



9 TIPS FOR IMPROVING CUSTOMER CREDIT MANAGEMENT

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LATE INVOICES*

NET 30 50%

NET 60 45%

NET 90 35%

* <http://www.pymnts.com/news/2015/fundbox-majority-of-smb-s-impacted-by-late-payments/>

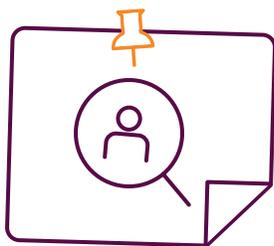
You took on a new customer who appeared to offer significant revenue-generation potential. Eagerly, you went to work and delivered your first order on time. But 90 days later, you find yourself waiting for the invoice to be paid and wondering if it will ever arrive. Sound like a familiar scenario?

Late payment and payment default situations like these happen with alarming frequency – it’s critical to the financial health of your company to minimize them. Customers who fail to pay their invoices or drag their feet in paying can directly jeopardize the survival of your business.

Many businesses find it challenging to properly evaluate and track the creditworthiness of new customers. And when conducting business with foreign customers, the challenge becomes even more complex because it can be difficult to interpret and rely on information used by foreign countries to measure creditworthiness.

Solving the challenge is a must: One in five business bankruptcies among small and medium-sized businesses occurs due to customers that default on their invoices. And though medium and large companies are better equipped to absorb a bad debt loss, non-payment events can still destroy their profit and spoil growth plans.

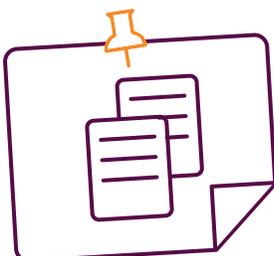
By employing effective credit management practices, you can help your business bring in the revenue it’s entitled to and ensure long-term business continuity. For companies looking to take on the daily challenge of credit management, here are nine important tips to optimize the process.



Tip 1

RESEARCH YOUR CLIENTS BEFORE SIGNING CONTRACTS

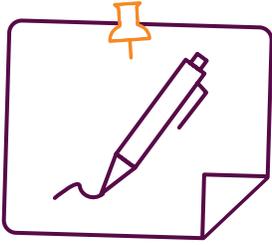
You need to know as much as possible about the company you’re about to do business with. Does your contact person have legitimate authority for signing agreements? Are you doing business with the right entity? We advise researching new customers when you start talking. Consider various information sources, such as the local Chamber of Commerce and credit bureaus, bank and trade references, company 10-K, etc. Even existing customers should undergo periodic reviews.



Tip 2

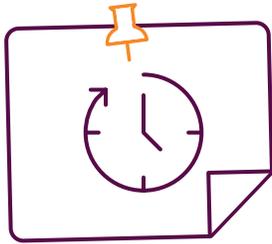
CLEARLY DOCUMENT TERMS AND CONDITIONS

Be sure to state in writing the delivery and payment conditions, and also discuss any provisions in the agreement. This is where you can indicate whether certain conditions apply and that you do not accept any other conditions. As a starting point, you can check with your trade association for the conditions typically used by your industry. Upon entering into the contract, we also advise asking a lawyer to review the conditions.



Tip 3 MAKE SURE CUSTOMERS SIGN RECEIPTS FOR PRODUCTS AND SERVICES

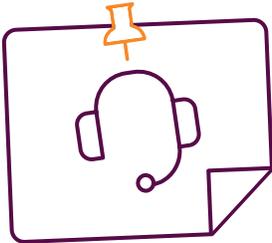
Verify that the person who signs for each receipt has the proper authority. It's also a good idea to ask for a company stamp on the receipt.



Tip 4 BILL QUICKLY AFTER DELIVERY

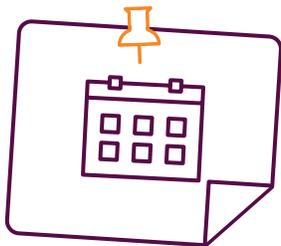
Be sure that all key data appears on your invoice so it doesn't hold up the payment. Here's a rundown of the basics to include:

- Your company name, address and telephone number along with a contact name
- The right company name and address of your customer and the right customer contact person
- The nature and quantity of the goods or services
- The price in the appropriate currency
- The agreed-upon payment period
- Your bank account number
- Also print your terms on the back of the invoice



Tip 5 CALL CUSTOMERS ON OR BEFORE INVOICE DUE DATES

If payment has not already been received, calling customers right before or on the due date of an invoice can be handled by the accounting department or the sales department, depending on the relationship with each customer. This call confirms the products you delivered and that the invoice has been received. In addition to facilitating the payment process, this step also provides good customer service to make sure everything is OK. This step can also prevent late payments if your client is not satisfied with the delivery—while there's still time to rectify the issue. You can even consider offering your customer a small discount if they pay by the due date.



Tip 6 ESTABLISH A REMINDER PROCESS

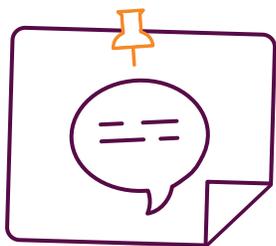
Not all customers pay their bills within the agreed-upon payment period. Be sure to call if this occurs and follow up with a written reminder that you are expecting payment within a reasonable time, such as one week.

If payment still does not come through, you can then send a warning and eventually a formal written notice. This typically asks for payment within two business days and presents a specific date by which the money must be received before legal proceedings will commence. Given the costs associated with late payments, also consider adding fees to account for collection and interest costs.

In the event that you enter into an agreement for a late payment schedule, put the terms of the agreement in writing and clearly note the following:

- The total amount due
- The payment periods
- The specific dates on which payments must be received
- Your bank account number and other routing information—if payments will be wired/transferred electronically

You should also monitor the customer's progress. Are they complying with the rules? Is there any possibility they are on the verge of bankruptcy? Also inform your credit rating agency as late payments by your customer may have implications on your own creditworthiness.



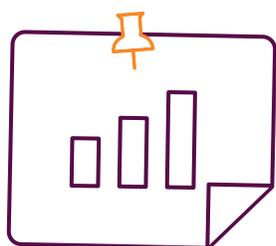
Tip 7 DOCUMENT AND COMMUNICATE YOUR PROCESS TO THE ENTIRE ORGANIZATION

Communicate your credit management process to other departments within the company. This ensures the tasks and responsibilities of individuals in other departments are clear to everyone. In some cases, they may be able to play a key role in collecting invoice payments. Also set clear limits on required actions from other departments and make people accountable. Evaluate periodically as to how well your credit management process meets the needs of the organization.



Tip 8 REGULARLY REVIEW UPDATED FINANCIAL INFORMATION WITHOUT BIAS

Most companies review a customer once and then assume nothing ever changes. Be sure to review each customer with a frequency that aligns with the perceived risk that the particular buyer presents and its potential for default. Be careful not to hold a bias because of personal relationships. Just because you have a good relationship with a customer, doesn't mean they won't default.



Tip 9 SET AMBITIOUS GOALS AND ACTIONS

The value of effective credit management is sometimes underestimated: Done well, it avoids unnecessary risks, creates opportunities for improvement, and frees up your company's working capital for critical business investments. It thus makes sense to set ambitious goals and actions, measure your performance periodically, and apply change when necessary.

Here are a few examples of objectives you can establish:

- Identify the average Days Sales Outstanding in your industry.
- Lower your Days Sales Outstanding (average number of days invoices go unpaid) to X number of days within a given period (your findings from the objective above can help you determine a sensible benchmark).
- Reduce the number of bad debts and annual depreciation.
- Compare your results with those of industry peers.
- Maintain a healthy diversification of buyer portfolio.

Learn more at
www.eulerhermes.ca

Keep Improving

As you put these tips and practices into use, keep in mind that credit management is not a one-off project. It's a process you must keep working on all year. With success, you can accelerate invoice payments and help optimize the working capital your organization has to work with. This creates funds your company can invest in the future and proves the value of effective credit management to the entire organization.

A trusted partner in your corner

Even a well-defined strategy can't cover all risks. Credit insurance can help. Euler Hermes provides your company access to the most accurate information on customers, prospects, industries and countries. Our team of experts provides active monitoring on all accounts, a structure and discipline for credit decision making, resources for collections and payment when your insured customers fail to pay. Credit insurance takes the guesswork out of your company's credit process, giving you the confidence to safely grow your business at home or abroad.