

Taking it Back to Basics: Four Best Practices for Credit and Collections Effectiveness

As the complexities of the credit profession demand increasing attention, it is important not to forget the fundamentals. The following provides four Best Practices that help establish sound credit practices.

Well-managed credit and collections are vital to a company's sustainability. This article highlights four simple tips to help companies improve processes, lower DSO, decrease past-due accounts receivable, and ultimately increase cash flow.

1. Research Your Customer

It is important to perform due diligence and look into who you are doing business with. Researching a customer's credit history is a great way to gain insight. This record accounts the borrower's credit history from a number of different sources, including banks, credit card companies, collection agencies, and the government. A credit history report can help in predicting if your customer will be able to repay debts. Should you find that your potential customer has a low credit score, it would be a good idea to require a deposit on your goods or services. Membership in a credit group in your company's industry can also provide access to credit and payment history for prospective customers.

2. Set Payment Terms

Payment terms should be documented on a contract or a purchase order (PO) when goods are purchased or a service is ordered. The contract or PO should state the item or service, the price, and the payment terms. When you send an invoice to your customer, indicate a due date, such as "due in 30 days." Do not list terms like net 15 or net 30. Some of your customers might understand that means payment must be received within 15 or 30 days, but you are better off spelling out a due date to avoid confusion. If possible, offer discounts for early payments and always indicate that there will be late fees on invoices paid past the due date. It is important to have strict rules, but remember to relay information in a polite manner.

3. Make Sure the Punishment Fits the Crime

On occasion, the best customers can have trouble paying. It is best not to hand down a large

late fee on the first day the account becomes past due. Most customers will appreciate support during difficult financial times, and will probably become a more loyal customer to your business. If your customer can pay, and does not, or has a history of submitting late payment, it is suitable to impose a late fee. If your customer is not happy with the fees, this should be the catalyst to change their delinquent behavior.

4. Collecting on Delinquent Accounts

The probability of collecting a delinquent account drops dramatically with the length of the delinquency. The probability of collecting an account 90 days past due drops to just 69.6%. At 6 months past due, there is only a 52.1% chance of collection. If the account ages to 1 year past due, the likelihood of a successful collection is 22.8%. With this information, it is common practice that when an account goes unpaid for over 90 days, you should consider partnering with an outside collection agency (OCA). There are many benefits to working with a certified collection agency instead of trying to collect on your own. Collection representatives are trained on current techniques, technology and compliance issues. Working with an OCA will most likely provide better results than collecting on your own.

In conclusion, it is best to extend credit to customers cautiously and collect past-due payments promptly to keep cash flowing into your business. Researching your customer's credit could save you time and money in the long run.

About ABC-Amega:

Founded in 1929 as The American Bureau of Collections, ABC-Amega is an award-winning commercial collections agency specializing in global debt collection and accounts receivable management solutions. ABC-Amega partners with clients to improve and manage credit, cash flow and customer retention with services in 3rd party commercial debt collection, 1st party accounts receivable outsourcing, industry credit group management, and credit and A/R management training and education. The firm is dual-certified by the CLLA/IACC and is a platinum partner of the Credit Research Foundation (CRF). For additional information, please contact info@abc-amega.com or visit www.abc-amega.com.