

# Credit control

**Optimising cashflow and avoiding bad debts are two key objectives of any successful business. Setting up a good credit control system is the starting point for both.**

This briefing will help you to decide what approach is appropriate for your type of business — and how you should handle different customers.

The briefing explains how to:

- Decide on credit terms for customers.
- Prevent late payment.
- Deal with customers who cannot — or will not — pay.

## 1 Before you give credit

**1.1** Ask each new customer to complete a **credit or trading application** form.

This should include:

- Full name of the business, and whether the business trades under a different name.
- Registration number, if it is registered.
- How much credit is being asked for.
- Who the contact is for payment queries — including address details, telephone and fax numbers and email address.
- Where to send invoices, as this is often different from the delivery address. Check the statement address, as this can be different again.
- Which bank the business uses — name, address, sort code and account number.
- Details of at least two trade references, which should be regular suppliers.
- A request for consent to obtain a bank reference and a request for consent to obtain credit references.

- Details of who owns — and who runs — the business.
- The legal status of the business (e.g. partnership, limited liability partnerships (LLP), sole trader).

Make sure you comply with the Data Protection Act.

**1.2** Agree **payment terms** with your customer at the order stage to avoid confusion later and confirm them in writing. Ensure your standard payment terms are printed on your credit application form (and on other relevant documents, such as invoices).

The terms should include:

- The credit period offered. For example, whether payment is due 30 days from the date of invoice.

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If you need further information or help, ask the distributor of this briefing about the services available to you.

- Details of any discounts or rebates you offer. For example, for prompt payment or bulk purchases.
- Whether your prices exclude carriage charges ('ex works').
- Whether you charge interest on overdue accounts and, if so, how much. All businesses have a legal right to claim interest from late-paying customers.
- It may be appropriate to include a 'retention of title' clause (saying that the goods remain your property until paid for). Ask a solicitor for advice on this.

## 2 Checking creditworthiness

Use the information you have been given to check the new customer's creditworthiness.

**2.1** Get an **online credit rating**, by paying a credit reference agency for an instant company search (also available through many Business Links). It can be on your desk in minutes, and will cost from £10. This should provide you with valuable information about the customer, including:

- The last three years' reported financial information, taken from the accounts filed at Companies House. Some of this may be out of date, but it can often give you a good idea of the company's financial strength.
- Details of County Court judgments (see **2.3**).
- Suggested credit limits.

Even a highly detailed report — giving extra information such as comments on the company's past payment record and comparisons against companies of a similar size — will cost around £35 to £45.

**2.2** Take up **credit references** from trade suppliers. Make sure the referee is a genuine core supplier to the business. Realistically, trade references may have limited value, as they are usually slow, often guarded and sometimes biased.

The questions to ask people giving references are:

- How long they have traded with your potential customer.
- What credit terms (limit and period) they offer the customer.
- Whether your new customer pays within the terms offered.
- What your customer's average monthly spend is.
- Whether they are in any way associated

with your customer's business, other than as arm's-length trade suppliers.

- If there is any other information they would consider relevant.

Encourage quick replies by sending the form via email, giving a phone number or sending an SAE.

**2.3** Write to the **Registry of County Court Judgments** at 173-175 Cleveland Street, London, W1T 6QR (020 7380 0133) or visit [www.registry-trust.org.uk](http://www.registry-trust.org.uk) for details of all County Court judgments (CCJs) registered in the last six years.

The fee is currently £8 for a search against a single name or trading name at an address or against a Limited Company.

- A large number of judgments is a danger signal. It may indicate that the company is in financial difficulties, or that it has a habit of disputing or not paying invoices. The cause of some of these disputes could be administrative error, but this is unusual.
- This information is available on individuals, as well as companies.

Though the cost will be slightly higher, it is easier and quicker to get details of CCJs as part of a company search (see **2.1**).

**2.4** Apply for a **bank reference**, but be aware that these are notoriously vague and may take a long time to arrive.

- The response will use standard phrases. You need to interpret these to decide whether or not they amount to a negative reference. A reference may sometimes be too ambiguous to be useful. Ask your bank to help you interpret it.
- The fee is typically £10 to £15. Pay your bank's fee up front and enclose the customer's statement of consent.

## 3 Giving credit

It is your choice whether to provide credit to a customer or not. Decide on a credit policy.

**3.1** When setting a maximum **credit limit** for each customer, consider:

- How much credit does the customer want?
- Would the customer still place the order if you provided no credit at all? The customer may prefer to receive a discount for 'payment with order'.
- How much credit can you afford to give?

► The Department for Business, Enterprise & Regulatory Reform produces a free detailed guide to credit management called 'Better payment practice' (020 7215 5000; [www.payontime.co.uk/downloads/dti\\_bpp\\_brochure.pdf](http://www.payontime.co.uk/downloads/dti_bpp_brochure.pdf)).

Long credit terms for large orders may be out of the question, particularly if you have to pay your suppliers on shorter credit terms.

- How much of a hold over the customer do you have?  
If your customer can easily switch to another supplier, your risk is greater.
- How much could you risk losing?  
Credit limits should be reviewed regularly. You may lose business if customers are offered more credit elsewhere.

### 3.2 Minimise the risks of giving credit.

- Give new customers a modest credit limit to begin with. You can raise the limit when the strength of your relationship justifies it.
- Open a credit card merchant account.  
Seek advice from your bank.
- Consider taking out credit insurance.
- Consider using a monitoring service, offered by most credit reference agencies, to keep track of the financial status of your customers.
- Consider the cashflow and credit control advantages of factoring.

### 3.3 Establish how different customers pay their invoices.

- Many businesses will not pay unless there is an order number.
- Some businesses need the invoice passed to the accounts department by a certain date, or it misses the monthly cheque run.

## 4 Fulfilling the order

### 4.1 Get the order details right.

If they are incorrect, the customer may have every right to delay or even refuse payment.

- Ask your customer to confirm the order in writing, including an order number.  
If you are providing a service, such as consultancy, the order should specify the work to be undertaken.

### 4.2 Obtain proof of delivery for the goods.

- Get a signature acknowledging receipt of the goods. Consider using Royal Mail's recorded or guaranteed delivery services.
- Include a packing note with every order, giving the order number and listing the items being delivered. Keep a copy.

### 4.3 Ensure the customer is satisfied.

- Sort out any problems immediately.

## 5 The invoice

**5.1** A clear, **easy-to-understand** invoice will encourage customers to pay more quickly.

As well as the amount owing, make sure you include the following important details:

- A detailed description of the goods.
- A reference to the order number.
- The agreed payment date (in line with the terms of trade).
- Your full bank details, VAT number (if applicable) and address.

**5.2 Send** your invoice out the day the goods are sent.

- Sending invoices out late sends the wrong message and an invoice cannot be paid until it is received.
- Send the invoice to the right person.  
Find out beforehand who this is, or where it should be addressed to.

**5.3 Send statements** out as early as you can in the month, every month.

Many businesses will not pay an invoice until they receive a statement.

- Include details of all current transactions, and your payment terms.

## 6 Chasing up

**6.1** If you want immediate action, phoning is one of the fastest ways to **persuade** late payers to pay up. Start chasing payment as soon as the account becomes due.

Always concentrate on:

- The largest debts first.
- Customers you think may be in financial trouble.
- The older accounts.  
Except in special situations, it is unlikely that debts over a year old will be paid.

**6.2 Maximise your effectiveness.**

- Keep customer details, invoice numbers, dates and amounts in front of you.
- Keep a record, with dates, of all your calls.

Under the Consumer Credit Act you are required to send consumers who have signed a credit agreement with you at least one statement of their account per year. You must also send notices of arrears to consumers who miss or fall behind with their payments.

## 7 Dealing with excuses

Always be sceptical of excuses, as they can often be simple delaying tactics. Put these customers high on your chasing list.

Adopt a professional but friendly approach when dealing with the common excuses for non-payment.

### 7.1 'I haven't received your invoice. Can you send a copy?'

- Check that the invoice address is correct.
- Immediately email (or fax) another copy of the invoice to the person you spoke to. Phone to confirm it has been received, and check when you can expect payment.

### 7.2 'Your invoice is on the next cheque run.'

- Check that the details on the customer's purchase ledger are correct.
- Ask when the cheque run date is.
- Call a few days beforehand to make sure your invoice is going to be paid.

### 7.3 'I'll deal with it shortly.'

- Ask when.

### 7.4 'Your invoice hasn't been passed to accounts yet.'

- Ask the buyer you supplied to authorise the payment. Then phone the accounts office to confirm that the buyer has done so.

### 7.5 'The cheque's in the post.'

- Ask for the postal date and cheque number.

### 7.6 'We've got a cashflow problem' or 'We can't pay until we've been paid ourselves'.

- This is an extremely serious warning sign. It may be necessary to halt all credit and send a letter of claim (see 9).

## 8 Stop lists

A stop list is a list of customers you do not want to give more credit to.

### 8.1 Update your stop list regularly.

- Circulate it to appropriate employees, to prevent further credit being given.

8.2 Do not supply any more goods to customers on the list until they have paid their account **up to date**.

### 8.3 Inform late payers that they are 'on stop'.

- This encourages them to pay up, especially when they realise they are going to want to place further orders.

## 9 Letters of claim

9.1 A 'letter of claim' (or 'seven-day letter') is the first stage of the **legal process**.

- You cannot sue someone until you have sent that person such a letter.
- The letter tells your customer that if overdue invoices are not settled by a certain date (usually in seven days' time), you intend to sue without further notice.

9.2 Letters of claim can be sent any time after an **invoice becomes due**.

- Some businesses have a policy of not paying until they receive such a letter.
- You do not need a solicitor to send a letter of claim.

## 10 The human factor

Throughout the credit control process, maintain a positive personal relationship with your customers. You are more likely to get the response you want if you adopt a friendly approach.

If you have no alternative but to take legal action, maintain this approach by taking the following steps:

### 10.1 Discuss your situation with the customer.

- Explain that you value the customer's business.
- Explain that you have been advised to take legal action. Make it clear that you only want to take this course if there is no alternative.

### 10.2 Speak to the **managing director** or finance director of the business, if possible.

- Problems can often be sorted out by a director in your company talking to his or her opposite number.
- This conversation may give you an indication of whether the company has the money to pay you.

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