash flow.

Decide what actions you'll take when invoices go past due:

- When will you email a reminder? When will you call?
- Will you send a past due invoice or a statement of accounts?
- When will you involve a debt collector?

Setting up a new customer account

Do not assume all customers are the same. Quite often now if you don't send the invoice just how they like it, they will not process it. This will lead to payment delays. Whenever you land a new customer, always ask:
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- Whom do I talk to about invoices getting paid?
- What information has to go on the invoice for it to get paid?
- When do you do payment runs?

With this information at hand, you'll never waste time sending an invoice that simply can't be paid, or chasing the wrong person when it's past due.

Credit checks

You could run credit checks on businesses before accepting them as new customers. If they score well, they're more likely to pay on time. If they have a low credit score, you can look to take a deposit or look for instalments in a project or have payment on delivery only.

Or call someone else who supplies them, and ask if they get paid on time – this is a customer reference check.

Unclear payment terms

Spell out how long your customer has to pay you, and identify any late fees and interest that you will charge. Put these in a condition of sale document and get your customer to sign it (physically or digitally) before you start doing business. That way customers can't use confusion or misunderstanding as a defence for late payment.

Payment terms

What are your payment terms? Look to reduce these so customers have to pay faster. The default is so often 30 days. Why? You will have to be paid your employees long before this date or paid subcontractors who you say pay weekly.

Look to reduce payment terms with customers who always pay you late.

Get a personal guarantee

If you're dealing with a limited company business, ask the owner to sign a personal guarantee. That gives you the option of suing them or the business for unpaid debts. Just be aware that some business owners may take exception to this move.

Send your invoice quickly

Send invoice as soon as you can. Immediately after delivering the product or service is the best time. That's when your customer is feeling the most goodwill and will be most receptive to paying. The second best time to send an invoice is right now, so get busy. Customers simply can't pay what they haven't been invoiced.

Make it easy for customers to pay you

Invoices get paid up to 50% faster when customers are offered convenient payment options.

BACS details
Always make sure these are clearly noted on your sales invoice. Include IBAN details as an example when the customer is overseas.

Debit/Credit card
Stripe is a piece of software that integrates with many pieces of commonly used accounting software. This allows you to get paid by these methods online.

PayPal
This is still a payment method many customers feel most comfortable with.

Direct debit
When you set up a direct debit with a customer, you can collect payments straight from their bank. Of course, you have to notify them ahead of time what you're taking and when, but the customer doesn't have to do anything to make the payment happen.

Direct debit is ideal for:

- **Subscriptions** for things like gym memberships or software
- **Regular invoices** such as monthly retainers (for fixed or variable amounts)
- **Accepting instalments** to help customers spread out their costs
- **Collecting rent** from tenants

GoCardless are respected operators that integrate with popular online accounting software.

Early payment incentives

Settlement discounts are commonly used still in the construction sector for the supply of materials. A 2.5% discount is common practice for settlement of invoices to terms.

Watch obsessively for payment

Keep a list of all your invoices and check your bank account regularly for payment. Invoices should stay on your watchlist until they're paid in full. Knowing what has and hasn't been paid is absolutely critical to managing your accounts receivable.

Statement of account

A statement of account shows all the outstanding invoices a particular customer has with you. If someone has a few, by all means, summarise them into one document or use your accounts software to generate a statement. Some Customers do not pay without this being issued. Check if this is the case and issue 3 – 4 days before the payment run, so you know you will receive monies for all invoices issued.

Communications for chasing

When the due date's up, it's up. Tell your customer they're late. Statistics have found that 80% of unpaid invoices can be collected through email chasing alone, so start there.

Write a payment request email - this is your first move when someone is late paying an invoice, so there's no need to overthink it. Open your note with a polite greeting, quote the invoice number, say when it was due, and ask when you can expect payment. There's no need to explain what the invoice was for. The details should be on the invoice itself. Keep the letter or email really short. Keep this as a template. If you use Xero as an example, then set this as your first reminder on the day after the invoice was due for payment.

But when that isn't enough, pick up the phone. Say at 7 days beyond the invoice due date.

Customers find it harder to justify late payment when you have them on the line. And if there are issues to sort out, you can discuss them in real-time instead of spending a few more days emailing back and forth.

Check they're happy with the products supplied or work done, let them know they're overdue, and ask when you can expect payment. Make these types of calls part of your plan for overdue accounts and document the conversation.

Just identify what's overdue, ask when it will be paid, then wait in silence. Don't get off the phone till they've told you when payment will arrive.

Rolling over

Late payment is very common. It can be tempting to give in and accept it as part of life. But don't. Review outstanding invoices regularly. Highlight the ones that are the furthest overdue, and the ones that are worth the most. Make a plan to get them sorted out. The only way you will fail is to give up trying.

Don't make empty threats

Some customers always pay late. If you've had enough, you might decide to charge late fees and interest, stop supplying goods or services till they pay, send out debt collectors, or take them to court.

These are serious moves, and your customer may react by taking their business elsewhere. Don't make threats lightly. But if you do make a threat, follow through. An empty threat gets you nowhere. The customer won't take you seriously again, and you could be stuck with late payment forever.

If your terms allow the charging of a late payment fee issue the invoice to the customer for the late payment fee. What better prompt! Issue an invoice for the late payment interest in line with statue regardless.

Send small claims documentation completed to the client before filing with the court stating you will issue to the court in seven days if payment is not received.

Internal communications

Late payment might be the finance team's responsibility, but others can help. Tell sales staff and account managers when their customers' accounts are overdue. They might be able to leverage their relationship to get an invoice paid. Or they might make new sales deals contingent on old invoices being settled as an example.

Software

Once you're issuing 25 or more invoices per month, credit control gets complex. There are lots of emails, phone calls, and handwritten notes floating around. Some information gets stored in a client relationship management system, but other data is only held by accounts payable.

To carry out quick and effective credit control, manage it centrally through one piece of software. Online credit control software helps you store all invoice communications and histories in one place. It also gives you insight into your customers' payment habits and helps you optimise your chasing strategies. With integrated online software tools, you can save hours each week and boost your cash flow by thousands.

Outsource your credit control

Chaser is the highest-rated credit control app in Xero app store.

The software starts at £25 per month and has many features that the inbuilt invoice reminder software in Xero doesn't.

I hope this guide helps you to understand credit control better Don't forget we are always here to help so if you would like more advice; please do get in touch by calling 0115 928 3228 or email info@coalesco.co.uk.

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