Module 3

Terms & Conditions

1.1 Terms & Conditions

Your terms and conditions are the rules you set around the granting of credit and the rules that define your relationship with your customers. They are a very important part of your business and unfortunately the importance is overlooked by most businesses. We will cover two main aspects of this firstly your Credit Terms which means the amount of time you are prepared to give your customer to pay and secondly "the small print" which comprises your document known as "Terms & Conditions of Sale". Throughout this course we focus in on having excellent communications with your customers and this should begin with your credit terms.

1.1.1 What are your credit terms?

Most people say 30 days – but what does this really mean? Truth is no one really knows. Is it:

- 30 days from date of order?
- Date of Dispatch?
- Date of delivery?
- Date of invoice?
- Date of receipt of invoice?
- End of month following invoice?
- January invoices should be paid in the first week of March?
- January invoices should be paid in February?
- January invoices should be paid by the end of March?

This level of confusion can cause serious damage to your business. For as there is confusion about what 30 days means, one thing you can be sure, your customers will think it is the longest possible 30 days and you will think it is the shortest thus creating an arena for conflict with your customer.

To be truly successful you have to be absolutely clear exactly why you give credit, and exactly when you expect to get paid.

Statements like "30 days", "strictly 30 days", "strictly 30 days net" are a complete waste of time – if you feel you have to give credit then specific terms like:

> "Payment due within 7 days from date of invoice"
> "Payment due within 30 days from invoice date"
> "Payment due on the 28th day of the month following invoice"

Are specific and absolutely clear as to the exact date when payment is due – there can be no confusion and as such should be introduced and communicated as soon as you can.

The only reason to give credit is if it will help you to sell more. If you think you could sell the same amount and not give credit then quite simply – don't give credit! It may seem unusual advice coming from someone claiming to be an expert in Credit Management! Credit is expensive and has an inbuilt risk that has a cost and anything that adds to your costs has to be analysed and you have to ensure that the benefit outweighs the cost. If by making it easier to buy from you, you increase your sales and increase your profits above the cost and eventual losses – then give credit. If it doesn't – don't!

The factors you must take into account when setting terms

1. Your strength in the market
   The stronger you are the stronger your position to dictate to your customers. Suppliers who have a near monopoly can adopt a stricter regime than those in fierce competition.

2. Your cash flow requirements
   Can you afford to allow extended credit? This is particularly important in the present economic climate, most commentators are predicting that we are coming out of the recession, when this happens the focus of the business returns to sales and you could find your sales people offering extended credit terms in order to secure more business. This is fine as long as it is agreed and signed off in advance. The downside is that if you have to pay your suppliers before your customers pay you, you could find your self with cash flow problems. In the past the number of liquidations increased as we enter the post recession phase in business.

3. Volume of sales and range of customers
   A large number of prompt payers will allow you the luxury of being able to allow extended credit to other more profitable ones.

4. What is the market expectation?
   Each industry, and country has its own norms know and understand what they are, then decide if you are going to adopt them or go against them for competitive advantage.

5. The financial strength of the buyer.
   The longer your terms the greater your exposure.

6. What is the competition doing?
   You have to be aware of this you can decide to follow or do the exact opposite whatever will add most to your bottom line.

7. Does the profit margin permit extending credit?
   Money costs approx 1% per month, and from the first overdue day your ledger is depreciating at a rate of around 1% every four days.

8. Seasonal & incentive factors
   Offering extended terms at certain times may help grow the business

9. Product value at the time of sale
   The shorter the best before date the lower the value of your goods – maybe it makes sense to offer credit for some products and not for others

10. One size does not fit all
    Negotiate a range of terms to maximise your sales in relation to the risk

11. Maintain the agreed terms.
    Ensure you are asking the right customers at the right time for payment

12. Suppliers ability to recover the cost of credit in the price

13. Suppliers need to accelerate cash flow
    Maybe you offer shorter terms

14. Market & product characteristics, including seasonal factors
    What will the market permit?

15. Terms must be compatible with enforcement
    30 days from date of invoice is not enforceable if the customer is receiving invoices every day,

Tip
A supplier should aim to establish the shortest possible terms without risking loss of business

1.1.2 Payment terms

The following payment terms are also valid in certain circumstances:

Xth day of the month following invoice

> "X" can be 5, 7, 15 21, 28… any number you like and can get your customer to agree to. These terms work where you have a number of invoices every week and month. Usually for the supply of fast moving goods to larger customers who need time to check through their system.

X days from Invoice date

> Again "X" can be any number you like – this works best when you have fewer transactions usually less than one per month. If you are selling high value equipment on a one off basis, this can work very well. If you are supplying your customer on an ongoing basis, these terms become impossible, taken literally, if you supply goods on a daily basis, you would require your customer to send a payment on a daily basis 30 days later.

Stage Payments

> For longer contracts that will extend over a period of months – agree exactly the benchmarks along the way when payments will be made. Make sure they are clearly identifiable and enforced.

Load over load

> What this means is that the customer will pay for the current order when the next one is delivered. Works well where there is a regular order pattern weekly, fortnightly or monthly. The customer has the advantage of getting credit and your exposure is capped at one delivery.

1.1.3 Contra Account

Sometimes it can be a good idea for your customer to become your supplier or vice versa. When this happens, and depending on the level of business each way it can be a good idea to enter into a contra arrangement where only one cheque for the net amount moves between the companies. This agreement must be in writing and signed by both parties to be binding.

1.1.4 Cash on Delivery

This is still a very popular way to do business. Of all the payment terms this one is fraught with more danger than all the others and as such will get extra mention here. When you set terms like "cash on delivery" you have to be absolutely clear what you mean:-

1. Does it mean CASH – that is notes and coins or are cheques acceptable? If so make sure this requirement is communicated to all concerned – including your customer, and then is enforced.
2. If you mean any form of payment on delivery such as cash, cheques, postal money orders, bank drafts then make sure this is communicated too. The main risk here is that you get a cheque that proves to be worthless or you receive a stolen bank draft – both can happen if you don't know who you are dealing with.
3. Does it mean – if the cash is there take it, if a cheque is there take it, and if no form of payment is available do you leave the goods or not? Give clear instructions – this guide cannot tell you what to do – we can guide you… depending on the numbers of customers and the numbers of your staff that are involved – if the numbers are high the rule has to be absolute – no payment – no goods. Where you have a smaller customer base and you know them well and you can trust them – then a more lenient approach could be taken – if you adopt this approach make sure you set aside adequate resources to monitor and manage this side of the business.

When there is cash in any form in a business there is temptation – this temptation can be eliminated through tight controls and swift consequences – you have been warned!
If accepting large amounts of cash you should be aware of your obligations under the anti money laundering legislation.

1.1.5 Pro Forma

This means sending out your invoice in advance, and only supplying your goods or service on receipt of payment. Some companies can only pay on invoice and other companies only raise an invoice when the goods have been dispatched or the service completed. This system of raising a pro forma invoice first, gives the customer something to approve and pay and the supplier can book the sale when payment is received and the contract is complete.

1.1.6 Cash with order

With these terms the onus is completely on the buyer. They order the goods, work out the cost and pay in advance without receiving any documentation. Works well for online sales, telesales where debit/ credit card payments are available.

1.1.7 Settlement Discount

Some businesses offer settlement discount as an incentive for early payment. Be careful. While it might seem like a good idea make sure you do the sums! If you are offering a 2% discount for payment within 15 days what is the money costing you? In simple terms, 2% for 15 days means this money is costing you almost 49% per annum – you would be better off paying your bank 11% on you overdraft and getting the full amount on the original due day.

1% discount for cash on delivery where typically customers are taking 60 days could make perfect sense.

5% discount in a market where customers are liable to change their minds could make sense.

3% settlement discount on a very high profit item could make sense or not depending on the circumstances.

Your profit mindset will always ask – which option will give me a better return.

Terms & Conditions Common mistakes

1. Most people are familiar with the acres of small print that is often passed off as terms & conditions (T's & C's) – very few ever read them and even fewer understand them.

2. Companies only look at terms and conditions when there is a major dispute with a customer and invariably it is too late and most find to their horror that they do not serve them.

3. *They are only printed on the backs of invoices*

By definition an invoice is a post contractual document and as such you cannot impose any terms & conditions after the contract has been entered into. Your terms and Conditions ideally should be part of the original contract or part of your new account application form, at worst include them at order acknowledgement stage – you cannot introduce them after the event.

4. They are plagiarised from a supplier or customer

This can be the most expensive – particularly if they haven't been read or understood. You should always get legal advice when implementing new Terms & Conditions to make sure they will serve you in the event of a dispute.

5 They are not agreed up front

To be relied upon your Terms & Conditions should be agreed and signed off at the very start of the business relationship and any changes notified and agreed in advance.

6 They are too short

When you have a dispute you find the particular circumstance is not covered so you end up losing as a result.

7 They are too long

Hundreds of pages of legalese can add to the confusion and the more words that you use the more open you leave yourself to dispute.

8 They do not take all aspects of your business into account

If you have, say, a sales & service element to your business – your Terms & Condition's should cover both.

Securing your position

If you are supplying goods you really must have a retention of title clause in your terms and conditions. Simply, this states that the title of the goods does not pass until all goods have been paid in full. In reality if a business is in trouble or is in the process of winding up, often the only thing you can hope to get is your own goods back. You will only be successful if you have a valid retention of title clause, you can prove the customer was aware of it and you can identify clearly your own goods.

There are other ways of doing business that will help to increase sales and to reduce exposure. You can provide goods on a "sale or return" basis this gives the customer the comfort of knowing that if they don't sell the goods they have the option of returning them for full credit, for you make sure the goods are durable and will be sold as new second time round.

Providing consignment stock is another way of dealing with high risk situations. The consignment stock remains the property of the supplier and the customer only pays for what they use in an agreed period.

Step 3 - Teamwork

One of the fundamental mistakes made by Companies is that they separate functions and then measure them using different metrics – the result is often the cause of conflict between departments. The Credit Function by definition is in more conflict with more departments than most others.

The reason for this is usually because the credit people care. They care about the customers, they care about getting things right, they care about the integrity of reports, they care about the companies reputation, they care about the money coming in, they care about the money that doesn't, they care about completeness, they care about attention to detail, they care about having records easily accessible, they care about potential losses and they care about being over exposed – and if they don't they should!

For a business to be really successful they must be committed to delivering excellence to their customers in every way. Senior management have a responsibility to ensure everyone is singing off the same hymn sheet and all work together to serve the customer. As times get more competitive, this becomes more important.

Customer Service has to be the highest priority of every person working in the business. Everyone has to work together to make sure every profitable sale is done. It is up to credit to find a way to deliver every order, and it is up to everyone to make sure our customers are happy and demonstrate their happiness by paying on time.

The organisations that have the most problems are the ones that see collecting money is a finance function alone and the sales person finishes with the sale as soon as the order is delivered to your office. This is not the case and cannot ever become how to do business – you need clearly defined roles and clearly defined responsibilities – with everyone looking to maximise profitable sales.

Marketing

Marketing is one function that would not see itself as having anything to do with Credit Management – **wrong**!

The marketing department should liaise with credit at the point of looking to new markets – Credit can check out the possible customer base and make recommendations as to the customers that should be pursued and the potential customers that are best not pursued. In relation to pricing, promotions and customer segmentation, these functions are best done together.

Sales

There is a traditional battle between sales and Credit. New thinking has it that Credit should be a sales function and the credit step seen as the completion of the sale. For a business to be successful there must be a very close relationship between credit sales.

Operations

Depend on customer master data being set up correctly to include vans, depots, and delivery schedules. Operations must be involved with the new customer set up process as well as investigating all credit notes that are operationally generated and the necessary corrections made to eliminate the problem going forward.

Service Departments

Need to develop a system that every service call is run by the credit controller's desk so appropriate action is taken on customers who have a call in and an outstanding account. At the other end, because service dockets tend to be manual and by definition only completed at the time – care should be taken that every docket is invoiced in a timely manner and all parts and labour are charged in full the first time.

Professional Services

Need to keep close to the credit department as well, timely and accurate billing is essential to the smooth running and in some cases the very survival of any professional service business.

Incoterms

Incoterms are published by the International Chamber of Commerce (ICC) they describe the most commonly used terms of trade in export contracts. Their aim is to standardise the terminology in International trade and they define precisely who is responsible for the goods at every sage of the process.

Incoterms are helpful to resolve disputes where the goods fail to arrive as they should and when understood defines each party of their responsibility.

There are 13 terms in all – only 7 are required for the syllabus of this course.

Each Incoterm is a three letter acronym as follows:

EXW – Ex Works. The goods are made available to the buyer at the exporters premises, suitably packed for export. As soon as the goods are collected the seller has fulfilled their side of the agreement and the goods are due to be paid for – even if they never arrive. The buyer is responsible as soon as they have arranged collection.

FCA – Free Carrier. Goods are placed in the charge of a carrier named by the buyer at a named place or point. This applies mainly to air and rail transport but can be used for all. Delivery costs up to the handover are included in the selling price.

FOB – Free on board. Goods are delivered over the ships rail at the named port of shipment. This applies only to sea and inland waterway transport.

CFR – Cost & Freight. Goods are delivered to a named port of destination. This applies only to sea and inland waterway transport.

CIF – Cost Insurance and Freight. As CFR except the price also includes insurance.

CPT – Carriage paid to. The goods are delivered to a named point of destination in the buyer’s country. The price includes all freight costs. It applies to all modes of transport. Insurance is for the buyer.

DDP – Delivered Duty paid. Goods are delivered to a named place in the importing country. Applies to all modes of transport. Includes freight & duty but not insurance.

•What is a Credit Policy?
It is a statement of the rules and regulations around the granting and management of credit. It sets out the objectives of the Credit department within the business.

The criteria for your credit policy can be affected by such factors as:

•Borrowing available
•Intended level of debtors
•Market strength – leaders or followers
•What are competitors doing
•Business condition and prospects
•Customer mix, quality and possible volumes
•Availability of quality staff
•Credit checking
•Credit Objectives
•Sales/ Credit – who does what
•Customer service on returns, disputes etc
•Cost of Overdues and Bad debts vs Net Margin
• Central or local Credit Actions
•Line of command for Credit responsibilities

Creating a credit policy the key requirements
•Getting buy in (Imposing Vs Negotiating)
•Finance Director
•Sales Director
•Managing Director
•Make it seem like their idea!

Why have a Credit Policy?
It sets out the company's intentions regarding the granting of Credit.
Recognition by the directors of the role of Credit Management within the company.
Remove any doubts regarding Payment terms, Credit Limits, acceptance of orders
Sets out authority limits
Provides an operating guide for Credit staff
Simplifies the work (and speeds up the departure) of auditors.
Demonstrates a positive attitude towards customers

Credit Policy Structure

•Sets out standard terms of payment
•When will exceptions be tolerated
•Who can authorise exceptions
•Who has the authority to accept or reject prospective customers.
•Who has the authority to set and amend Credit Limits

Suggested Authority Schedule
•Credit Controller up to €3,000
•Senior Credit Controller up to €7,500
•Credit Manager up to €250,000
•Finance Director over €250,000

Of course you can change the numbers to suit your own business.

Credit Policy Structure
•Who has the authority to set and amend risk categories.
•Who has authority to refuse orders, suspend deliveries or take legal action.
•Where Legal Action is to be placed.
•Third Party Collection? Rules.
•Maximise Profits
•Support Sales

Possible Credit Management Policy Statement

The objective of the Credit department is:
To co-operate with sales in the winning of profitable business. To protect the subsequent investment in debtors To convert the debtors to cash within the agreed terms without jeopardising future profits.

•Policy should include Performance Measurement
•DSO
•Value of overdue debt
•Debtors in dispute
•Investment Approach

There are two types of policy you can adapt, a liberal policy is when you extend credit to anybody with a minimum of checking and the emphasis is completely on sales at all cost. To most credit controllers this approach may seem irresponsible, however there are times when it is appropriate e.g. when the margins are extremely high or you are looking to break into a market with a new product and market share is the most important consideration for the initial period.

Liberal Credit Policy is workable when:

•You have obsolete product or product fast approaching its best before date. If your product is obsolete chances are it will cost you money to dispose of the stock when you decide to get rid of it. In this case it might be a good idea to sell the goods on credit to customer with a low credit rating on the basis that even if you don't get paid the company was still make more money than they would have if they didn't make the sale in the first place.

•New product or market where getting market share or market penetration is more important than getting paid for every item delivered. In this example take for example a new mobile phone network. They have to get to a certain critical mass before the company is profitable and this is often achieved by taking on customers with poor credit ratings in the hope that the customers who pay will more than cover the fixed costs involved. This type of liberal credit policy on the works in the initial stages when building a business and what will happen is when they hits a critical mass they were then starts to credit check customers more vigorously.

•You have high stocks and want to turn them into cash in the quickest possible time. In this case you could simply be running out of space and you want to make room for a new profitable stock. Again if this is the case it may be better for the business to clear the warehouse get in new stock and take their chances on getting paid for the goods that were delivered.

•If the business enjoys super high profit margins they can afford to take a more liberal approach on credit and supply individuals and businesses that have a poor credit rating on the basis that the profit from the additional sales that are made by making it easy for customers to buy more than compensate for the losses incurred by bad debts.

•Competitive threats. Most businesses are in competition with others and depending on the priorities set out by the Board of Directors it may be an idea to target your competitors customers even if they don't match up to the standard of customer that you would like.

•Zero cost items e.g Advertising. In the world of advertising take specifically a magazine or newspaper, there is no real cost to the publisher in putting in a page advert so they might be happy to take on marginal business in the hope of making increased profits.

•Quick Start limits is a way you can work with sales and marketing to grow your business. How this works is you write to a group of customers and you tell them they have been preapproved for a limit of say €500. You highlight their account number that can be prefixed by say the letter Q that indicates to you this is a quick start limit account. Whether you decide to preapprove them or not is a matter for your own credit policy. You can then monitor how many new accounts you have opened using this method. You will also be able to track the profit that you made on these sales and from an accounting perspective you need to make sure you have adequate provisions.

The above is a list of when it could make sense to have a liberal credit policy that means you do a minimum of checking and all the effort is concentrated on sales at all costs. This can be a challenging environment for credit controllers to work in and I have set out to rules here in the hope that if you find yourself in this environment you will be more comfortable with it. To me the purpose of credit is to enable you to sell more and to make the business more profitable sometimes this can be achieved by being Conservative other times it can be achieved by being liberal the challenge to you as a credit professional is to know the difference.

Now we will look at when a Conservative Credit Policy might be in the best interests of the company:

•If the business environment has very high interest rates and the cost of money is significant. It is important that we only have blue-chip customers pay us in full on the due date.
•If your own business suffers from a weak cashflow then you may not be in a position to grant extended credit so by necessity will have to adopt a Conservative policy.
•If the goods you are supplying are in High demand and Short supply then you can determine your own credit

requirements. Taken as an example the PS4 or the Xbox 1. There is such a demand for these products at the moment that it would be foolish of the manufacturers to give extended credit to the wholesalers and retailers. They can demand payment in advance and probably get it such as the demand for their products. Applying a liberal policy here would be foolish.

•If your business is wondered is driven and highly value and Low profit Margins then you cannot afford to give extended credit as the cost of the money will erode your margins very quickly.

•If you are in the manufacturing business to make bespoke products are a tailor made product then it is sensible to get a sizeable deposit in advance and the balance of the money is close to delivery as possible if not before.

•If your company enjoys a dominant market position and your brand is really sought-after then you can dictate your own credit terms to your customers and they will conform.

Now it’s important that you understand that while the two policies outlined above are radically different there is no warned that is right and the other that it is wrong in absolute terms in some businesses a liberal policy is what’s needed in some businesses Conservative policies are needed. In some cases it depends on the life cycle of a business as a general rule in the initial stages the company will adopt a more liberal approach and as they become established they can adopt a more conservative approach.

These different approaches can be the cause of conflict particularly when a credit controller moves into a new company. If they come from an established company with a Conservative policy and try to adopt that in a new business they will find themselves in constant conflict with sales and senior management. It is your job as a credit controller to do with the very best for your company and in most cases that's about understanding the business, understanding the priorities and understanding what is the best thing to do at a particular moment in time.

High Risk Credit Policy

if you find yourself in a company that adopts a high risk credit policy there are a number of things that you can do to protect yourself and the company for example:

•Accrue additional Bad debt provision. If you know you're dealing with a large number of high-risk customers then it is imperative that you have additional provisions in place. While writing off bad debts is one function that all credit controller's hate, in my experience as soon as a loss is made known to senior managers the first question that is asked is "is it provided for?" If the answer is yes the loss will be accepted, if the answer is no, then there will be further consequences.

•If you are embarking on a high risk strategy you should ensure that extra profit is being made on these sales to cover possible losses down the line.

•Adopting a high risk policy takes a lot more management from a credit prospectus so you need to make sure you allocate sufficient resources to your credit function, to manage it effectively.

•You need to produce regular reports on results (Profit V's Bad debt losses) that are circulated to senior managers so they can see at all times the up-to-date position, the last thing senior managers want is surprises.
•If you are dealing with a high risk customer and you have a policy on stop supply then you should put those customers on Stop on first overdue day.
•In formulating your Credit Policy it may be a good idea to have a different policy for domestic sales and for Export Sales.
•In addition to Standard Policy
•When embarking on any credit policy you must make sure you have the working capital available to fund it.

Please find below a Sample credit policy this outlines the approach and the possible content of your credit policy. This is where the course should overlap with your day job. If you have a credit policy you need to review it in light of what you have learnt here. If you do not have a written credit policy now is the time to write one and feel free to use the template below and adopt it to your business.

A Sample

Credit Policy

Contents:

1. Introduction

The Credit Function exists to enable the Company sell more and will always look to find ways to deliver every order properly taken.

The Company recognises the importance of getting paid on time and in full and this will only be achieved by everyone in the company being aware of these needs and working together to achieve this end.

We recognise and accept that there is an element of risk attached to granting credit and it is the function of credit to manage this risk and ensure that all accounts are at their lowest level when they are written off.

The granting of credit and the subsequent efficient collection is dependant on everyone in the company playing their part.

Growth is achieved through sales. Profits are achieved through collecting what is due when it’s due.

Signed by

Managing Director Finance Director

2. Customer Types

At present our customers fall into the following categories:

1
2
3
For the above work falls into two categories:
1
2

Each Category is important and will be treated differently from a Credit perspective.

2.1 One off Customers

For all one off customers the contract form is the main document which is the basis of the deal from start to finish
Customer details to be taken on the order form to include:

- Name – This must be their legal name – not nickname or shortened version of your customer. Your customer is the person who is responsible for payment.
- Land Line Phone Number. To verify their stability
- Work Number & Mobile Number For ease of contact
- Address where the work will be carried out
- Billing address if different. If there is a separate billing address verify the billing name, if this is different from the first draw up a new contract.
- Owners or Tenants – This verifies the customers status and can be an indication of their credit status.

A section is to be completed regarding payment to include:

Agreement to adhere to payment terms as follows:

Payment method should be established at the start:
Cash/ Bank Draft/ Cheque/ Postal Money Order/ Credit Card/ Debit Card

If things don't go according to plan:

- The contract form must be completed in full and signed by the customer and be accompanied with deposit – if any of these three vital elements are missing it will be returned to the salesperson to rectify and return within 24 hours.
- If the cheque for the deposit is returned by the bank the balance must be paid in full in advance of ….If another cheque is accepted five days will be allowed for clearance.

- In the event the work cannot be completed within the originally intended timeframe – the reason must be recorded in writing and passed to the __________ Manager to be actioned within 24 hours and the customer contacted and advised of the revised completion date.
- Weekly report of all such money outstanding to be circulated to:________ & __________ .

2.2 One off/ Small Customers

Shall be treated the same as one off customers above with regard to payment terms, in addition a customer information sheet must be completed with the following details:

Legal status – Sole trader, partnership or limited company.

If Sole trader – Full Name and home address
If Partnership – Full name & address of every partner
If Limited Company – Legal name, registered office

In all cases Ask for four trade references.

At any stage if the contractor can be trusted and there is a possibility that sales can be increased by the provision of credit facilities – such facilities should be offered on completion of the attached new account application form and subject to credit vetting as set out in the provisions below.

1.3 Credit Customers

All credit customers new or existing will be asked to complete the Credit Application form.

credit customers who are approved for credit will receive supplies on receipt of a signed delivery docket or signed works order sheet.

They will receive their invoices and statements in accordance with procedures and payment shall be made on the agreed due date.

All agreements around granting of credit will be date specific for example rather that agreeing say: 30 days. Credit terms should state payment is due on 28th July 04 and where possible this information to be included on invoices and statements.

Collection method to be agreed between credit control & sales on the due date.

Depending on the level of perceived risk one or more of the following security measures will be sought:

Parent Company Guarantee
Personal Guarantee
Bank Guarantee

2.4 Franchisees

All Franchisees new or existing will be asked to complete the Credit Application form.

Franchisees who are approved for credit will receive supplies on receipt of a signed delivery docket
They will receive their invoices and statements in accordance with procedures and payment shall be made on the agreed due date.

All agreements around granting of credit will be date specific for example rather that agreeing say: 30 days. Credit terms should state payment is due on 28th July 04 and where possible this information to be included on invoices and statements.

To help the Franchisees manage their cash flow - payments will be sought in line with when the franchisee receives payment for the individual job. In each case an individual agreement will be reached that both parties must deliver.

Collection method to be agreed between credit control & sales on the due date.

Franchisees will be subject to regular Financial reviews and the Franchisees position will be reported with the monthly debtors report. (Appendix 1)

2.4 Franchisees

Depending on the level of perceived risk one or more of the following security measures will be sought:

Parent Company Guarantee
Personal Guarantee
Bank Guarantee
Charge over assets
Retention of title registered as a charge.

In addition the company reserves the right to complete installations and collect the money in the Franchisees area in the event that payments are not up to date.

3. New Accounts

Any Customer seeking Credit Facilities must complete the latest Credit Application Form.

The form must be signed and the customer given a copy of the terms and conditions and their attention drawn to any unusual conditions that appear on the back. Customers should be invited to read the terms & conditions before they sign their acceptance.

Orders taken at this stage should be as per one off customers above, however in the event of a major customer applying for facilities the order may be taken and a Credit Application Form completed and returned to the office with the order.

The necessary information should be obtained and a decision made within 48 hours of receipt whether or not credit will be granted to the level sought.

Whether or not credit facilities are granted sales should be informed firstly then the customer should be contacted by Credit Control explaining the decision.

All new accounts should be assigned limits and terms before they are set up on the system

The following checking will be carried out on the basis of limit sought:

To €____ A Judgment search will be carried out and one Trade referee will be contacted
To €____A Summary Report will be sought and two trade referees will be contacted
To €____ A full report, a set of audited accounts and all referees will be contacted

When the credit line has been established an acknowledgement letter will be sent to the customer informing them that credit has been granted and setting out the terms of Credit.

Credit will be granted in cases where the Company can be happy that payments can and will be made in accordance with agreements.

Limits will be reviewed on an ongoing basis and when an order will bring the account over the limit. The mechanism for calculation of new limits will be the previously highest cleared balance plus 25%.

Limits to be signed off and approved before order is produced.

4. Billing

Correct and timely billing is at the heart of effective credit control. Accuracy is an important measure within the quality expected within our business.

All information on dimensions, pricing, must be delivered to the billing department in a timely and legible manner.

Customers will be billed for goods as soon as the goods have been delivered or the installation has been complete and the correct documentation is returned to the office.

All service personnel are required to return their dockets daily and before another job is loaded.

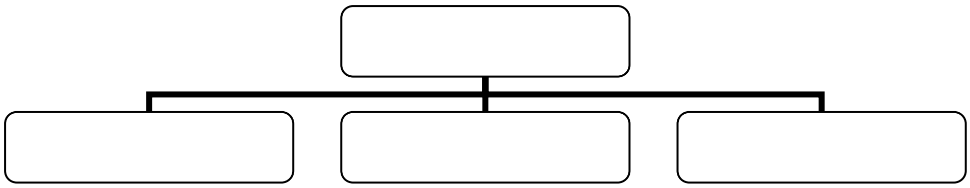
Weekly reports of unbilled work completed to be circulated to ____________ & ______________ before lunch every Monday.

An extra special effort is to be made by all around the end of each calendar month.

Weekly sales figures to be available by close of business every Monday for the previous week.

5. Reporting

The Credit Function will report to:



[In the boxes above you should have the names of each staff member and the name of the person they are reporting to. If there are team leaders, supervisors or managers they should each be shown on a separate line. I know the culture in some organisations is to have "dotted lines" where a staff member has to answer to two or more people, this should be avoided where possible and the reporting lines set out clearly in the policy document. To some this might appear to be a little too obvious, in my experience in small and large organisations the reporting lines are sometimes not as clear as they should be and this can cause untold problems down the line]

Communications

There will be a monthly financial review of the Debtors.

There will be a monthly meeting between Credit/ Sales management to update each other on customers issues.

There will be a weekly meeting on Credit Notes until the level falls below ___% of invoices raised.

6. Authority Schedule

New Accounts up to €_______ Credit Controller/ Sales Manager
New Accounts up to €_______ Financial Controller/ Sales Manager
New Accounts up to €_______ Finance Director/ Sales Manager
New Accounts over €_______ Managing Director

Increases in Existing Credit Limits to be requested by Credit Control and Authorized as follows:

Up to €_________	Financial Controller
Up to €_________	Financial Director
Over €_________	Managing Director

Orders being released to customers with overdue accounts:

Up to ____ days all orders must be approved by Credit Control
Over ____ days all orders must be approved by Financial Controller
Over ____ days all orders must be approved by Finance Director

7. Collection

One off and small customers must pay half in advance and the balance on completion. Cash/ Cheques to be sent to the office on the day of receipt and all money to be lodged daily and entered on the system within 24 hours of receipt.

Every customer with an overdue account will be contacted twice a month.

In the first week of every month a Statement detailing what is owed – what is overdue and what should be paid when is sent to every customer who has a balance on the ledger.

The top 10% of customers by volume will be contacted before the end of the month to ensure payment will be made in full on the agreed day.

The next 10% will be contacted within one week of their account becoming overdue.

The remainder will be contacted by either letter or phone call as is deemed appropriate on the basis of resources available.

The primary responsibility for the collection of all money due is with the Credit Controller. All others can and will be asked to assist in the collection process.

8. Reports

The Following Reports will be used to Control and Monitor the Credit & Collections success.

Monthly Aged Debtors

Days Sales Outstanding – Calculated by the reducing balance method

Summary Balances showing this month, last month, previous month this year & last year.

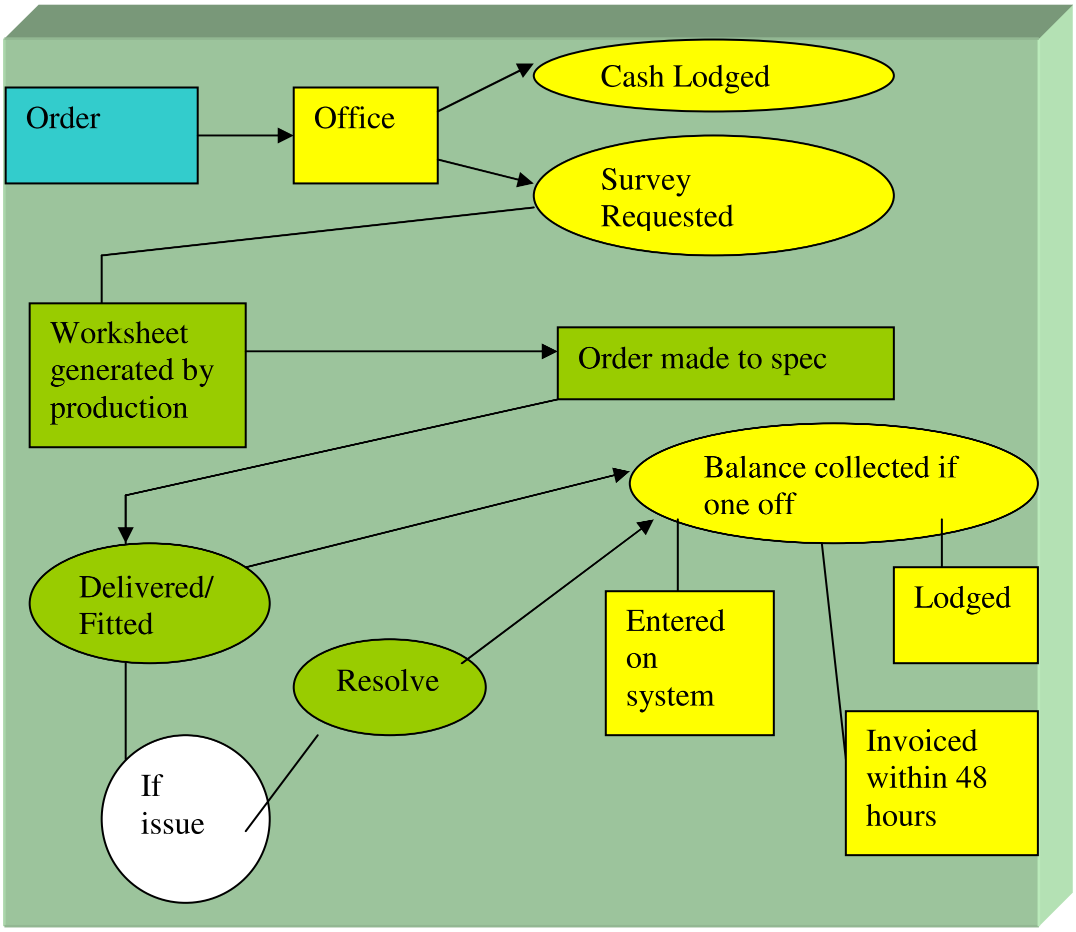
Value of Overdue accounts

Weekly Credit Note Analysis

Weekly unbilled installations report

9. Right First Time

The company will adapt a policy of “Get it right – First time” and apply to the whole order to cash process. The following steps must occur to the stated standard in the following order:



10. Stopping Supplies

In extreme cases the withdrawal of supplies on credit may become necessary. This may happen if there are genuine concerns for the future of the customer and additional supplies would only add to the potential losses. If promises of payment have been made and not delivered this too could be taken as a declaration of inability to pay.

In all cases Credit Control will liaise with Finance & Sales and the customer to seek out ways to continue supplying them either by agreeing Payment in advance, Cash on Delivery or some other mechanism that will reduce the amount outstanding whilst continuing supplying such as obtaining 120% of the value of every order -the 20% going to clear the old account.

If no agreement can be reached supplies are withdrawn and immediate action taken to collect the balance owed through company's personnel, debt collectors or directly through the legal route as is deemed appropriate.

11. Further Action

Any account that is overdue in excess of 15 days will receive a letter or phone call as is deemed appropriate.

Any Account over 30 days receive a written reminder and follow up phone call

Any account over 45 days overdue should receive a call from a representative.

Any account over 60 days overdue should receive a final notice and agreed further action – stop supplies, calls, collection agency, or legal.

12. Review

This document will be reviewed and revised as new issues arise and require clarification.

It is intended that this Credit Policy will build up into the one document that everyone in the business will refer to for clarification when disputes arise.

Everyone agrees to adhere to the procedures and policies as laid out in this document.

Either as a opart of your credit policy or as an addition to it you should have an unclaimed credit policy. This is how you deal with the credit balances on your ledger.

According to a benchmarking survey conducted by Credit Today last year onUnclaimed Property issues in credit, roughly 6 percent of companies in the UK have been audited and paid a fine for unclaimed property violations.

The best way to "innoculate" yourself against this is to have a solid policy in place and to follow it. Many credit execs we speak to tell us that when the auditors come knocking on their door to conduct an unclaimed property audit, if they simply show them their policy and explain how they follow it, that alone staves off the audit.

With that in mind, we've created a checklist of issues that your policy should address. Your situation will undoubtedly be unique, but this will give you a good starting point for what to consider:

Unclaimed Property Policy Checklist		
Use this as a starting point for your situation, which is likely to be unique.		
PASS	**FAIL**	**COMPONENT BEING CHECKED**
☐	☐	How often do you review your receivables to look for potential unclaimed property? (ie, monthly, quarterly, annually?)
☐	☐	How old does a credit need to be to be examined as potential unclaimed property?
☐	☐	What are the specific categories that make a credit unclaimed property?
☐	☐	Who is responsible for researching a credit to make sure it's REALLY unclaimed property (and not a duplicate credit, for example).
☐	☐	What procedure(s) will you use to notify a customer about the credit?
☐	☐	Who is responsible for implementing that procedure?
☐	☐	How do you account for items identified as unclaimed property (since they should no longer be a part of A/R)? You may want to set up a general ledger account specifically for unclaimed property. These transactions will effect A/R, income, and A/P accounts, and possibly others, depending upon how you set things up.
☐	☐	If you can't find the customer, or determine that they're gone or out of business, where do you send the money? (ie, which state and what department?)
☐	☐	Who will be responsible for reconciling your unclaimed property account and how often will it be done?

In essence, you should review and investigate your credit balances on the debtor’s ledger on a regular basis. If you have received money that you shouldn’t have, the onus is on you, the credit manager to return it to its rightful owner. So If an account has been paid twice, or an account has been paid that was subsequently credited, you should investigate it and correct it.