



A DIRECTOR'S POCKET BOOK

# CREDIT MANAGEMENT

How to improve cashflow and make your  
business more robust





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your business more robust

Insight  
begins  
here

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## Atradius

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Atradius is in the knowledge business. With total revenues of approximately €1.8bn, our products and services contribute to the growth of companies throughout the world. Why? Because our customers recognise the benefits we can bring them. From the insight of our political and economic analysts, to our expert army of underwriters, who know the ins and outs of more than 52 million companies worldwide, we know what's happening first.

We use this knowledge to help our customers know where and with whom it's safe to trade. Daily, we provide around 22,000 trade-credit-limit decisions to help steer them through trade-credit risk. And because we are involved from start to finish, offering not only world-class management of trade-credit risks, but an integrated global collections service, they can be confident they are going to get paid, whatever the circumstances. We support UK plc by helping thousands of British companies manage their trade-credit risks every single day from our eight local offices around the UK and Ireland.

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This pocket book has been written by business and finance writers Peter Bartram, Alison Coleman, Claire Oldfield and Edmund Tirbutt.

## Miles Templeman

Director General, Institute of Directors

There has never been so much widespread discussion of credit and the importance of credit management. In the past year we have encountered the most serious world recession in living memory, precipitated by a breakdown in the banking system. This, in turn, led to the collapse of global credit.

Almost overnight “credit crunch” became one of the most-used phrases in the English language and several successful firms, many with a good trading track record, found it impossible to get the credit they needed to stay in business.

If this crisis has taught us anything—other than to be wary of bankers offering innovative financial products—it is the importance of effective credit management. This is a vital discipline for businesses of all sizes and across all sectors.

While credit was easy to access, discussion of subjects such as how to decide which suppliers and customers to do business with were all but forgotten. As long as the order books were full and banks were willing to support the business, it seemed less important to question in great depth whether a customer would be able to pay on time.

Knowing who you are doing business with and how likely they are to be able to pay you for goods and services—or maintain supplies to keep your company productive—is essential for success. At a time of greater uncertainty it is more important than ever. This pocket book provides invaluable information on credit management and the related subject of credit insurance. It gives information that directors in all companies need to know. It's the sort of knowledge that properly applied might make the difference between survival and failure.

## Shaun Purrington

Regional Director, Atradius UK and Ireland

Trade credit has previously been underestimated as a powerful force for good in business. We need it to oil the wheels of commerce; to open up opportunities and be able to seize them quickly; to diversify and take entrepreneurial decisions. Understanding how to harness the power of credit and use it to our advantage is the key to successful trading. In times of tightened resource and stymied liquidity, it can make the difference between thriving and surviving.

Trade credit has been catapulted to centre stage as one of the essential ingredients of economic recovery. Banks have been criticised for not lending, preferring to rebuild battered balance sheets. Trade credit insurers such as ourselves have been asked to fill the gap and provide working capital in the guise of insuring credit transactions on over-extended credit terms. In a year when it is predicted that one out of 10 companies will go out of business, credit insurers will continue to steer clients clear of such risks. There is no greater driver for corporate prosperity than effective credit management.

There is still a lack of clarity about how trade credit works, how to manage it, and how to make it work for you. The downturn has been likened to a chicken-and-egg situation where the chicken is trust and credit is the egg. Which went first? We may never know. But with the right business practices in place, it simply doesn't matter. This book shows you how to use trade credit to your advantage. It offers suggestions for managing credit and tips for getting the best out of things you already have in place. This, together with the rebuilding of trust in our business partners, is a good way to start moving ahead.

# OVERVIEW

So you don't think credit management is that important? It's always been done by Kate, who sits at that paper-piled desk in the corner of the accounts office. She seems to get the money in—eventually.

Here are two statistics to make you think again. In many small and medium-sized companies (SMEs), 40 per cent of net assets are tied up in unpaid invoices. As a director of the company, you might have thought you were in charge of managing its most valuable assets. But it turns out to be Kate's job.

Next surprise: if your business is making a margin of five per cent on sales and you have to write off a £1,000 bad debt, you need to make £20,000 of sales just to cover the hit to your bottom line. In other words, everyone in your company will have to run faster to stay in the same place. Not Kate, of course.

Toxic assets lying undetected on the banks' books have caused the credit crunch. And in a recession, an SME's credit management is affected by equally harmful trends.

- First, customers take longer to pay. The delay is imperceptible at first—a 30-day limit slips to 35 days. Next, it moves out to 45, then 60 days. The result? You need more working capital to finance

growing trade debt—if you can get a bank to lend you money that is. Some customers are more blatant in taking extra credit. Last year, Alliance Boots told its suppliers it would take up to 105 days to pay invoices rather than the previous 45.

- Second, the value of bad debts as a proportion of turnover tends to rise. Even before the worst of the credit crunch, the Credit Management Research Centre (CMRC) at Leeds University Business School was reporting that the average SME had to write off £14,000 of bad debts every year. Since then the figures will have become much worse.

All this means that, if you're a director of a small or medium-sized company, there couldn't be a better time to take a critical look at credit management. And that starts with thinking long and hard about what, exactly, credit management is. It's much more than pestering late payers, argues Steve Savva, chairman of the 550-member Association of Credit Professionals (ACP). "Good credit management is all about customer satisfaction and profit," he says.

If you have satisfied customers they're much more likely to pay promptly than buyers who feel they're not getting a good deal. And contented customers are the source of good profits.

Strong credit management involves getting the basics right, says Philip King, director general of the Institute of

Credit Management (ICM). “Most firms miss the basics,” he adds. King cites four “must haves” for businesses striving for effective credit management:

- Know who your customers are before you start trading with them.
- Agree payment terms before supplying.
- Invoice promptly after you've sent the goods.
- Don't be afraid to ask for payment when it is due. “After all, it's your money,” says King.

Julia Parsons, head of European operations at Atradius Collections believes that being successful at maximising your cash collection requires implementing a strong, effective and consistent process. “It is essential to ensure that your collections activity is robust enough to guarantee you are always the first one paid—thus protecting your cashflow—but realistic enough to accept that some debts will become uncollectable and these can no longer be considered an asset,” she says.

## Financial safety net

SMEs often benefit from taking out credit insurance, which generally covers around 85 to 90 per cent of approved invoicing. Conforming to the terms of a policy forces firms to choose customers more carefully.

And the expert advice that insurers offer can be like having a non-executive director on board, suggests Tanya Giles, UK customer services manager at Atradius. “A credit insurer offers two key things. First, an early warning system to help steer you away from

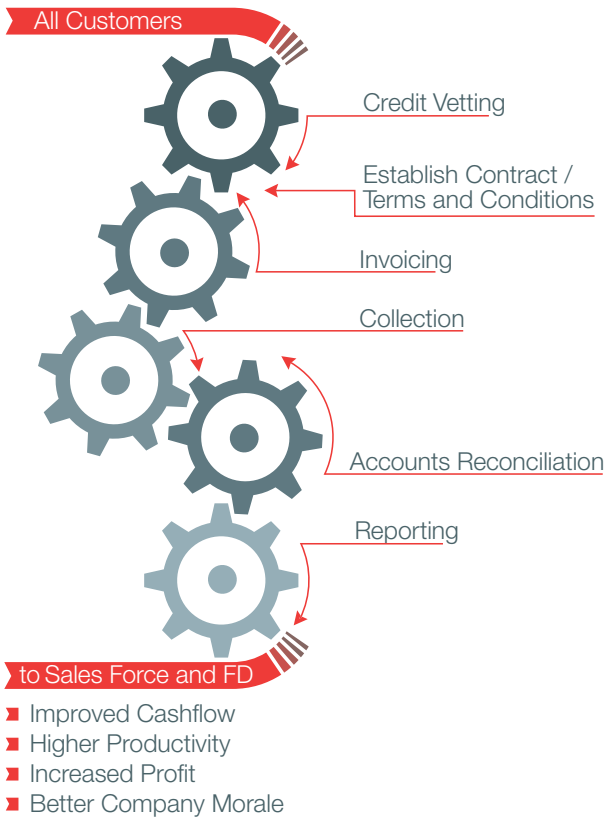
**“Don't be afraid to ask for payment when it is due. After all, it's your money”**

volatile risks that could potentially harm your business. Second, the confidence to help you take the calculated risks your business needs to succeed. That's where their intelligence becomes invaluable,” she says. “Then, if anything does go awry and your buyer fails to pay up, your trade credit insurer will.”

If your credit management function needs improvement to cope with the extra pressures of recession, it won't happen by leaving it to Kate in the corner. Indeed, if key measures—such as Days Sales Outstanding (DSO)—start to slip, poor Kate could become depressed and less effective at her job.

Businesses with the strongest credit management functions usually have directors who take a personal interest, says Savva. He believes the credit manager should report direct to the board. That means taking a fresh boardroom view of what credit management is for: not the tedious chore of harassing late payers but building more profitable relationships with customers. ⚙️

# KEEP THE MONEY COMING



## In the flow

If revenue is the energy that powers your company, credit management is the engine that keeps it flowing. The credit management engine acts as a powerhouse, driving revenue and motivation to every part of your organisation. As your credit management engine becomes more refined and efficient, so your business becomes more productive and profitable.

Good credit management should be a proactive task, starting even before the sale begins.

If you want to accelerate your cashflow in the recession, it pays to follow the best practice of the Atradius cashflow cogwheel, left. There are six elements:

- 1 Credit vetting.** A downturn is when customers might hit hard times. Watch for changes in payment behaviour that may indicate hidden problems.
- 2 Terms and conditions.** Make sure you're supplying goods and services on your terms and conditions, not your customers'. Do this by sending your terms when you accept their order.
- 3 Invoicing.** Send invoices immediately after delivery.
- 4 Collections.** Make a courtesy call before payment is due. It's a way to pick up and resolve any problems that may delay payment.
- 5 Accounts reconciliation.** Pay cheques into your bank quickly and keep accounting records up to date.
- 6 Reporting.** Monitor credit management performance. Identify reasons for slippage and take action fast.

# THE BEST STRATEGY FOR YOU

Some business owners find the process of managing credit and chasing late payments time consuming and often frustrating. Others get round the problem by avoiding credit and trading with cash or invoice factoring, but is this always the most effective option? Much depends on the type of business and the industry sector.

## When cash is king

Entrepreneur Deirdre Bounds used a cash system when she launched her TEFL and gap year travel business, i-to-i, with customers paying for services in advance. “It does allow for smoother cashflow, but you still have to have good systems in place to collect the money,” she says. “We often needed to chase late payments for travellers one month before departure, as they had paid only a deposit, and we found an easier way was to incentivise full payment on booking—an extra five per cent discount, for example, or no card fee, which also helped to reduce cancellations.”

While cash can be the trading option of choice, Vince O’Brien, head of UK key accounts at Atradius, warns

that for some companies it can severely restrict business growth opportunities, particularly with overseas trading.

“A buyer in an exotic market would pay locally in cash and the UK supplier bears the cost of getting it transferred,” he says. “With a sound system of credit backed up by credit insurance, there can still be risks, but less so than with a cash payment system.”

## Selling debt to cut risk

Another option to improve a company’s cashflow is invoice factoring, a method used by around four per cent of SMEs in the UK.

Popular in the transport and manufacturing sectors, invoice factoring appears to work best for relatively

**“With a sound system of credit backed up by credit insurance, there can still be risks, but less so than with a cash payment system”**

established businesses, between two and nine years old and with strong turnover growth. It involves selling a customer’s debt to financing specialists. The finance firm, which buys the debt at a discount, then takes on the credit risk of a company’s debtors and will be paid back when the full amount of the invoice is paid.

Emmanouil Schizas, SME policy adviser with the Association of Chartered Certified Accountants (ACCA), says: “Lenders assume a risk when lending against invoices; one that is not under the borrower’s direct control. Customers can fail to pay on time or go bust without warning, and the premium charged against these risks can make factoring relatively expensive to use.”

But do trading options really come down to a straight choice of cash or credit? Simon Biltcliffe, managing director of print management services provider Webmart, says that with a sound finance management

## Held to ransom

Payment practices have changed dramatically in the past year, according to research by Atradius, with credit periods being extended and companies slowing down payments. Before September 2008, almost 80 per cent of businesses rated their customers’ payment practices as good, very good or excellent, yet by March this year 50 per cent ranked customer payments as poor or mediocre.

Payment delays reflected a similar change, with 43 per cent reporting extended hold-ups after September 2008—14 per cent higher than the previous period—and the frequency of payment default rising by 140 per cent, with businesses reporting a markedly higher incidence of non-payment.

system in place, companies can be flexible in their mode of sales transactions. “You assess every buyer individually, and if you can’t secure credit terms, it may be appropriate to take a hybrid approach, with some cash paid upfront and the rest as credit,” he says.

“Whether you choose credit, cash or a combination, the principles of management are the same—rigorous pre-deal checking, using the vast range of available credit-scoring tools, and then rigorous electronic monitoring of every aspect of the arrangement, from the credit limit to the credit terms and the immediate notice of late payment. This gives you tighter control of your cashflow and reduces many of the risks.”

## Striking a good deal

In the wider economy, most of the supply and demand for credit is implicit in business-to-business transactions and working capital, and the vast majority of B2B sales involve credit terms. Still, many companies perceive the issue of late payments resulting from credit arrangements as a barrier to survival and future growth.

Mike Rowan, Atradius regional manager (North), says: “This is something that all businesses should be giving careful thought to, but it should not deter them from operating a credit system. It is important to distinguish between deliberate late payers and genuine cases of reliable firms encountering financial difficulties. It is

about managing risks, doing the necessary checks upfront, striking a deal on good terms, and having credit insurance cover. Most importantly, it is about good communication with your buyers and responding immediately when payment is due or overdue, and in the case of a genuine late-payment situation, maintaining a good dialogue in order to resolve it.”

Cash and asset-based trading systems suit some businesses, but firms should not avoid credit on the grounds of fear or lack of knowledge on how to manage it. That creates problems that are likely to hinder economic recovery and trade expansion, argues Abe WalkingBear Sanchez, a credit management expert.

**“Credit allows for the expanded movement of products and for economic growth and prosperity”**

He says: “The profit system of B2B credit management provides a proven methodology for integrating a seller’s knowledge regarding their product value at the time of sale, their customers’ profile and past performance to allow for more sales while remaining confident of payment. Properly understood and managed, credit allows for the expanded movement of products and services and for economic growth and prosperity.” ⚙

⚙ For more information on payment practices in the UK and overseas, visit [www.atradius.co.uk](http://www.atradius.co.uk)

## Cash lifeline

Many companies are unaware that excess or slow-moving stock being held in their business could help to ease cashflow, staunch late-payment gaps, and generate new revenue streams.

Online company Trading4u helps businesses to sell their excess stock or products—in return, the firm receives 65 per cent of the revenue. In the current economic crisis, this has proved to be a lifeline for many struggling firms.

Managing director Bradley Mcloughlin says: “A lot of the companies that we work with are having cashflow problems, for example, billing on 60-day credit terms but paying on 30 days, so freeing up funds that are tied up in their stock gives them some breathing space and cash to reinvest in the business.”

# BEYOND THE ACCOUNTS

For those who like to see the glass as half full the good news is that the chances of a trading partner going out of business are still far slimmer than generally imagined. Experian subsidiary The pH Group, which has analysed historical data from five million companies of all sizes, says things are not yet anything like as bad as during the last recession of 1991 (see panel, facing page).

Nevertheless, most experts feel the worst is yet to come. Even though anticipating some sort of recovery in the final stages of this year, the Centre for Economics and Business Research (CEBR) forecasts a 4.5 per cent fall in GDP growth during 2009—the biggest decline in a single year since 1931.

Doug McWilliams, chief executive of the CEBR, says:

**“Because companies are unlikely to get good loan terms, they are hoarding cash, cutting investment, squeezing pay and slashing employment”**

“Businesses are facing the toughest economic climate that most people will experience in a lifetime. Seventy per cent of corporate loan agreements are up for renewal between the beginning of 2009 and the end of

## On the bright side

The pH Group has found that we are still only a third of the way towards the peak of company default rates experienced at the height of the last recession in 1991 and that balance sheets remain comparatively healthy. In general, the average payment is being made around 22 days after the terms originally agreed.

Rolf Hickman, managing director of The pH Group, says: “The papers have been misleading because, although company default rates have increased steadily, the number of companies trading has also doubled since the early 1990s. So we are only back to where we were in 2003.”

2011 and, because they are unlikely to get such good terms, companies are hoarding cash, cutting investment, squeezing pay and slashing employment.”

And it could last some time. Graeme Leach, chief economist at the Institute of Directors, believes that recessions induced by a financial crisis, have a nasty habit of being much longer and deeper. “We’re a long way into the financial crisis but the economic crisis is only just beginning. We now expect both business optimism and performance to take a further step down as the recession hits the wider economy,” he says.

Few businesses can therefore afford not to keep track of the financial health of their key customers and

suppliers, even if they have longstanding trading relationships. Organisations that would normally seem safe bets can find themselves facing situations outside their control—the availability of bank finance being a particularly key issue.

Robin Fieth, executive director of finance and operations at the Institute of Chartered Accountants in England and Wales (ICAEW), says: “The majority of small businesses are funded by overdrafts rather than loans, and these can be withdrawn overnight. There is no harm in asking suppliers about their relationship with their bank, but it could be more difficult to ask customers, and I would certainly only do so in conversation. For smaller businesses, in particular, a lot depends on personal relationships and this might be the time when a pint of beer at the pub will be a good investment.”

## Checking public companies

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It is normally easiest to find financial data about companies that are publicly quoted because of their obligations to provide key financial and other information to the markets.

Useful data can usually be found on the investor relations pages of a listed company’s website—these often include interim and final results as well as details of company announcements. You can even register on the London Stock Exchange website to get

announcements from a company sent directly to you. Other valuable indicators can come from newsfeed services, equity analyst bulletins and other third-party analysis such as rating agency reports.

Paul Brice, partner at KPMG, says: “In the current turbulent world, great results from one period can be followed by more difficult conditions or events in the next, so a quick look at the last annual accounts may not be enough to gain an up-to-date picture of a company’s financial performance.

“Where you have important trading relationships, it’s a good discipline to regularly monitor financial performance by a structured look at a whole range of financial and other information to establish the direction in which the company is heading.

“If the signals coming show cause for concern you can then identify a clear action plan to understand the situation in more depth and, if necessary, protect your position.”

## Monitoring private firms

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With less information about private companies available in the public domain, it can be more difficult to identify problems. They may be more reluctant to share confidential data. The extent to which you can gain access to, for example, management accounts or detail of their borrowings will depend both on your

contract with the company and the nature of your relationship. This is an area where it can be helpful to obtain legal advice if you have particular concerns. Nevertheless, the signs that can be picked up on a company visit (see panel, facing page) can be every bit as important as financial information in the current economic climate.

Mike Brookes, senior procurement specialist at the Chartered Institute of Purchasing & Supply (CIPS), says: “Times are changing so quickly that you need to get close to suppliers and you can’t do this from behind a desk. It’s about getting out there and being open as to why you are doing it. People tend to focus on buyers being worried about the condition of suppliers, but in many cases suppliers are worried about buyers, so it’s also an opportunity to sell yourself. It’s a question of both parties trying to get through this together.”

Dialogue is a valuable commodity during an economic downturn and companies able to work in partnership to address difficulties could be well placed when the upturn comes. After all, the future could be markedly different from the past, so businesses capable of adapting together are more likely to make the most of the opportunities available. ✨

✨ For more information on the evolution of financial reporting, visit [www.atradius.co.uk](http://www.atradius.co.uk)

## DANGER SIGNALS

Is a good customer turning bad? Look out for these 10 warning signs

- 1 Changes in order patterns.** Instead of regular orders, they become more spasmodic.
- 2 Unfamiliar faces.** Staff you’ve dealt with in the past leave suddenly. New people appear.
- 3 Complaints increase.** A satisfied customer becomes less impressed for no apparent reason.
- 4 Payment patterns worsen.** Regular payers start to settle late. Regular late payers begin to delay payment further.
- 5 Credit lines are exceeded.** A customer tries to take unauthorised credit or ask for credit lines to be extended.
- 6 Customers change banks.** You find you’re paid with cheques drawn on a new bank.
- 7 Industry in decline.** The customer’s sector is going through a hard time—and it, too, may be feeling the pain.
- 8 People are hard to contact.** Regular staff you’ve dealt with for years suddenly find reasons not to talk to you.
- 9 Calls are intercepted.** Unhelpful secretaries won’t put you through, or claim the person you need to speak to is away.
- 10 Debt alert.** A customer hammered by bad debts could become the source of a chain reaction.

# RISK AND REWARD

There is an accepted wisdom in business that it is only by taking a considered risk that a company will grow and discover opportunities. Even the UK's largest organisations such as Tesco and BT regularly assess risks for their business—from the relatively small, such as hiring new staff in a particular department, to larger strategic decisions such as opening in new territories or developing fresh products.

## Seizing the day

Inspirational business leaders such as Virgin's Sir Richard Branson and Ryanair's Michael O'Leary have built large organisations by taking risks, while smaller, entrepreneurial companies take chances daily in terms of the orders they promise to fulfil and the suppliers with which they deal. But times are tough. The economy has contracted and risks, no matter how they're measured, have an added element of danger.

John Price, head of direct sales at Atradius, reckons the result has been a general trend to remove all unnecessary risk. "As a society we are very risk-averse at the moment," he says. "The desire to mitigate risk is stronger now than it has ever been. People want to be insulated and that pervades to commerce. Risk

managers are becoming more prevalent in business and there are more controls to mitigate risk—not just credit risk."

But business is all about taking chances. According to a survey on decision-making carried out by the Institute of Directors and Atradius, the desire among business owners to expand their companies is underpinned by a tacit understanding that it involves risk.

Some 70 per cent of respondents said the main objective was to grow their business. At the same time more than half (52 per cent) of those polled, the majority of whom were entrepreneurs and board directors, indicated that they were natural risk-takers. Some 42 per cent agreed they were prepared to take big risks to secure large rewards, while just 16 per cent said they would best describe their approach as

**"Those who play things safe may be unlikely to suffer, but they are also less likely to thrive or to succeed and, in turn, generate growth and create jobs"**

"shoot first, ask questions later". The findings suggest that a balanced attitude to risk exists among decision makers in business. More than half of those who responded to the IoD/Atradius survey said it was important to consider worst-case scenarios when making business decisions and that keeping existing

customers happy was even more important than acquiring new ones.

Price says it is important to encourage businesses to take measured risk—after all, those who play things safe may be unlikely to suffer, but they are also less likely to thrive or to succeed and, in turn, generate growth in the economy and create jobs.

## What type of risk-taker are you?

There are three main categories: risk avoiders, risk acceptors and the risk-indifferent. Most people tend to fit into one of the groups at some stage in their business life. This is influenced by the time frame set for a business goal and how realistic it is. Here are the key characteristics of each type:

- **The avoiders**—most of their deals involve cash, and there is an understanding that the product being traded is unique. Companies run this way tend to have good credit management in place, which includes clear contracts with suppliers, precise terms of payment, and the use of a factoring company to chase invoices.
- **The acceptors**—business people who are prepared to jump without a parachute.
- **The indifferent**—they take on aspects of the other two main profiles.

Putting in place sound credit management, for example researching both existing suppliers and new providers on an ongoing basis, is a sensible strategy in any market, but especially when the economy is faltering. “There is a new reality—just because something worked in the past doesn’t mean it will work today,” says Price. “You have to recognise that people you knew and have trusted for years may not be so bright these days.” Even High Street stalwarts are vulnerable in the current environment. Just look at Woolworths, which was forced into administration last year.

“Just because something worked in the past doesn’t mean it will work today... people you knew and have trusted for years may not be so bright these days”

“Businesses that prosper have good management. Look at the top football teams—they all have good managers. It is the same for any business that flourishes. And good credit management is part of good management,” adds Price.

## Protect and prosper

One way of putting in place good credit management is to use credit insurance to assess risks. Insurers give a measured and considered view of the risk that a company is about to take. “You have to look at the real

## Weighing up your chances

Whichever type of risk-taker you are, your business needs to ask these seven vital questions:

- Are you confident that your most important customers are not at risk of failure?
- Do you have sufficient controls and monitoring in place to ensure you spot any risk in a customer?
- Are you happy with the amount of detailed information you can gather on your potential and existing customers?
- Can your business afford the risk of expanding into new and unknown markets?
- Do you have all the necessary credit management expertise in-house?
- Can your business achieve sufficient and profitable growth while taking all the risk itself?
- Have you worked out the impact of late or non-payment by major customers on your business, and how you would survive?

value of a business and you have to look beyond the headline numbers,” explains Price. “You have to understand what market they are in and who they are selling to and who else is supplying them. It is about taking a more rigorous approach.”

There are many advantages of credit insurance, which protects suppliers against losses if their customers fail to pay the bills. For example, insurance can give a business a stronger balance sheet and—because the

risk of bad debts is reduced—it can make finance through traditional overdrafts, factoring, or invoice discounting more readily available. It also enables companies to gain a far better grip on the risks in the economy than they might acquire elsewhere. For example, credit insurers do analysis on the back of figures that may show problems that are not apparent from raw data. The rigour that credit insurers use will also highlight areas such as the value of sales that have to be achieved to replace a bad debt. “In the market we are in now, unless you are getting cash in advance you

**“In the market we are in now, unless you are getting cash in advance you need to find a better way than taking, rating and crossing your fingers”**

need to find a better way than taking, rating and crossing your fingers,” Price argues. He believes companies need to insulate risk. “In a good market it enables you to grow your business with some certainty. In a bad market it might enable you to keep your business,” he says. ✨

✨ For more information on the IoD/Atradius risk-takers survey, visit [www.atradius.co.uk](http://www.atradius.co.uk)

# TERMS AND CONDITIONS

- 1 Protection in the small print.** Your terms and conditions help protect your business when you trade. Always ensure they are up to date.
- 2 Stop the RoT.** Always include a “Retention of Title” clause as they help simplify recovery of goods in the event of non payment or buyer insolvency.
- 3 The devil’s in the detail.** Avoid “purchase agreements” where the buyer sets out its own purchasing terms. These can over-ride your T&Cs.
- 4 Pre-emptive strike.** If the first time the buyer sees your T&Cs is on your invoice, it’s too late. Ensure the buyer has seen them before you send the goods and they are in the contract for supply.
- 5 Lost in translation.** When trading overseas, ensure your T&Cs reflect legal practices for credit terms present in the buyer’s country as well as your own.
- 6 Credit policy policing.** Establish a clear and robust credit policy, which is applied in line with your T&Cs.
- 7 Singing from the same hymn sheet.** Ensure your sales team is aware of the T&Cs.
- 8 Credit where credit’s due.** Always ensure your buyers are credit checked before trading.
- 9 Legal eagles.** Your T&Cs should be verified or prepared by legal professionals. Don’t do it yourself.
- 10 Sign on the...** Always obtain a signature from your buyers on any contract incorporating your T&Cs.

# KNOWING YOUR GOALS

Abe WalkingBear Sanchez believes that too many directors look at credit management in the wrong way. Sanchez, one of the world’s most original thinkers on credit management, believes it’s not so much about “enforcing payment” as “completing the sale”.

He says: “The goals of credit management are to keep credit customers paying and buying. Remember that even during tough financial times, most past-due customers are not trying to avoid payment.” Even so, Sanchez acknowledges that an important part of credit management is identifying those customers who could be at risk of not paying.

## Keeping customers happy

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If a company aggravates customers by collecting money clumsily, they may not buy again. “There is a cost factor of between eight and 16 times more in getting a new customer versus keeping an old one,” warns Sanchez.

“The most profitable sale is the repeat sale and each repeat sale is ever-more profitable because it spreads the initial costs of marketing and sales over more transactions,” he adds.

Sanchez's point is a timely reminder that credit management should be seen as part of the broader way in which a company engages with its customers and encourages them to buy. In other words, it should be more about helping to make sales.

Steve Savva, chairman of the Association of Credit Professionals, also believes that the best credit management begins with the sale, not with chasing the customer when a debt goes bad. It's about trying to say "yes" to customers rather than "no".

"When I was a credit manager, I encouraged the sales team to make it clear that the prices they were quoting were subject to 30-day payment terms," he says. "If the customer wanted better prices and 60 days' credit because they'd been offered it by an alternative

**"The insurer will want to know you have good credit management processes — that you chase debts systematically and that your paperwork is as it should be"**

supplier, we'd say that we'd consider it also—if they could show us evidence of the offer.

"If the customer was creditworthy and the deal was profitable, there was no reason why the credit manager shouldn't say it was acceptable."

Still, that kind of positive approach is going to make some directors nervous because it breaks the conventional wisdom of having fixed payment terms. To calm their worries about more flexible credit arrangements, perhaps they should consider taking out credit insurance.

## How credit insurance works

Many people don't realise it, but trade credit insurance was set up by the UK government after WWI as an economic stimulus to offer businesses the confidence to take risks in order to expand. "Since then credit insurers have provided far more than just payout if a debt goes bad," says Tanya Giles, UK customer services manager at Atradius.

"Embraced fully, your trade credit insurer can become the strongest ally your business has, sharing critical information about your business partners, enabling you to make strategic trading decisions based on this detail, anywhere in the world," says Giles.

Normally, insurance providers will look to insure trade credit to all your customers. But if you have blue-chip clients that are rock-solid payers, then it is possible to exclude them from the deal.

What you pay depends on a whole range of factors: the industry you're in, the risk posed by your customers,

the quality of your own credit management and a raft of other factors. You could pay anywhere between 0.1 and five per cent of the value of the invoices to insure, but you normally only insure 90 per cent of the value anyway. For that, you get access to a wide range of services.

“Trade credit insurance isn’t an alternative to good credit management practice, but part of it. Indeed, you’ll need to be able to show your insurer that you have well-organised systems and processes in place for the management of your credit, including pursuit of debt,” says Giles.

The important point about good credit management is that it’s not just about hectoring customers when things go wrong. “The best credit management is about talking to people and building relationships,” argues Philip King, director general at the Institute of Credit Management.

“Have constant conversations with customers, especially the bigger ones. But credit management is not a panacea. There will always be people who exploit their position—that’s life.” ✨

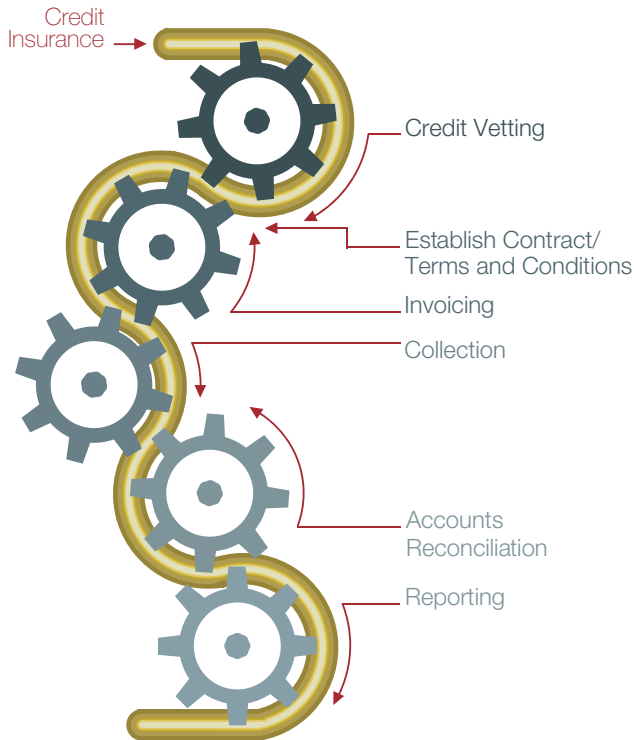
✨ For more information on handling an insolvent customer if you are not insured, visit [www.atradius.co.uk](http://www.atradius.co.uk)

## COLLECTING DEBTS

Ten tips to help you tackle an overdue account

- 1 Know the customer.** Regular late payers may need a tougher approach than a first-timer.
- 2 Plan the call.** Is it a first request for payment or the latest in a long sequence of calls on the same overdue account?
- 3 Focus on objectives.** What do you want to get out of the call?
- 4 Prepare for excuses.** What reasons might they use not to pay? Have your answers ready.
- 5 Keep it business-like.** Don’t allow the call to get personal or you’ll not be objective.
- 6 Call direct.** It’s easier to get who you want on a direct line than through a switchboard.
- 7 Keep accurate records.** Record promises made and by whom—especially important if you have to make a further call.
- 8 Insist on action.** Don’t be fobbed off with vague promises of settlement. Agree firm dates and methods for payments.
- 9 Follow up.** Make another call if the debtor doesn’t honour commitments.
- 10 Call in the professionals.** Know when to seek help from a debt collection agency or solicitor.

# OILING THE WHEELS OF CREDIT



Credit insurance works like oil passing through the credit management engine. It touches all stages of the process and helps each part run more smoothly and effectively.

- 1 Credit vetting.** Perhaps the most significant value of a credit insurance policy is the credit-limit decisions given up front. By advising where and with whom it is safe to trade, through credit limits you can use the extensive knowledge and expertise of the credit insurer to inform your trading and credit management policy.
- 2 Terms and conditions.** A credit insurance policy is there to help you trade safely and profitably and this can include help with advice on the wording of your terms and conditions.
- 3 Collections.** An Atradius credit insurance policy includes debt collection as a feature, so we'll do all the donkey work if payments are late—although, typically, credit insurance practices encourage prompter payments.
- 4 Feedback.** We'll give your sales teams vital information, including sector and country reports, to help them sell more effectively.

Credit insurance gives policyholders the stability to plan their future sales strategy, unhindered by the risks of bad debt.

# BUYING THE RIGHT COVER

Credit insurance is a vital weapon in the battle against bad debt and payment defaults. Products vary according to sector and the size of a business. Most policies are tailor-made and costs will vary. Businesses cannot simply buy a policy off the shelf. So how do you pick an insurer? Here are a few practical tips:

- Shop around to buy cover suited to your needs at the best price for you, but don't go for the cheapest option. Work out what you need and use a broker.
- Take time to secure a quote and be transparent about your business. The insurer will want to work in partnership with you.
- The cost of premiums can be lowered through risk-sharing options.

To calculate your premium, the insurer will consider:

- Annual turnover.
- Past bad-debt experience.
- Quality of internal credit management procedures.
- Typical terms of payment.
- The markets where you sell goods and the size of individual accounts in relation to turnover.

If you want to use a broker, check they are registered with the Financial Services Authority ([www.fsa.gov.uk](http://www.fsa.gov.uk)).

# USEFUL CONTACTS

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## **Atradius**

[www.atradius.co.uk](http://www.atradius.co.uk)

## **Institute of Directors**

[www.iod.com](http://www.iod.com)

## **Abe WalkingBear Sanchez**

[www.abewalkingbear.com](http://www.abewalkingbear.com)

## **Association of Chartered Certified Accountants (ACCA)**

[www.accaglobal.com](http://www.accaglobal.com)

## **Association of Credit Professionals**

[www.aocp.org.uk](http://www.aocp.org.uk)

## **Credit Management Research Centre**

[www.cmrc.co.uk](http://www.cmrc.co.uk)

## **Chartered Institute of Purchasing and Supply**

[www.cips.org](http://www.cips.org)

## **Financial Services Authority**

[www.fsa.gov.uk](http://www.fsa.gov.uk)

## **Institute of Chartered Accountants in England and Wales**

[www.icaew.com](http://www.icaew.com)

## **Institute of Credit Management**

[www.icm.org.uk](http://www.icm.org.uk)

## Further help...

- **Credit Management Matters publishes *Managing Cashflow* guides—free help for small businesses in a 10-part series.**  
[www.creditmanagement.org.uk](http://www.creditmanagement.org.uk)
- **The Prompt Payment Code promotes better payment practice throughout UK business.**  
[www.promptpaymentcode.org.uk](http://www.promptpaymentcode.org.uk)
- **Contact the Institute of Credit Management for details on *Getting Started* courses and its *70 Top Tips in Credit Management* booklet.**  
[www.icm.org.uk](http://www.icm.org.uk)
- **A free *Combating the Crunch* guide (PDF) is available from ICM Online Services (icmOS).**  
[www.icmos.org.uk](http://www.icmos.org.uk)
- **The Credit Services Association offers advice on unpaid credit accounts and debt recovery.**  
[www.csa-uk.com](http://www.csa-uk.com)
- **Business Link publishes guides to help you get paid.**  
[www.businesslink.gov.uk/businesshelp](http://www.businesslink.gov.uk/businesshelp)
- **A late-payment interest calculator is available at:**  
[www.payontime.co.uk](http://www.payontime.co.uk)
- **Access sample debt collection letters at:**  
[www.payontime.co.uk](http://www.payontime.co.uk)
- **Free Days Sales Outstanding (DSO) and cashflow calculators are available by emailing:**  
[tech@icm.org.uk](mailto:tech@icm.org.uk)

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