

Credit Management Guide

Overview

The impact of Covid-19 and the resulting lockdown means that it's more important than ever to ensure that you're getting paid.

This guide has been designed to support you to manage your accounts receivable and ensure you're getting paid as much as possible. It focuses on key processes that can reduce your business's exposure to credit risk, including your Terms of Trade, how you conduct credit checks, how you bill and accept payment from customers, how you automate invoicing and payments, and how you manage your accounts receivable.

Your credit management strategy should focus on:

- Reducing the amount of financial risk your business is exposed to
- Increasing the likelihood your business will be paid on time
- Reducing the chances of cashflow disruptions caused by late payments and bad debts

A credit management review should focus on reviewing how you have provided credit to your customers in the past, acknowledging the weaknesses in your current systems, and improving your processes so that your business is more sustainable going forward.

Terms of Trade

You must have robust Terms of Trade in place before offering credit to your customers.

Your Terms of Trade depict the terms and conditions of a sale and form a contractual relationship between the buyer and seller. It's important to be as specific as possible to ensure your customers know their rights and obligations. Your Terms of Trade allow you to do what you need to do in the event a customer doesn't pay on time, as well as ensuring you maximise your margin and profit and therefore maximising your cash position.

Ensure customers accept your Terms of Trade before they first buy from you. Customers must acknowledge in some way that they've read and accepted your Terms of Trade; it's not enough to simply send them to customers. You can change your Terms of Trade as you go but you must point out changes to customers and get them to confirm that they accept these changes. If you don't do this, any changes to your Terms of Trade may be unenforceable.

It's likely some of your terms will need to be updated to reflect changes to your business practices as a result of the impact of Covid-19. Pay particular attention to your payment and delivery terms and how these may need to change.

Review your Terms of Trade and ensure that they cover:

1. Delivery (how, when, cost, late delivery).
2. Installation.
3. Limits on liabilities.
4. Warranties.

5. Details of each party.
6. Payment terms and late payment implications (interest on late payments, cost of pursuing debt).
7. Personal guarantees from company Directors or Trustees of a Family Trust.
8. Price and matters that impact price (tax, estimates vs quotes, variations).
9. Reservation of title.
10. Risk and insurance.
11. Other relevant items (indemnities, governing laws, force majeure, privacy, credit checks, etc.).

After reviewing and updating your Terms of Trade, share them with your customers, highlighting key changes.

You must continue to enforce your Terms of Trade at this time. Don't let your customers avoid paying you, as this will have a material impact on the sustainability of your business. Cash is the oxygen your business needs to survive, so ensure you have sufficient cash coming into your business from your customers.

If you need help developing or updating the Terms of Trade for your business, please get in touch with us. While any updates won't apply to current accounts receivable, it will ensure you have clear terms for customers to adhere to in the future.

Billing and Payments

Billing

It's essential to invoice your customer immediately after supplying the products or services. The time between the delivery of the products or services and receipt of payment should be as short as possible.

Utilise online billing software, such as Xero, to invoice customers. Clearly identify the amount due, due date and payment options on each invoice. Make it as easy as possible for the customer to pay, e.g. direct debit, direct credit, online payments or credit card.

We recommend including a statement on all invoices and statements acknowledging the impact Covid-19 will be having on your customers, for example:

We understand that financial pressure is inevitable over the coming months and we'll do all we can to support you through this. We do want to stress, however, that as a business, we're facing the same financial pressures are you, so your immediate attention to this account is appreciated.

To this end, if you're not in a position to pay an invoice in full, we ask that you communicate this early by calling us so we can work together and discuss your options. Thank you in advance for your co-operation and support.

Payment Terms

Review your current payment terms. Consider:

- Shortening your payment terms, e.g. from 20th of following month to 10 days after invoice
- Offering additional payment alternatives, e.g. credit card, direct debit, online payments
- Offering a small discount for prompt payment

The best-case scenario is for customers to pay on receipt of invoices, however, many businesses will be struggling with cashflow right now and you may need to offer them additional flexibility, for example:

- A partial payment within the next week with the remainder paid at an agreed future date
- An instalment arrangement to spread payments over a specified timeframe (e.g. 6-12 months)
- Use of a fee funding or invoice funding service

Automation of billing and payments

Invoicing directly from your accounting software can enable faster payment of your invoices. Xero allows customers to pay their bill directly from their invoice using credit card, PayPal or Stripe; ensure you have enabled this option if using Xero.

Create invoice templates and set up automated email reminders. Remember, contact with the customer should be made as soon as their invoice becomes overdue, so don't set the first reminder email to go out 7 days after the invoice was due.

If you have customers you invoice regularly, set up repeating invoices to automate this process and ensure invoices are always sent.

Debtor Management

You need to have a debtor management process in place to ensure overdue accounts are followed up as soon as they become overdue. Your process should cover:

- Exactly when debtors are to be followed up, e.g. the day after payment is due
- How often debtors are to be followed up
- Alternative payment methods available
- Use of 'copy' invoices or an 'overdue' invoice layout for customers who need to be rehabilitated
- Use of one-off payment terms or special pricing terms based on current debt

Review your debtors

Ensure that your debtor information is up to date and that all payments have been reconciled. Ensure that for each debtor you're clear on:

- How much is outstanding
- When the account was due
- Whether there has been any variation to the payment terms
- Who the contact person is
- If a business, who authorised the work
- Details of the work completed

When you have all this information, prioritise the follow up of your debtors, starting with those most overdue.

Remember that some businesses will be more affected by the impact of Covid-19 than others, so be mindful of this when following up and requesting payment.

Record all contact with debtors

Ensure you have a process for recording all contact you have with your customers relating to overdue payment requests. Record specific details in your CRM or Practice Management system, including:

- Time and date of contact
- Contact method, e.g. phone call, email, letter
- Outcome of contact, e.g. agreed to pay X amount on X date, entered into instalment arrangement, left message on mobile phone as no answer, etc.

Schedule all required follow up in a diary. For example, if a message is left on the customer's phone, schedule a follow up call for the next day. If the customer agrees to make a payment on a specific date, set aside time in the diary to check to make sure the payment has gone through on that date.

Initial contact

Customers with overdue accounts must be followed up as soon as they become overdue. Ideally, this will be the day following the due date.

At this time, everyone is being inundated with emails, so it's easy for your payment request or reminder to get lost amongst the flood of emails or be deleted. For this reason, we recommend your initial contact is via phone call.

Use our phone scripts to make the initial call to the customer as soon as possible after their account becomes overdue. It's important to plan what you'll say and how to respond to what the customer says. The script encourages you to find out how your customer is and show empathy during these difficult times and then respectfully positions a request for payment. Empathy, directness and professionalism are key.

Privacy considerations

If the customer doesn't answer the phone and you need to leave a message, you must ensure you understand the law surrounding privacy.

If leaving a message on an individual's landline, you must not leave any information about the debt owed. You may only leave your name and contact details.

If leaving a message on an individual's mobile phone, you can mention the debt only if the person's voicemail message states their name.

If contacting a company, only mention information about the debt if you're calling the contact person's direct extension, not the company's main line.

Remember, it only takes one time and a nasty customer to turn a simple call into a major problem if you don't abide by privacy rules.

Subsequent follow up

If the customer hasn't paid by the date they agreed to make payment, follow them up immediately with a phone call. Find out why they haven't paid and discuss alternative arrangements. Give them another chance to settle their debt. Remember to remain empathetic, but gain commitment to ensure payment is made.

If the customer still fails to pay, consider your options. If they genuinely can't make a payment, consider whether you could accept a part payment in full and final settlement of their debt. It's important to retain the relationship you have with your customers in the future. Taking enforcement action against customers at this time may cause irreparable damage to your relationship.

Referral to an external debt collection agency

It may be reasonable to refer certain customers to an external debt collection agency if they repeatedly fail to pay or respond to your requests for payment. If a customer is unable to make payment, it seems pointless referring the account to an external agency. In addition, you need to consider the potential damage you may do to your brand if you appear to be behaving aggressively in such extreme times.

Additional strategies to maximise prompt payment

Implement the below strategies to encourage prompt payment:

- Be upfront from the beginning, explaining 'how we do it here'
- Quantify prices in advance
- Invoice regularly
- If the work required spans a period of time, consider progress billing
- Provide payment options
- If a service provider, consider agreed fees
- Follow up debts systematically and frequently
- Articulate the value of the work provided
- Build a strong relationship with the customer

Next steps

Action	Who	By when	Completed?
Review and update Terms of Trade.			
Implement credit check process.			
Review billing and payment processes.			
Review and update debtor management processes.			
Implement additional strategies to maximise prompt payment.			