

# Developing A Solid Credit And Collections Policy

## Seven Effective Credit Procedures Every Company Should Implement

Small businesses are notorious for having weak or nonexistent credit and collection policies. If your business is one of them, then guess what? Your customers will make one for you. You will spend many unproductive and frustrating hours resolving disputes and chasing your money. Accounts receivable are one of the biggest assets in most businesses. It is prudent to manage them well.

A good credit and collections policy will strengthen your business plan. It will give your staff the direction it needs to handle difficult situations promptly and professionally while reducing their work-related stress. Your customers will also be better served as you reduce their misunderstandings in doing business with you and are consistent in your business practices.

The following seven tips will assist you in reducing your credit risks while helping you meet your sales goals. After all, your credit policy is really a part of your sales and marketing strategy. If carefully thought through, the credit function will support your sales efforts while controlling your risk of doing business resulting in fewer write-offs and an improved bottom line.

### **1. Establish A Written Credit Policy.**

This will help your credit and collection efforts be consistent throughout your company and will ensure that your credit and collection efforts are in line with the company's goals and business plan. There should be both an internal and external policy. Your customers are informed of the external credit policy only. For instance, your internal policy may state that you may have a 5-day grace period on allowing a discount for payments due by the 10<sup>th</sup> of the

month. Your external policy, the one given to your customers, would not state this. If you tell your customers this, they may take advantage of this knowledge and never pay on the actual due date.

### **2. Make Sure Invoices Are Detailed, Clearly Showing Your Terms And Due Date.**

If your customers do not understand your bill, they generally will put it aside for a while, which delays payment. They may not look at it again until you remind them of their past due bill. Furthermore, customers are more likely to find fault with your bill and services when they are forced to spend additional time trying to understand the invoice. Also, ask for feedback on your bills from your new customers. Do they understand what was purchased? Can they promptly find the amount due and the due date? Do they have all the information on the invoice to process payment? If not, you may need to make some changes.

### **3. Get Your Price Approved In Writing Prior To Providing Your Service.**

By avoiding disputes on pricing you will not only get paid faster, but you will reduce customer dissatisfaction and the potential loss of your customer's business to your competition. If getting your customer's approval on every order is not convenient, supply a quote or pricing sheet.

### **4. Consider Offering A Cash Discount For Early Payment.**

There are many factors to consider when offering a discount. What is your profit margin? What is standard in your industry? What is the time frame that you want your payment in exchange for the discount? If you offer a discount make sure your invoice clearly states what the discounted price is

and by what date the discounted payment is due.

### **5. Offer Several Payment Options.**

Maybe your customer will pay the outstanding balance with a credit card. You would have your payment immediately and your customer would have approximately another month before he pays the credit card bill. Because this will cost you a fee—usually between 1.75% to 2.5% for MasterCard or Visa—I suggest that you offer this only in special circumstances, or if you have sufficient profits already built into your price.

### **6. Decide When To Use The Small Claims Court To Collect Your Money.**

Determine ahead of time if using the Small Claims Court is a viable option to help collect your money. Generally it is less costly to use the Small Claims Court than hiring an attorney. Some debtors will settle with you prior to the court date. Many debtors will not show up to the hearing, which usually means you will be awarded a monetary judgment by default. If the debtor does not pay you even after you have been awarded a judgment, the court will allow you to legally attach your customer's nonexempt assets to enforce payment. Judgments are enforceable for many years, 10 years in most states, and interest bearing—9% in Missouri.

TIP—Do your filings in batches to get your hearings scheduled at the same time so you don't have to make as many trips to the courthouse.

### **7. When Should You Turn It Over To A Collection Agency?**

Although every situation is different, this should be answered in your credit policy. You can always make an exception if you

think it is best. Some things to consider are the age of the invoice, your history and relationship with the past-due customer, whether or not communications remain open, and if commitments have been broken. Most credit professionals believe once an account is 60 or 90 days past terms, 2 or 3 commitments have been broken or the customer is not returning phone calls, it is

time to turn to a third party to collect your money. Remember, the older the past-due bill and the longer you wait when you see signs of trouble before addressing the problem, the less likely you will be able to recover your money. Since the collection agency is, in effect, representing your firm, make sure they will handle your customer in a professional manner.

*These tips were excerpted from a Beacon Recovery Systems booklet, "18 Effective Credit Procedures That Every Company Should Implement." For a FREE copy of the booklet, email [info@beaconrecoverysystems.com](mailto:info@beaconrecoverysystems.com).*