Credit and Collections

Credit and Collections: A Business Perspective

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CAMBRIDGE
SCHOLARS
PUBLISHING

Credit and Collections: A Business Perspective,
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This book first published 2013

Cambridge Scholars Publishing

12 Back Chapman Street, Newcastle upon Tyne, NE6 2XX, UK

British Library Cataloguing in Publication Data
A catalogue record for this book is available from the British Library

ISBN (10): 1-4438-4369-5, ISBN (13): 978-1-4438-4369-0

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FOREWORD

I was in elementary school when one of my teachers gave me a certificate that stated I was the most likely in my class to be a successful business woman.

I have been an entrepreneur my entire life, I started with raking leaves, shoveling snow, picking blueberries by the lake then going door to door and selling them, picking up old neighbors newspapers in my wagon and getting rid of them, (though many times I would bring them home and read through them and cut out pictures and cartoons for collages on my bedroom wall). I would make crafts and sell them on the street, during the gas crisis in the 70s the line from the gas station at the end of my road traveled way past my house so I set up a lemonade stand and enlisted my brothers to deliver cups of lemonade to people waiting in their hot cars for their turn at the pump.

After some bumps in the road I eventually was able to attend a local community college while working three jobs. I eventually was able to cut back to two jobs, one being an administrative assistant which gave me experience and knowledge about working in an office and how it all comes together. I have had many jobs in credit, mostly as a credit manager and I always collected more money than any other credit managers had before me. Because of this, I normally would work myself out of a job. When I was getting divorced and traveling 2 hours to one of my credit manager jobs, I decided to start my own collection agency.

My experience includes working in accounting, working as an accounts receivable clerk, credit manager and third party collector and agency owner. I also started my own Credit & Collections discussion group which still has thousands of members, some having been members for over 18 years.

To share my knowledge about being an effective collector I have written many books on the subject, most of them part of my Collecting Money Series and others for major publishers. Many of my books are now also available for Kindle or the Kindle App so anyone can read them on their computer, Kindle, phone, iPad or any electronic device.

CHAPTER ONE

WHY BUSINESSES NEED A CREDIT MANAGEMENT PLAN

The sale is not complete until you get paid

As a business owner, your business is one of many that allow consumers to use goods or services immediately and pay for them later. While extending credit like this increases your gross sales, it also puts your business at risk of some losses due to non-payment. You don't have to accept excessive bad debt losses as a part of doing business. Learning how to establish and maintain effective credit procedures and management plans over cash flow are not that hard and it will help you reduce your bad debt losses.

The most important benefit you can gain from improving your cash flow and collection activities is improved and increased cash flow, more time to focus on your business and success. Without improving cash flow and collection procedures, businesses risk their own success. If you do not get paid on time and as agreed you may not have the money to pay your own bills which will hurt your credit with vendors, banks and suppliers. By improving your cash flow your business can be successful, make more sales and increase the bottom line. When a customer pays you late, even just 10 days, you are losing your profit, so this is very important to your business.

In my experience businesses are always keeping bad financial records or none at all. This contributes to their downfall, and so it is very important for businesses to keep up and follow up with their financial situation. When a business doesn't follow up with their financials, they are saying that they are not serious about their cash flow and if they are not serious about their cash, their customers will not be either. Setting a precedent that shows your employees and customers that you are serious about your business and its cash lets them know that you are watching accounts, you are serious about your terms, and how you want to be paid and you will not put up with non-payment or late payments without noticing and following up with the customer to find out where their payment or money is. Not following up with customers or watching accounts leads to cash flow problems and in some cases those businesses then cannot pay their own bills, affecting their business credit, how they do business, their employees' jobs and how long they may be able to stay in business.

If you don't show your customers or potential customers that you are in business to make money and that you will be keeping track of your cash flow they will see that it is not something you monitor and everyone will want to do business with you. If on the other hand, every customer has to fill out and sign a credit application or contract and you check their references for a guide on how much credit you are going to extend to customers based on their credit worthiness, you send a message to your customers and employees. That message is that you are not fooling around, you are in business to make money and you are serious about getting paid. This deters customers from late or non-payment; they will pay your bill before another company's invoice that doesn't take any steps to limit their credit risk. I find this has been similar to raising children, once they know what they can get away with; they will try to take advantage of that and more. It is up to you as the business owner or credit manager to take the responsibility to train or teach your new and existing customers how you want to get paid, when you want to get paid and what is going to happen if you are not paid according to your set terms. This keeps your business in charge of your cash flow instead of allowing the customer to be in charge of your cash.

Having a credit policy or credit management plan has always been an important part of every business and when "easy credit" entered the picture it was confusing to many people who legitimately offered credit terms. Why were lenders trying to entice consumers who had little or no credit, or even consumers with bad credit to borrow money from them? Lenders could make more money by lending money or extending credit to people who could not afford it and who had bad credit in the first place. You may ask me how that affects your business or its credit. This affects our economy and is creating many more new difficulties for borrowing money for many homeowners and companies that have bad credit and in some cases where they have "passable" credit and even some money to put down. Quite a change from the last few years where you could get credit with "No Credit Check" or with "Bad Credit" or "No Credit". This credit crisis began with a focus on the subprime mortgage industry and has now spread into highly leveraged companies and we are still in the midst of a very weak market in terms of credit that reaches globally.

Since you are reading this book you are looking for answers or help to maintain good customers' relations and smooth payment processes and cash flow. As a credit manager or the owner of a business you should be able to answer the following questions or at least know how to find these answers if you want an effective credit management plan.

1. How do debt and credit affect my business?
2. Exactly what is my credit policy?
3. What makes a successful credit policy?
4. What is credit risk?
5. How do I turn prospects into credit approved customers?
6. How can I maximize my cash flow?
7. How do I handle customer deductions?
8. How do I handle customer excuses for late payments?
9. Why would I use a third party collection agency?

Your credit management plan should answer each of those questions; you and your employees should be able to flip through your credit policy to find out what steps to take in each of those instances. This book can help you create a plan that answers those questions and gives you a guideline and steps to take in each scenario, helping your cash flow smoothly and avoiding much bad debt and frustration.

Many business owners worry about how the economy will affect their business. As a business owner you need to understand the economy enough to know that your business will be affected before a recession or any hard times actually hit and you must take preventative steps in order to avoid problems when and if it does hit hard.

One thing you can do is make sure that forecasting is something you do for your business or ask your accountant to help you with this. Look for growth in real wages, which drives consumer spending, and which accounts for more than 2/3 of the US economy. Consumer spending is a huge indicator of what is happening and it also drives corporate profits which in turn affect the stock market. Look for changes in the economy that will affect your business and remember every business is affected differently and at different times during the cycle of a recession, or down turn.

Keeping up to date on foreclosures happening in your area and the areas you may sell services or products to is crucial to your business. You can make sure your business is protected by going over all of your accounts that you extend credit to, make sure they are in good standing and up to date on all invoices. If you have signed credit applications and are authorized to pull credit reports and/or check with banks and vendors on someone's payment history, now is the time to re-evaluate each customer's credit and credit limits. Look for things such as late or slower arriving payments, change or loss of a job, changes in incomes, change of address, and divorce. Take immediate action if a customer's mail is returned and/or if the phone is disconnected. Many times when the economy suffers people lose their jobs, their relationships suffer, and they may move to cheaper housing or lose their vehicles. All of these things are factors that lead to your bill not being paid and can sometimes end in bankruptcy. The three steps you can take to help you in this situation are:

1. Review your accounts receivables weekly or at least monthly
2. Stay motivated by trying to collect as much past due money as possible
3. Stay focused; don't let customer excuses veer you off track

I know I have talked about cash flow as the main reason why business need a credit management plan but you also need a plan to protect your business credit. Banks want to see your finances which can include your taxes, bank statements and your cash activity with vendors and throughout your business. This helps them to see how much money you have, how you are using it and it helps them determine how much to lend to you.

Your credit management plan helps you in this situation because it includes your cash flow mission, purpose, how you will be paid, when you will be paid and what you will do if a customer doesn't pay you on time or in full. This lets the bank or investor know that you have a plan in place and are in control of your money and shows them how you will get the money you need to pay them back. Your credit management plan is the outline of your cash, how you will get it, how you will keep it and how you will continue to get more.

Every business needs a credit management plan in order to keep the cash flowing through their business. You have to know how to recognize that an account may have a problem paying you before it becomes a problem. Some of the ways you can recognize that you might run into a problem is that you may be making sales but don't have the money to pay your own bills on time or early, or when your customers are past due and are not responding to your collection efforts but continue to place orders and pay more slowly, and a big sign is when you receive any bad checks from any customer. In view of this, you should know how and when you want to be paid, what you will do when someone doesn't pay you on time or in full, and you should know what steps you will take if you receive a bad check from anyone. I want to give you some steps to help you accomplish those goals so that you can be successful.

You should have credit applications ready to go for your first customer.
Print them off the internet or buy some with carbon at an office supply store. You can also have them printed with your logo, address and phone number wherever you get your business cards and letterhead.

Have steps written out on how to handle the completed credit application.
An example: Check all fields, and make sure it is signed.
Let the customer know you will give the credit application to the credit manager to be processed and he or she will contact them with the results.
Take the credit application to the credit manager who takes it from there.

Have your payment terms printed on your credit applications, invoices, statements, agreements/contracts.
This way your terms are everywhere, and eliminates the excuse "I didn't know when I had to pay"

Make sure your sales and credit departments know your credit policies and procedures and who is in charge of them.
Sales and Credit fight a silent (and sometimes not so silent!) duel about credit. Sales wants to sell more to make more commission, credit wants to limit how much credit is extended to limit credit risk.

If you begin doing these things you will be taking affirmative action to secure the success of your business. For example, these credit applications, when signed by your customer, authorizes you to check their credit history, outlines your payment terms and by signing this document they agree that they understand and will comply with your payment terms, it can also give you the ability to charge interest or late fees, to add collection or attorney fees if the account ever becomes overdue.

If you have a customer that is already past due and you are trying to collect from them, the documentation that you will need are a proof of the order, a purchase order or completed order form, a proof of delivery from your shipper, and/or a signed credit application, agreement or contract. You will also need these items when and if you place the account with a third party collection agency. When I owned my agency I was surprised at how many businesses would place past due accounts with me but would not have any paperwork to support the debt. It becomes much harder to collect a debt without any supporting paperwork and it is impossible to take them to court without documentation, so without this paperwork your resources become limited.

CHAPTER TWO

HOW TO WRITE YOUR CREDIT POLICIES

Now that you know why you need a credit policy you need to come up with one that will work for you and your business. Some things to think about when sitting down to write out your credit policy steps are what you want your credit policies to do for you and your bottom line. The purpose of your credit policy should be to accomplish any of the following objectives.

I want my credit policy to:

Provide timely notification to any of my past due customers automatically to help my business eliminate old balances left on the books.

Outline steps and procedures that will provide my customers with options when they find themselves unable to pay in full or on time.

To provide my employees the steps to take when an account has a small balance due (interest, shipping, disputed item) in some cases a company might implement a rule that they write off anything under $10.00.

To provide step by step instructions to my credit manager when checking credit and setting reasonable credit limits for customers approved for revolving credit accounts.

Give us strict guidelines to follow on how to legally collect money due to us as a result of returned checks.

Have an automated system that will send out reminders to past due customers every week or two weeks.

Include the proper legal forms so that my business can keep customer credit card or debit card numbers on file with permission to automatically charge them at the time of an order or a specified date each month.

To have specific steps in place so our credit manager knows at what point an account should be placed with a third party collection agency and written off to bad debt.

Have steps in place in the event a customer's order is held due to a past due balance, I want this to include notification to the customer and an easy payment option.

Now that you have a clear picture of what you want this policy to do for you, take a look at your business mission statement. You want to write a short concise mission statement for your credit procedures. Every business has a mission statement and you want to apply that to your credit policy to write a mission statement for your cash flow.

Your credit procedures mission policy should state what the goals for these instructions are, what the goal of these procedures are, who is responsible for all the credit decisions and functions and then the actual policies or steps. For example, your policies or what you want your credit procedures to accomplish might be:

Your payment terms and conditions
Processing new customers that want revolving credit accounts
Using credit applications to check credit worthiness
Joining a credit bureau in order to pull credit reports
Setting realistic credit limits
Dealing with any past due customers
When and how to use a collection agency

Once you know what you want your credit policy to accomplish for you, it is much easier to write out steps that can help you achieve those goals. For example, I want my credit policy to provide timely notification to any of my past due customers automatically to help my business eliminate old balances left on the books, which can be accomplished by possibly utilizing a feature within your book keeping software that send out those reminders by email or into a folder that you can print at the end of the day in order to send a hard copy reminder. If you use accounts receivable software, you should be able to print out an accounts receivable aging report specifying anything over 90 or 120 days and with a balance of under $25.00. Then you can take a look at each of those accounts and decide what action should be taken.

In my experience most business find that doing any of these things is too much work and they become overwhelmed. The hardest part about this is getting started. If you can break down what you need to do into smaller tasks and begin slowly you will do much better. Three things to remember as you write your procedures are that you want to be tough but flexible, you want to have very specific guidelines or steps to take action on, and these procedures need to be consistently enforced or else they will not work. Now let’s begin writing your credit policies.

Your first item will be your payment terms and conditions. Everyone will have different payment terms based on many things, such as how often they want cash coming in, when their bills are due and what their overhead is. In your credit policy include what types of payment options you offer your customers, for example cash, checks, credit or debit cards, PayPal or anything else you offer.

Your next item will be credit limits. How do you decide what limits to impose on credit approved customers? A customer’s credit limit needs to be based on what they can afford or you are setting yourself and your customer up for failure. You need to consider the prices of your items, how many or how often someone orders from you and based on their credit history how much of a credit limit will be realistic to keep them ordering and keep them paying on time.

Once you do have bad debt, what will you do about it? How can you avoid it or stop it once you have it? Decide how you will identify if something is bad debt and uncollectable and what steps you will take to get it off your books.

As you write your policies you need to understand your credit risk. Credit risk is the risk of loss due to a default on a contract, or the risk of loss due to someone not paying you as agreed. If you don’t demand payment up front you are leaving yourself open to credit risk. Your credit risk is the time in between when the customer leaves with your product or receives your service and when you get paid.

Some steps you can take and include in your policies to reduce your credit risk are:

Get a signed personal guarantee
Offer month-to-month credit
Offer ship-to-ship credit
Ask for a security deposit
Get a 50% (or more) deposit on every order

I want to give you an example of a couple of different credit policies that you can use as a guide for your own policy, but also want to tell you what the six main elements of your policy should be. These are steps you will take with every new customer/order and these are the steps you want to include as part of your policy and how to manage each step within your organization.

1. Each new customer will complete a new account form.
2. Every customer will have a signed credit application on file.
3. You will check each customer's credit worthiness.
4. You will set specific credit limits for each customer.
5. You will notify the customer if they are credit approved or denied.
6. You will review credit limits every 6 months and update as needed.

Now that you know what you need to do you need to make sure you also indicate what your customers need to do. To do that make sure your credit policy also covers these six things:

1. How do customers apply for credit with you?
2. What are your late fees, interest fees, court costs or bad check fees in the instance of late or non-payment?
3. What are your payment terms and conditions?
4. What is each customer's credit limit and how do you notify them of this
5. What are the buyers' responsibilities?
6. What are the sellers' responsibilities?

As an example for you, step one will be that each new customer (and your existing customers) should all fill out a credit application that has your payment terms, late fees, interest fees, bad check or collection costs indicated on the credit application. This covers 1-3 above. Number 4 is how you will decide on a credit limit and how you notify your customers about their credit limit. This is covered in Chapter 3 in great detail but you will be able to get credit references, bank references, employment information, financial information and permission to check all these things by having your customer sign and fill out a credit application.

The buyer or your customer's responsibilities, which would be paying you on time and in full, or notifying you of a discrepancy such as a shortage, payment error or anything else that would cause them not to pay your invoice in full and on time. The seller's responsibilities, shipping times must be met, inventory must be in stock and ready to go, you might send an invoice within a certain time frame.

Here is an example of a credit policy that you can use as a guide, or fill in the blanks and use it as your own, modifying it as you use it.

Credit Policy for MY Company
Include the date – and change it each time the policy is updated

Mission
The Credit Department will offer credit to all customers that fill out and sign a credit application and are found to be credit worthy.

Goals
The Credit Department's goals are to operate with one collector per 700 accounts while keeping bad debt down to less than 2% of total sales.
All customers found to be 18 days past due will be contacted by mail.
All customers found to be 25 days past due will be contacted by phone.
Accounts over 90 days old with no payment activity in the previous 3 months will be placed with a collection agency that has been approved by the credit manager.

All credit applications will be updated and re-run every 6 months.
Letters will be sent to each customer as their application is re-run to let them know if their credit limit or status has changed in any way and why.

Responsibility
The Credit Manager has full authority over all aspects of the credit and collections functions.
The Credit Manager reports to the Chief Executive Officer, the controller, depending on your company.

Policies & Procedures
No customer will be given a line of credit without completing and signing a credit application, and having their credit checked by the credit department.
Customers' terms cannot be changed without approval of the credit manager.
No accounts may be placed with a collection agency without approval from the credit manager.
Accounts looking for a credit limit higher than $5000.00 must be approved by the Chief Executive Officer/controller.

Terms of Sale
2% 15 net 30
$25.00 fee on any returned checks.
Court costs and collection fees can be added to balances placed with a collection agency or taken to court for payment.
All other special terms or discounts must be approved by the credit manager.

A Credit Policy Checklist

Who will be your credit manager, collector or in charge of the credit department? Pick one person to be in charge of all credit applications and reports. Write that name down so you can talk to that person about this responsibility and the job and make sure they are willing to hold that responsibility. Make sure everyone knows who this person is so they can go to them about anything credit related.

Get credit applications. Where to get them: online, office supply stores, CD's or books of business letters and forms, local printing companies. Download free credit applications at http://www.MichelleDunn.com/free-from-michelle or if you have a copy of my Ultimate Credit & Collections Handbook, the check IS in the mail – you have a CD in the back of the book that has examples of different credit applications you can print out and use. If you want a copy of this book with the CD, visit www.MichelleDunn.com or amazon.com.

Get some collection letters ready. Many businesses like "series" of letters, normally starting off with a friendly reminder and gradually getting stronger as payment is not forthcoming. You can find letters online, on the CD in the back of my Ultimate Book or write your own. I also have books of collection letters available at www.MichelleDunn.com that are downloadable and you can easily add your logo, address, contact information and personal details.

Research and choose a collection agency. You want to find an agency that you are comfortable with BEFORE you need it. When choosing an agency, make sure that they are fully acquainted with the nature of the goods or services that you provide. If an agency is familiar with your industry, it will be better suited to handle complex situations that arise during collections.
Do not place accounts with more than one collection agency. Make sure that if you decide to change collection agencies, the account is only be worked on by one service.
Choosing a professional collection service to manage delinquent accounts and other related tasks is a wise decision. The agency you choose should represent your company in a responsible and professional manner; they should provide a satisfactory rate of recovery while maintaining your public image. This decision involves more than just giving your business to the lowest bidder – it requires careful consideration. Remember, that the agency you choose is a reflection of you and your business.
Consider the following qualifications and credentials when you are choosing a collection agency:
Is the agency a member of a national trade association? Membership is an indication of professional integrity.
Does the agency belong to a local Chamber of Commerce?
Does the agency charge fees that are clearly stated?
Is the agency prepared to give you the best possible service? An agency cannot guarantee results on any specific date, but will often estimate an average recovery rate that one can expect.
Will the agency be sensitive to a consumer's individual situation? The agency should promptly notify you when it discovers a consumer who is a hardship case and recommend a proper procedure to follow.

CHAPTER THREE

STEPS TO MANAGE CREDIT SUCCESSFULLY

In my experience many businesses do not have credit management plants or any credit policies in place. Managing your business cash flow can be the single most important thing that can make or break your company, no matter if you are a new business or have been around for many years. There are some things you can do to make this credit management easier. The first thing is to manage your receivables, or hire someone to do it for you. Managing your receivable means you keep an eye on them, you stay on top of payments and run aging reports, and look at them! Another thing you need to do it make it as easy as possible for your customers to pay you, offer different types of payment options such as cash, credit or online payments. One of the most important things you can do to manage your business credit successfully is to have a credit policy in place with payment terms and that you can stick to. It doesn't help you to have a policy that you don't follow or that doesn't work for your business. You need to do the same with your collection procedures, make sure you have collection policies in place that are easy for you to carry out. You also don't want to forget accounts payable, keep your eye on your payables reports as well. The skills and resources you need in order to successfully manage your credit are:

Signed and filled out credit applications
Full knowledge of the FDCPA and any state or other Federal collection laws
Communication skills
Negotiation skills
Skip-tracing or location skills or resources
Mediation skills
Organizational skills

If you find these steps overwhelming or something you are not educated about and you don't want to dive right in, you may want to hire someone to be your credit manager, collections person or accounts receivable clerk to handle these aspects of your credit for you. If you decide to hire someone else to take on these tasks for you do some research and talk to other business owners who may have done this. You will want to have a clear understanding of what a bill and/or account collector does, for example, they collect payments by phone or by using letters to collect payments on past due invoices. They may negotiate repayment plans with customers and help them find a solution to get the bills paid off in full.

As of this writing there are no college degrees offered on being a bill collector, though there are classes you can take to educate yourself or an employee. My last book *The Guide to Getting Paid, weed out bad paying customers, collect on past due balances, and avoid bad debt*, as well as *The Ultimate Credit and Collections Handbook, the check IS in the mail* have been used in classrooms in colleges across the nation to educate business owners and credit professionals on the best practices for this job. As a bill collector a typical job description would include, finding your customers, through printing an aging report, who have overdue balances, and then trying to collect on those balances. They would also track down customers who may have an out of date address, disconnected phones or new jobs. They also need to have negotiation skills in order to negotiate payments when a customer is unable to pay the balance in full and needs to set up a repayment plan. In some instances this person would also be responsible for reviewing the terms of sale or payment with the customer if necessary. The most common way for a bill collector to contact someone that is past due is by phone and sometimes by mail. They must keep very specific records that include the dates and times of every conversation and the result of what action will be taken. The main job of your collector is to find a solution with the tools you provide that is acceptable to you and to your customer in order to get your bill paid in full as quickly as possible. Once your collector sets up a repayment plan with a customer it is their job to stay up to date and follow up with that customer to ensure those payments are made as agreed. They would also be responsible for taking action if those payments are not made. Being a collector is very stressful and keeping your collectors educated is vital to making this whole system work. To be a successful collector the person must be ready to face rejection, and speak to emotional people who can become angry. The collector must be able to have to stay polite and positive in a negative situation and be ready to offer solutions and help. I like to think of a bill collector as someone who is offering customer service to a customer that is in trouble. If you look at the job as a customer service rather than as a bill collector, it becomes a bit easier to remain calm, come up with solutions and help the upset customer calm down and agree to a beneficial solution that will help the bill get paid. Training and experience are the two keys to being successful as a bill collector, offer your collectors as much training as you can afford; it can't hurt and can only help you.

One of the most important things you must do in order to manage your credit successful is checking a customer's credit and deciding on a realistic credit limit based on their credit worthiness. Once you have a new customer walk in the door and they want to apply for a revolving credit account, you must check their credit history in order to make an educated decision on how much credit you want to extend to them or how much of a risk you are willing to take based on the credit limit you give them and their ability to pay you back. If you have a signed credit application you may pull a credit report or contact the references they provided. Take notes and always get the persons full name, title and extension that are providing you the reference information. Many people ask me what types of questions I should ask when checking references, so I want to give you a list of questions you can ask that can help you make an educated decision.

How long have you known this customer?
How long has this customer been doing business with you?
What payment method does this customer normally use?
Does the customer pay within terms, late or early?
What is this customer's average balance and how much of that is past due?
What is the average amount of this customer's normal order?
How often does this customer place orders with you?
What are this customer's payment terms with you?
Does this customer make many returns?
Does the customer take unauthorized discounts?
What has this customer's high credit been in the last year or 6 months?
Is the customer's account current right now, today?

When you contact a potential customer or customer's bank for a credit reference, many times you will have to fax over a copy of the signed credit application so they have proof that they have permission to share this information with you. Once you do this, there are specific questions you want to ask their bank.

What type of account do they have? Business, personal, savings, loan or checking?
When did they open this account?
What is their average daily balance?
Have they had any returned checks for any reason? If yes, when was the last one and how many in the last 6 months?
Do they have any outstanding loans? Are they current?
Are the loans unsecured or secured?
Are the loans being paid as agreed?

As you check someone's credit you want to keep an eye open for some red flags and just some general practices. For example, do they pay their other bills on time or late, are they frequently past due with other vendors, do they have a seasonal pattern when making payments, did they always pay on time but now pay late due to marital issues, the economy or unemployment, what are their anticipated monthly purchases, and will this customer agree to pay COD or cash on delivery while you check their credit worthiness.

Here are some specific steps that I have used when I handled credit applications. I thought that if I could outline my process it might help you come up with a process that works for your business.

New customer walks in the door. They are handed a "New Account Form" which can be your credit application. They sit down and fill it out or take it with them.

Office staff brings you the signed credit application to check so she can let the customer know if they are approved.

First thing to do is make sure the application is signed, and all the fields are filled out.

If you are a member of a credit bureau, and every place I worked as a credit manager was a member of at least one; you input the information into their website to get a copy of their credit report.

While you are waiting for the credit report, start calling the references listed on the credit application, paying special attention to the bank reference and what questions to ask. Most banks will ask you to email or fax a copy of the signed credit application to prove you have permission from the account holder to receive this information.

Once you have called each reference, and made notes you will know if this account is headed towards being a good or bad credit risk. Now take a look at the credit report.

On the credit report the person’s name and addresses will be at the top, if they have a spouse or ex spouse, that information may also appear there. There will also be dates showing you how long that person lived at each address. Take a look at the different addresses, and how often this person moves. If there are many addresses and frequent moving around that could be a red flag. You don’t want to sell something on credit to this customer only to have them move while they owe you money and not leave a forwarding address.

Next take a look at the employer information, their jobs will be listed with the most current first and the dates of employment for each. If someone jumps from job to job they could be a credit risk, so take a look at how often they change jobs and how long they stay at each one.

The header part of the credit report will give you a “summary” of this person’s credit activity and history. It will tell you how much available money they believe is available after this person pays all of their bills, to pay you.

You can scan down to see the details of how much they pay to anyone who reports to this particular credit bureau. For example, the electric company may show each monthly payment and if it was on time or late. It will tell you how many payments were late and by how many days. It will tell you the amount of each payment and if they have any outstanding balance. The same will be true for the phone company, or a cell phone company, internet service, doctor bills, loans, credit cards, or anyone who reports to this credit bureau.

Be aware that some companies only report to one credit bureau. I have found that being a member of all three credit bureaus is beneficial because many times, one may have something the other does not list on their reports. For example, the electric company may report only to Experian and the phone company may only report to Trans Union.

When you look at this detail it will also tell you if the account has been closed and if it was closed by the creditor or the cardholder. If an account is closed by the cardholder you may want to ask them why or just note that this is a positive action. If the issuer closed the account it could be for non-payment but if the card holder closed the account, it could be just to improve their credit. If an account was placed with a collection agency, repossessed, sued in court or any actions taken for non-payment that will be listed there. If there was a bankruptcy that will be listed as well as if the person is deceased.

Based on calling to check references and looking at the credit application, you may be ready to make a decision on how much credit to approve this customer for. If you don't feel comfortable, now is the time to ask for more references and/or talk to the customer. Maybe they are disputing the very thing listed on their credit report – which could change everything.

Many people do not know how to decide on a credit limit for a customer. The way to do this is to take all the steps listed above so you have an idea on this person's credit worthiness. Take into consideration if they are a consumer or a business, and the orders they will place with you monthly. Most businesses offer 30 day terms, so you want to think of this in a monthly capacity. As an example, I worked at an oil company as a credit manager for years. When I was trying to extend credit to someone, after checking their credit I would take a look at the size propane or oil tank they had, how often they would need it filled and what the cost would be. Most times people had a 250 gallon tank, and back them the pre-buy price for oil was $.90 so a $250 credit limit would work for most of those people, if they had outstanding credit; maybe the limit was $500. For some people who had passable credit, but not outstanding credit, they might have a credit limit of $250 but could only have one outstanding invoice at a time, or they had to pay for their last delivery before they could receive another. As you try to set credit limits, just take a look at a customer's history or if they are a new customer, ask them how much they think they need to order each month, and if they don't have an idea, start low. You can always increase credit limits at a later time, based on payment and order history.

CHAPTER FOUR

TOP METHODS FOR IMPROVING COLLECTIONS

As we all know things have changed and keep changing, things we used to do before to improve collections are no longer effective, and so what can we do to improve our collections with the same or less effort? We have to change when things are changing and adapt to new market conditions and a new economy. We must change how we limit our credit risk, how we extend credit, how we get paid, and how we deal with customers who may fall onto hard times and need help paying their bills.

In the past we may have been able to overlook when a customer became just a little past due and eventually paid us, but now this may no longer be an option or it can be a red flag. Getting paid on time and in full begins with you; you need to “train” your customers to pay you on time and before anyone else. You need to make your bill be the most important bill that customer pays each month.

Some of the biggest changes have to happen within your company and credit department, so some of the things you can do to help your cash flow that you may have never done before include:

Assigning one person in your office to the larger accounts so they can build up a rapport with those customers is your best strategy. When customers have a “familiar” person or someone that they always deal with or know, they are more comfortable talking about the debt and coming to a payment resolution. Communication is important in keeping that relationship alive and healthy. In an article I recently read titled “What retailers should do if they cannot pay vendors within terms” they did a survey asking for suggestion on what retailers can do if they are having a difficult time paying their bills on time. An overwhelming 100% of the people surveyed agreed that they would be more patient and understanding if the retailer communicated with them honestly and worked with them to create a payment plan that they could stick to. Credit can be like marriage, with no communication it breaks down, so keep in touch, keep talking and asking questions and offer a reasonable solution to help your customers and yourself. Many people are private about their finances so having someone who can have a relationship with the customer or are familiar with the customer will help that customer communicate about financial issues more openly. They will feel more comfortable and will share more information.

Another way to improve your collections is to cancel any back orders until existing inventory is paid for. If this causes a big problem and you want to continue to fill orders for a customer that owes you money, offer to send future or backorders on a cash or COD basis with a couple or a few hundred dollars added on to the COD tickets to pay for the new order in full and get something towards the past due balance. The amount you add on to the COD ticket would depend on the amount the customer owes you, the amount they will be ordering and how much is realistically affordable to them. Maybe they could order a little less and pay COD for that order and still be able to pay a little on the past due balance. This way you create a win win situation, win for your customer because they still get the product from you that they need and win for you because you get paid for that order immediately and get a payment towards their past due balance.

Be careful opening new credit approved accounts. I recommend that you don't open a bunch of new accounts with large credit limits, or if you do, give the new account lower credit limits to start out with and let them prove to you based on their performance that they deserve a higher credit limit. You already know to get a signed credit application, but really analyze financial statements, bank statements and trade references. This will help you to weed out more credit risks and stop a problem before it starts.

Tenacity is one of your most important skills. It is up to you as the creditor to make sure your customers pay. Think of it as educating your customers on your payments terms, how you work, what you want and how they can do that. Even if you do everything right in the beginning, such as getting signed credit applications, limiting your risk, and calling customers that become past due, if you get lazy and don't follow up with these customers, they then see that you don't care and if you don't care, and they don't care, your invoice goes to the bottom of the payment pile. Now you don't have your most important payment tool which is communication. In my experience anyone who is paying you slowly is paying other slowly as well. The squeaky wheel get paid, when I was in