

## **Credit Control - Manage Those Receivables**

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Much has been written on the subject of cash management, and particularly the need to exercise control over the debtors.

For the small business owner this may be easier said than done.

Administrative help may not be available, or may only be there on a part-time basis, and the credit control function may form only part of an employee's job description. Then of course there is the level of expertise and knowledge that may be required to ensure settlement of debt is achieved. This may not have formed part of a general accounts clerk's training.

Credit Controllers who are qualified by experience may be acceptable, but those qualified through formal training in the subject of credit control collections may adopt an entirely outlook.

What does this mean for the small business owner?

Indeed the business owner may also be the credit controller, perhaps a task undertaken through necessity rather than desire.

It is generally accepted that cash inflow into the business is critical, however, in some instances scant regard is given to ensuring the function is managed effectively.

There is of course a dilemma. In order to employ a professional credit controller to manage the cash collections, the operating costs of the business may increase. The benefit of such an appointment may then be outweighed by perhaps the additional salary costs such an employee would command.

How does the business owner overcome this problem?

Assuming that the employment of a full time credit controller is not justifiable, the first option is perhaps to send the existing staff on formal training courses.

The sending of an invoice or statement and the making of telephone calls chasing settlement of the debt are only part of the credit control process. It is important to remember other factors, perhaps less obvious, that impact upon the ability of the function to perform effectively. The business owner should support the credit controller and ensure help is available to improve areas of weakness within the business that may jeopardize cash collections.

A trained Credit Controller may be able to offer advice to improve the following areas that may be overlooked in a small business but are critical in ensuring cash is collected in a timely manner:

- **Terms and Conditions of Sale.**

Have they been agreed with the buyer? Are the payment terms clearly established? What process exists to accommodate the need to update the condition in today's ever changing business world.

- **Sales Order Processing.**  
Is there an established system of vetting all sales orders against the customer's credit limits, ratings and payment history? Selling goods to slow payers will not only increase the risk of bad debts but also adversely impact cash flow.
- **Invoicing.**  
Are sales invoices issued promptly? If not, then delays in payment may arise.
- **Internal Quality Control Systems.**  
Does the business employ satisfactory quality control systems to ensure faulty product is not delivered to the customer? If not, the risk of goods being rejected, adverse cash flow and higher costs will be real. The work of the credit controller will become onerous with the raising and signing-off of credit notes being unwelcome.
- **Customer Relations.**  
It is most desirable for all customer contact staff to build good relations with their counterparts. This is also an important aspect of the credit controller's work. Whilst it is important to ensure all debts are cleared in a satisfactory manner, the adoption of a dogmatic and inflexible approach may harm long term relationships. The import of training staff in how to deal with customers cannot be underestimated.
- **Proactive or Reactive Approach?**  
The business ethos should be one of maintaining contact with the customer throughout the period before debt settlement is due. This proactive approach will identify any impending problems and allow time for resolution before payment is due. All too often problems are not known until the settlement date has passed. It is not generally the practice for customers to inform the seller that they are not paying in accordance with agreements. The role of the credit controller should be pro-active, business orientated and one of building good relationships.

Whenever there are delays in settlement of debt, the business owner should endeavour to understand the causes that gave rise to the delay.

The effect of late payment will be readily understood, however, the cause may not be known until a thorough investigation has been undertaken.

Why undertake such work?

Simply a failure has occurred and if the cause is found to be within the business owner's control, action can be taken to avoid a recurrence.

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