LYNCH & ASSOCIATES
LIMITED
Chartered Accountants, Tax Advisors, Auditors and Business Advisors
Your partners in business strategic thinking.

The Seven Deadly Sins of Credit Management

1. No clearly defined Terms and Conditions disclosed

Since the beginning of time, businesses have done business on a handshake. As we move toward a digital world, consumers have wised up to potential loopholes and business owners find themselves getting the run around.

Whether it be not getting paid on time, jobs cancelled at the last minute or defects being noted some 12 months after the work was completed. Without Terms and Conditions, the effects of such issues can be very costly and eat into your margin.

2. No formal credit policy

One of the biggest failings in business is the lack of follow up for payment upon the completion of a job. Before you know it, the invoice (along with others) can be three months overdue. Having a clear credit policy from the outset can minimise costly payment delays - positively affecting your cashflow.

When you've done the job - you deserve to be paid and it can be as simple as sending an invoice, then a statement and finally a reminder phone call. If they still haven't paid, then don't be afraid to escalate.

3. Provide credit when you state you are a cash business

A cash business is exactly that - your customer pays cash as soon as the job is completed. If you allow the customer to pay in seven days then you provide credit and you need to have a credit policy in place.

4. Have a credit policy but never use it

How often have we spoken to clients who have paid hard earned cash for a good solid credit management programme and still have it sitting in the bottom drawer, or better still, have it wrapped up in the box it came in!

If you have a credit policy, use it. If you aren't the right person to be implementing it then find someone who is. You will be surprised at how quickly your cashflow improves when you follow a structured approach.

5. Procrastination when dealing with slow payers

Too often you might find yourself saying 'I will just give the client one last chance' when the debt is 6-12 months old. It's hardly a pleasant conversation to have, and if you're the business owner and you'd like to preserve the ongoing client relationship then perhaps you should delegate this task if you haven't already.

How many chances do you need to give your customers?
What communication have you had during this time? If you're not talking to your customer then what chance do you have in collecting the money? If you're satisfied that they've had plenty of follow up then perhaps it's time to contact the experts.

6. You believe everything the customer tells you

The excuses can be varied and border on farcical but regardless you deserve to be paid. If someone says they will pay you, then make them commit to a date and an amount (diary this so you can follow up).

7. Reliance on trade references rather than an independent robust credit checking

Often a business will phone a potential client's trade reference and sure enough receive a glowing reference. Well the customer is hardly going to list a referee who will impart a negative experience.

Relying on trade references can be dangerous. To ensure you receive a robust and independent picture of your new customer, you may like to obtain information through a credit bureau. This will shed light on your customer's credit history (enquiries and any adverse data). If you're dealing with a company, you'll receive the correct legal entity of your customer, who the directors are, whether company forms have been lodged on time, and details of any adverse credit the company may have had in the past.

Just remember that to complete such reports you will need to have your Terms and Conditions in place and up to date to ensure you comply with current privacy requirements.