IRISH
creditmanagement
TRAINING

Module 2

Administration & Reporting

Administration

Make sure you have a clear and simple administration system. It is simpler to look at a group of activities and make sure they are linked in together rather than looking at each area in isolation.

Rather than looking at your credit procedure in isolation –it is better to view the overall lead to cash process. This total view will enhance the position of Credit within the business when you are seen as part of the overall business mix. To succeed you have to develop workable systems that are simple to use and more importantly you get buy in from all the other departments you are relying on for support. If you are seen as pro-business, and the processes you are managing are seen to be there to improve the business you will have a better chance of success. Here are the first 13 questions:

1. Have you a list of potential customers?
2. Have you an action plan and timescale to contact them?
3. Have you a way to ensure orders are obtained and acted upon?
4. Have you a way to ensure all orders are delivered in full?
5. Have you a way to ensure all deliveries are invoiced in full?
6. Have you a way to ensure all invoices get onto your Debtors Ledger?
7. Have you a way of ensuring all invoices get onto your customer's account?
8. Have you a way of ensuring all cash is posted to the correct account?
9. Have you a way of checking that all cash received is properly allocated to the correct invoices?
10. Have you a clear system for dealing with part paid invoices?
11. Have you a way of ensuring that all your customer accounts are correct
12. Check every statement before you post it
13. Check your bank account, every single day

This list is not exhaustive and can be added to and items removed if they are not relevant. At all times you must retain overall control from order to cash.

Understanding the Cost of Credit

It is expensive to give credit and the cost should be included in the overall cost of sales. As the risk factor of a company increases, the cost of giving credit to that customer increases, you should factor this into your assessment whether it is worth giving them credit or not. There are many ways of establishing the cost, in simple terms with current overdraft rates at about 12% you know giving credit costs you a minimum of 1% per month. On top of that you have to add the cost of the credit control department, people, systems etc. Then you have to factor in the cost of bad debts, either on an overall or segmented basis.

When I say segmented I mean you should have different categories of customers and apply a % to each. E.g. the number of bad debts suffered in the hospitality sector will be higher than in the public sector

Payment Methods;

As the person responsible for credit you should be aware of the different types of payment methods and how to use the appropriate method from the point of ease for the customer and your overall exposure to risk.

There are a number of Payment Methods including:

- **Cash**
  Denotes currency usually notes & coins. It presents the highest security risk and is bulky and requires a lot of management. It is still the surest way of getting paid, as long as you have airtight systems to account for every single cent. Cash presents the greatest temptation to staff and as the credit professional, you have to make sure the controls you have in place are adequate.

- **Cheques**

Are being phased out by most countries in favour of EFT and bank transfer. In essence a customer can write a cheque which will be exchanged for the monitory value, as long as the funds are available to meet it. In the current climate banks are returning more cheques than ever before and in keeping with their stricter lending regimes, will return a cheque even if the account is only €1 short. I.e. if they have a balance of €1,000 in the account and you lodge a cheque for €1,005, the bank will probably return it unpaid. That way they can issue charges both to you and the customer who wrote the cheque. One other thing to keep in mind, it can take a week from the time you lodge a cheque to the time it comes back unpaid. During that time you could be continuing to supply them on credit not knowing there is a problem until it is too late.
If you are still getting cheques, I think it is a good idea to keep copies of all cheques received.

- **Bill of Exchange**
  Are mainly used in Export Credit. They can be complex documents, and as long as all the terms

- **Bank Draft**
  The next best thing to cash, as a draft has to have cleared funds available before it is issued. There have been issues with stolen bank drafts and forgeries which can represent a major security consideration when accepting this form of payment. If you receive a draft for a large amount or if you receive one from a customer not known to you, you should always check its validity before releasing any goods or providing any services to the customer. A simple phone call to the issuing branch of the bank, (if there is such a thing as a simple call with the banks at this time!), can verify all is integrity of the draft.

- **Bank Transfer**
  Where funds are transferred from one bank to another. In the recent past this method has become more efficient when the funds are been transferred between branches of the same bank it can be instant. If there are different banks it can take two to three days. With the new SEPA system international transfers have become quicker and less expensive

- **EFT** (Electronic Funds Transfer)
  Is another name for bank transfers.

- **Direct Debits**
  Is great for variable amounts to be taken on an agreed day or date each month. The customer gives permission to the supplier to take the money out of their account on a specified day. Under SEPA the rules are changing and if you accept Direct Debits you should be aware of the implications before the new rules come into effect on 1st February 2014. Like cheques Direct Debits can bounce if sufficient funds are not available.

- **Standing Orders**
  Are the opposite of Direct Debits, here the customer instructs their bank to pay a set sum of money on the same day or date on a regular basis to their supplier. If funds are not available the Standing Order will not be processed.

- **Postal Money Order**
  Can be obtained in any post office and are like bank drafts in terms of security.

- **Promissory Note**
  Is a legal document where one party promises to pay an agreed amount on an agreed date that has a stronger legal standing than a contract.

- **Letter of Credit**
  Is like a Promissory note that is underwritten by a bank. Who promise to pay an agreed amount to a specified account as long as the terms of the Letter are fully complied with. As simple as the last line sounds, in reality there can be all sorts of problems with how the letters are drafted and how they can be enforced.

- **Credit Card**
  Is a simple method of payment where the supplier gets value immediately (less the charges that can be up to 3% of the transaction value) Payee has the right to look for a refund from their card provider if everything is not to their satisfaction and the credit card company can have past transactions reversed.

- **Store Card/ Affinity Card**
  Works like a credit card, and incorporates a number of features and offers to increase customer loyalty.

- **Company Card**
  Normally a credit card that is issued to a Company rather than an individual. Most Companies have multiple cards on a single account and it makes the Administration of areas like expenses much easier as all transactions are documented.

- **Debit Card**
  Works the same way as a credit card. Typically charges are considerably lower and because funds are cleared before payment is made, it makes cancellation more difficult. Particularly if the funds are not available after the event to effect a refund by the banks.

- **Credit Note**
  While not often seen as a method of payment, more and more companies are issuing bonus discount and loyalty offers through issuing a credit note. The upside is that you tie in your customer for future purchases and it can only be redeemed against invoices of a higher value. When oit comes to the bottom line of a business a credit note will have the same effect as a direct payment.

- **Self-Billing**
  Particularly in the FMCG area, supermarkets are opting for self-billing. It works on the basis that they know the price that has been agreed and the quantity they have received, so it is sometimes easier for the customer to raise their own invoices as all queries become the problem of the supplier.

- **Peppercorn**
  Usually refers to rent and is usually a very small amount that is required for legal purposes. For example at the end of the 19th century up to the middle of the 20th C. Instead of selling a property outright, some landlords opted to give a very long lease from 99 years to 999 years with a minimal payment due on an annual basis.

- **Payment in kind/ Barter**
  Is when money does not change hands but goods or service of an equal value are offered in lieu. In difficult economic times I am surprised that we are not seeing more of this type of payment. By definition in difficult times service providers have more time and less money so should be able to find suitable businesses to trade with.

- **IOU**
  Is simply a written acknowledgement of a debt written and signed by the person who owes the money. It is stronger that other forms of debt as they have acknowledged the debt and can't claim they are not aware of it.

- **Write off**
  Maybe not the type of payment you want to achieve. It is one method of clearing an account and unfortunately is happening more and more in business circles.

- **Stripe/PayPal/ Google Checkout/ Realex**
  As we get more and more online, Stripe and the alternatives break down borders and make the collection and payment of national and international transactions easier. The downside is that the charges are usually much higher than a Merchant account with a credit card company, however as there are no standing charges it can work out cheaper for the occasional user.

You should make sure you understand each of these different methods of payment and be able to explain them in detail and know the advantages and disadvantages of each of them. Should you require details on any individual method of payment please contact your tutor.

Things you should check every day:

- Your bank statement – to see if any payments have been made, any cheques or direct debits returned or any discrepancies on lodgements
- Your unallocated cash – all payments should be allocated to the correct invoices every day. If in doubt you should contact the bank to establish where the payment came from. If there is a reference number on the bank statement, you should keep a spreadsheet with these reference numbers as they will be the same each month. If you know where the payment came from but cannot allocate the payment to specific invoices, you should contact your customer immediately for a detailed remittance advice.
- Cash Accounts – should always have a zero balance. If there is any exception to this you need to follow up every single day. This is one area you can leave yourself exposed to fraud and embezzlement
- Invoices posted and sent to customers
- Cash receipts and lodgements daily

Things you should check every week:

- Cash received versus cash target
- Key and High risk customers balances
- Sales by customer by profit
- Uninvoiced dispatches or unbilled services
- Credit Notes – with reasons and possible solutions for each one.

Things you should check every month:

- All of the above
- Exposure to high risk and high balance accounts
- Insurance cover- if applicable
- This month versus last month and this month last year

Advice on Systems

If you are working in a company where they are upgrading or changing systems make sure you are on the implementation team for the project. If you allow the IT people or the accountants to run the project you will end up with an unworkable system from your customers' point of view. In these teams most participants will be internal looking the sales people do not understand what is needed to keep their customers happy – you do.

At all times you have to assess what is workable and what is acceptable – be sure the processes are in simple steps and avoid anything complicated that will cause problems down the line.

Work through the steps for every single transaction making sure all your existing deals and exceptions will be accommodated – too late after the go live date.

Test the systems well during the development phase, check transactions from order stage, through delivery, invoicing and statement. Make sure you see what the documents will look like. Make sure you are happy with them.

Don't take anything for granted. If your current system gives you certain reports and information make sure your new system will give you the same and more.

Credit Policy

Make sure you have a clear policy that sets out the rules around granting and managing credit, as well as a step by step guide on how you are going to collect your money. This policy must be signed off by senior management and agreed by all concerned as the correct way to do business for your organisation. Within the policy, you must make room for exceptions and how those exceptions will be managed and authorised.

You cannot turn away business because of a situation you didn't foresee at the time of writing the policy. Credit Policy will be covered in detail in the next module.

Interesting article:

Managing Credit : Is your Credit Policy profitable?

Puru Grover,
Manager, Business Education: Dun & Bradstreet

"Credit has done a thousand times more to enrich mankind than all the gold mines in the world. It has exalted labour, stimulated manufacture, and pushed commerce over every sea" Daniel Webster

Credit is an indispensable catalyst in financing the movement of commerce. Its roots go fairly deep in time and are definitely as old as the concept of trade itself. As early as 1300 BC the Babylonians were lending on the basis of getting a charge on security or collateral. Credit touches us in various ways. To some it could be a mere caress or a tickle, to others it could be a brush, to some a graze and for others a crash or a collision.

Credit helps in production, distribution, selling, consumption and expansion. It helps smoothen the rough curve of seasonality of a seasonal business. It increases the immediate buying power of a consumer. But where there is good there may also be bad and ugly. Credit could mean a collapse due to Overbuying, Overexpansion or Overselling.

Probably the single most important factor is the maintenance of proper cash flow in operating a successful franchise. Cash flow problems can be avoided by making sure that you administer and manage credit with financial prudence and get paid promptly for goods or services rendered. Accounts Receivables, which can be broadly defined as uncollected sales, are one of the largest assets of a business, amounting to approximately 15% to 20% of the total assets of a typical manufacturing business. An uncontrolled growth in sales could result in an uncontrolled management of account receivables.

What is the mission of a person with credit responsibility? What is the function of credit and credit management? To answer these questions I will refer to an article written by Michell Woods-Howell, wherein is mentioned the mission statement of Microsoft's Credit department. - 'To maximize the protection of Accounts receivable while supporting Microsoft's effort to expand sales and increase market share throughout the world, to evaluate accounts receivable worldwide risk and to make sure we have appropriate reserves in place.'

It just goes to corroborate the fact that no matter how big or small is the size of business operation, companies are focusing increasingly on managing and collecting their receivables efficiently and effectively, thus maximizing their cash inflows.

Credit is temporary capital and the objective of credit is to lend with the purpose of increasing profits and sales. A sound credit policy in business is the blue print to managing by measurement and benchmarks. The question then arises is 'What is a Credit Policy and how does one write a Credit Policy for their specific nature of business operations?

Writing an effective Credit Policy begins with an understanding of the financial exposure that you or your business can endure and the amount of your working capital that you would be willing to risk, or call it 'invest' in your customers.

Revolutionary developments in the computer and communications fields have forced companies to increase speed and become relevant. Markets are becoming global and economic activity across nations is becoming increasingly integrated. Competition can come from the face of a computer screen with the competitor sitting in a different time zone. About the only thing in business that is a constant, is change. As the world transforms at an unprecedented pace so have to the components that propel its engines. Thus a credit policy that is written without an understanding of the market and ample room for change in it and the one that is not frequently revisited could become obsolete in matter of days. With the information-age revolution, knowledge-based activities are becoming increasingly important for existence. Hence, enhancing skill-sets and knowledge is an intangible component of a credit policy.

I am of the firm belief that 'what gets measured gets managed'. Therefore as a matter of policy one should manage by measuring results. Every time a deal goes bad, review the things that were done incorrectly in either setting up of the account, monitoring or collecting it. Measure Days Sales Outstanding (DSO), aging receivables, and bad debts as a percentage of sales. Keep a tab on your liquidity by reviewing liquidity ratios like the current or working capital ratio. Also keep a pulse on your inventory turnover. This will tell you if your efficiency is increasing, decreasing or the same over different time periods. Profits are a combined function of liquidity and efficiency. You can use the same logic when assessing your customer.

Using quality information can help scores in managing risk. Collecting relevant information requires a well thought-out Credit Application. It should seek permission from your customers to conduct credit investigation from credit bureaus, trade and bank references for the purpose of granting credit. A Credit Application is a document that not only collects information but is also an 'Application for a Loan ' that the applicant fills. Make sure that your Credit Application reflects the sentiments that you are serious about the amount that you will be extending in the form of cash or kind.

As a guideline you can write your policy in the following sections. The contents of each section can be written to best fit the nature of your business: The set-up of credit function.

1. Objectives of the credit function
2. Terms and conditions of sale
3. Sales responsibilities with credit issues
4. Billing procedures
5. Obtaining Information on new customers
6. Procedures for opening new accounts
7. Process of assessing the information to arrive at line of credit and credit terms that will be offered
8. Monitoring your investment in your customers
9. Profiling your customers to do strengths, weakness, opportunity and threat analysis.
10. The feedback loop for reporting
11. Allocating resources and responsibilities
12. Defining past-due and bad debts
13. Targets, benchmarks and deadlines for the function
14. Procedure of collecting from delinquent customers.
15. Analyzing the changing needs of your markets and customers.

Ultimately, Credit Management is an art and not a science. It is definitely an 'indefinite'. It gets its design from a variety of inputs like the creativity, experience philosophies and attitudes of the individuals administering it. Sometimes a decision based on your 'gut' feeling against all odds could prove to be the best one. But as a credit adage goes "get the calculations right in a calculated risk" and remember that 'A sale is not complete till the money is collected.”. ***- end of article***

Documentation

Invoices/ Credit Notes

Invoices should be posted as soon as possible after the goods are delivered or the service has been provided. Guidelines for Invoices:

1. Keep it as simple and easy to read as possible
2. Where possible have an identical lay-out to your Delivery Docket or Service Docket.
3. Use a white background – much easier for copying, faxing or e mailing
4. Avoid using advertising clutter
5. Do not include technical product information
6. It is worth going to a lot of trouble to make sure Invoices are being sent to customers as soon as possible.
7. It is also worth the effort to ensure the Invoice is correct in every detail – Prices, Quantities, Discounts, Address, Purchase Order Numbers, and that the Invoice adds up correctly and is technically correct
8. Look at Invoices coming into your payables and sort them into effective/not affective and make sure your Invoices are better than the best one received!
9. By EU law your invoice must include your bank details
10. Credit Notes should be easily distinguished from Invoices, usually printing the credit notes in Red ink or having a red background is a universal way of distinguishing them.

Statements

Guidelines for statements:

1. Statements should be emailed/ posted a early as possible in the month – ideally on the first working day of the month after all cash has been entered and allocated.
2. Statements should be reviewed individually by the Credit Controller or Credit Manager prior to posting.
3. Overdue amounts should be highlighted dramatically – with highlight marker or red biro.
4. Statements should show payments and details of the paid invoices.

5. Statements should clearly contain exact instructions as to how, when and where the payment should be made.
6. Avoid using images of business people on their knees crying "please" – it sends out the wrong message.
7. A clear "Overdue" stamp can be effective
8. Avoid excessive ageing at the bottom, if you show six months ageing you are telling all your customers that there are a number of balances over six months old.

Right First Time

Where this section fits in to your profit mindset is that research by the AR Management Group in the US concluded that around 25% of the cost of doing business is in redoing tasks, making two deliveries instead of one – issuing an incorrect invoice, a credit note and/ or a corrected invoice – not to mention the cost involved in investigating disputes & claims and the invisible cost of unhappy customers.

There is a double hit here – it costs your company to fix them, it also costs you in terms of your reputation with your customers. Consistently sending out wrong invoices sends out a very unprofessional image of your company.

In order to be successful a company must undertake an on going project to "get it right first time – every time". To some this is a slogan but to the successful business this must become a way of life. It is not just one single process it covers every single aspect and we will cover all the major topics in this particular section. The policies that are outlined in this particular document refer mainly to distribution type companies. The principals can be applied to all businesses so read it with that view in mind take the sections that are of relevance to you and leave the ones that aren't.

1. Customer File Maintenance

You must have a clear system to maintain your customer files from adding new information from your new account application form to updating customer information on an ongoing basis. The file has to include

- The correct name of the company
- The legal entity that is involved.
- The address that the invoices are to go to.
- The address that the statements are to go to.
- The direct contact numbers for each of the key people that you need to talk to within the organisation.
- The pricing bands
- The distribution depots

and any other information to link the customer to the rest of the business. If any of this is done in isolation it is going to raise problems for everybody else within the organisation. Responsibility for customer file maintenance can appear in many different departments, however, our recommendation is that your credit department should retain responsibility for this, and you restrict access to updating certain fields. This area is reported as being one of the main areas where internal fraud can go undetected indefinitely.

2. Product file maintenance

Every single product must be set up and maintained with the correct descriptions correct pack size and correct pricing structures. Any inaccuracies on this will obviously manifest themselves as problems with picking, deliveries and invoices.

3. Price file maintenance

One of the most difficult tasks facing most companies because of the matrix involved that there are a number of different prices, there are a number of different price points, there are a number of different discount structures for different customers individually and as groups so it is very important that there is a simple system to maintain price files and to update them on a regular basis. So it is not just a matter of updating them and leaving them. Every single week, every single month you have to review your sales analysis looking at your margin by product by customer making sure that every sale you are making is a profitable sale.

4. Discount Structures

Like the aforementioned all the discount structures have to be updated on a regular basis and again this is done in conjunction with every other department within the business, from marketing, through sales, through promotions and everybody else. It is so important that we look at the discount structures as they apply to the products, to the quantities and to the customer.

5. Order Taking

Your business should have a clear and simple order taking procedure. So it either works on product code or a product description but you have to make sure that the products ordered are the products that are keyed into the system.

6. Order Picking

Your products must be allocated into locations within your warehouse for easy picking and ongoing stock checks to make sure that the integrity and correctness of the figures and the numbers that you have. You have to make sure that what the customer orders is what you have keyed into the system which is what's picked and then goes for order dispatch so you must have a linked in system of order dispatch to ensure that it all hangs together

7. Order Delivery

This is the final part in the supply chain area so you have to have a mechanism that makes sure that the order was given, the order that was keyed in, the order that was picked, the order that was dispatched is also the order that is now delivered. Every company either has an electronic or a hand written or a manual paper docket that the customer has to sign to confirm that they received delivery in full.

8. Signed Delivery Dockets

It is important that the signed delivery dockets are returned to the office (ideally on the day the delivery is made) and at that point the order is confirmed for invoicing to the customer. If you invoice on dispatch any short deliveries any damages any breakages will result in incorrect invoicing and that only adds to your costs, upsets your customer and causes delays in payment.

9. Confirming for invoicing

You should have a process on a daily basis that every single product that is delivered is confirmed for invoicing and an invoice file is generated. In addition to that you must also have a system of monitoring any dispatches that have left the building and have not yet been invoiced, because this represents problems or something has gone wrong and these need to be investigated and researched on a daily basis.

10. Invoice printing

It is up to you what works for you and your customers. From a best practice perspective it is best to print invoices on a daily basis, ideally the day after the delivery has been made, it all depends on your customer's requirements. Some customers might require to receive invoices on a weekly basis or some would prefer to receive them on a monthly basis with their statement. If you can accommodate customer requests obviously the purpose of what we do is to serve our customers and to keep our customers happy.

11. Posting invoices

Invoices should be posted to customers in line with their requirements and in the absence of that certainly on a daily basis.

12. Cash entry

All cash received should be entered in whatever cash recording system that you have every single day. The name that should be recorded in your cash book is the name as it is printed on the cheque – that is a check to make sure that you do know who your customer is and you know where the cash is coming from. And that cash must be entered onto the system every single day.

13. Cash allocation

It is not enough just to enter the cash on the system. The cash must be allocated to the specific invoices it is paying. Again on a daily basis, and if remittance advices arrive that is not clear as to what invoices they are paying then it must be somebody's responsibility to contact the customer immediately, to find out exactly what they are paying and make the allocation accordingly. Large amounts of unallocated cash in any business demonstrates a lack of control – what it is saying is that our customers are paying us & we don't know what they are paying. There is a practice where if the customer pays round amounts and you are not aware of any dispute you can allocate the payment to the oldest invoices. Legally this can make it more difficult for claims to be made at a later date for goods supplied where the invoices have been paid – in reality you are better off to get a cheque for an exact amount all the time but at least once a year to clear exact invoices.

14. Cash Accounts

In a number of businesses they have a system of cash on delivery. They have a number of cash accounts that they deliver to and if this is the case and drivers or reps are charged with collecting cash for these deliveries then a really tight control mechanism has to be put in place. Make sure that your control system is such that you would miss €5.00 within 24 hours of the delivery being made anything less than that should be unacceptable to you.
By definition every cash account, must have a zero balance at the end of every single working day. Any exception to this rule will expose your business to the potential of cash loss and fraud

15. Bank Reconciliations

It may be ok for accountants to do bank reconciliations on a monthly basis but from a credit perspective this is simply not good enough. You need to do a bank reconciliation every single day. You must look at your bank statement every morning, see what payments have come in that you haven't been notified of and enter them on your system as well and on the other side you need to look to see if any payments have been returned and then act with all urgency on those rather than waiting for days or even weeks for the documentation to come through to you.

16. Statement printing

Statements should be printed every single month and again best practice would dictate that statements are printed on the first working day of every calendar month. Statements should be reviewed by an appropriate level in credit management either your credit controller or credit manager before they are posted to the customer. This will make sure that all spelling errors, unallocated cash and just balances that shouldn't be there credit balances or in corrections are resolved before the statement goes to the customer.

17. Allocation of ownership for collection

In your business you have a number of accounts and each of those must have at least one person to be responsible for the timely collection of that money. It could be the rep, it could be the credit controller, it could be the finance department, it could be the stores department, it could be anybody. You must have responsibility for every single account allocated to an individual and then hold them accountable for it.

18. Customer contact strategies

This is an area most businesses don't even consider. Every outstanding balance must have a collection method assigned to it. Now this could be a text message it could be an email it could be a phone call it could be a personal call it could be a rep call you decide based on the resources that you have and your requirements with regard to collections. Make sure that every single customer has some collection mechanism allocated to it and then the job of management is to follow to make sure that happened.

19. Record keeping

Anybody making contact with customers must keep a record of every single call they made and the outcome and the promises that were made on each of those calls, ideally those records are available to everybody else in the business to see what was done before and what needs to be done and then a follow up log kept on every single item on or just immediately after the date the promise is broken.

20. Filing

One of these jobs that everybody hates and a job that has to be done. It is imperative from the smooth running of the business that everybody can put there hand on whatever they need to whenever they need to with the minimum of fuss and certainly when we are dealing with customers we need to send copy invoices, delivery dockets immediately. There are so many online and systems available these have to be investigated have to be resourced not only in terms of the system but also in terms of the man hours that are required to maintain them.

21. Dispute Management

You must have a system for managing disputes and queries from customers. And a system that allocates the dispute to the person that has the power to resolve that dispute. Within the credit policy or within you own agreed procedures you must have a service level agreement build in there that all disputes handed to sales are resolved within what ever you feel is reasonable, I believe 24 hours or all things being equal is maybe too long, ideally if a dispute is raised it should be dealt with on the day

22. Credit Notes

Credit notes that are issued to correct errors should be avoided as far as possible and every one should be signed off at an appropriate level. Writing a credit note is exactly the same as writing a cheque. You are taking money straight out of your bottom line and you must need to know why that is happening. So every credit note has to be signed off and approved but make sure that this doesn't become a difficult or time consuming process. If a credit note is due then the credit note should be issued immediately. There is no point in waiting for days, or weeks or even months before issuing of credit notes as happens in some companies.

Credit notes should look exactly like your Invoices and printed with red ink.

Every Credit Note should be investigated and properly approved prior to issue. The reasons should be captured, where the communications break down occurred that led to the Credit Note should be investigated, addressed and resolved with the appropriate person and Department.

23. Credit Note analysis

At the end of every week a note should be taken of every single credit note that was raised within the business and an analysis of who is responsible for each credit note prepared and circulated to senior management. Every credit note that you have to raise to correct a problem represents a breakdown in communication somewhere within your organisation and you are going to continue to be incompetent if you are going to send wrong invoices out to your customers. We live in an age where customer care is of the utmost importance where we need to reduce our own costs and reduce our customer's costs of doing business as well. And there is no greater insult to a customer then to continue to send them incorrect invoices that they have to check line by line on an ongoing basis. So on a weekly basis analyse your credit notes find out where your system broke down communicate with the people responsible and to make sure that that particular event never happens again and the communications are closed within your organisation.

24. *Stock takes*

Stock takes are the verification that everything else is correct. If your stock take has no variances at the end of a month and if you are involved in the distribution business you should perform a full stock take on a monthly basis and compare the stock that you actually counted with the book stock that your computer says you have. Any variances there represent a problem. Its either stock that has evaporated, stock that has left the warehouse unauthorised, it could be a problem with your invoicing, it could be a problem with your dispatch it could be a problem anywhere within the organisation so you must make sure that you adopt a zero tolerance approach to stock variances because if you are over by a single case that's an indication that you billed a customer for a product that they didn't receive, if you are under by one case that means that you have delivered something that was not documented. Or in worse case scenario the product has been stolen so you must make sure that you take full control of your stock and on an ongoing basis if you have control of your stock that's the verification that every invoice that you issued throughout the month and every delivery that you made throughout the month is correct.

25. *Action plans*

As a result of all of this and with the senior management commitment to getting it right and with the credit department perfectly placed to make sure that everything that should happen does happen as a result of your daily checking you should produce an action plan to be circulated to everybody within the organisation in terms of who has to do what when to make sure that your business is profitable well controlled and your customers find it easy to do business with you.

26. Charging Interest

Since August 2002 you are entitled to charge interest on late payments on all business to business transactions. The rate of interest and the rules around charging it is set out in the "Links" section of our website: www.icmt.ie

Key Performance Indicators

In every high performing team, the players need to know the score. Make sure you have a consistent approach every month. Produce your reports on the same day every month, ideally at the same tine as your statements on the 1st of every month.

Most businesses make some fundamental mistakes when it comes to this area. Most focus on DSO (days sales outstanding) or on the amount of overdue debt or the amount of bad debt provisions or the amount of bad debt.

We all know that in life, we get what we focus on, knowing this to be true and revisiting that most reports focus on what they don't want! If you focus on what you don't want? You get what you focus on!

What you should report on

You should report on positives – amount of cash collected, amount within terms, and percentage within terms. Ideally your reports should become an action plan for the coming month detailing what has to be done, by whom and how soon. You should see at a glance who owes what – particularly your top 20 customers who probable account for 80 – 90% of your ledger.

Some reports show aging going back month after month after month. We need a sense of this on a total basis – are things getting better or worse?

You should show the past three months balances for example:

	This month	Last Month	Previous Month
Total	668	654	628
In Terms	168	254	400
Overdue	500	400	228

In this example the ledger is remaining constant but we have a huge underlying problem as our overdue debts have more than doubled in the last three months. Seeing this information clearly will allow you put an urgent action plan in place to correct.

For each individual account an invoice has one of two statuses 1) It is now due to be paid and 2) It is not due until a future date.

We need to break the balance above down into action chunks

Customer Name	In terms	Overdue	Total
Company A			
Company B			
Etc			

Report should be presented in descending overdue value, and from an action perspective you should start at the top and work down every single one.

Then you must assign the collection of every single account to a person and agree a reasonable date for resolution and continue to review progress on a weekly/ monthly basis depending on the seriousness of the problem.

If you have a problem with a particular area for example: disputed invoices, a particular partner in the business, a particular sales person or region, it is your report and you get to choose what you report on, so highlight the area and report to the relevant parties that will ensure action.

Other areas you may consider reporting on:

1. High Risk Accounts
2. High Balance accounts (say over 10k)
3. Accounts in a particular industry
4. Accounts over their allotted credit line
5. Accounts over their Insurance limit
6. Accounts way under their lines of credit – to ask the sales people why are we not selling more to them.

DSO (Days Sales Outstanding)

There is a great debate on the usefulness of this measure, it measures what you are owed in terms of how many days sales are outstanding.

For example if you were selling 20k per month and you were owed 40k your DSO would be 60 – You are owed for the last 60 days sales. If your sales remained the same and you were owed 50k your DSO would go to 75. On its own it can be deceiving, in reality it is a simple score and all other things being equal it is a simple score that measures the effectiveness of your credit function.

The downside is that in simple terms some can see that a high DSO is bad and a low DSO is good. That is not the case at all and that is the point of developing a profit mindset – perhaps giving extended credit could unlock very profitable sales, perhaps with a better risk radar you could take a competitive advantage by offering credit where others won't – to do this you have to be much better than they are, more alert to what is going on around you, and quicker to act than anyone else.

Knowing what to do and how to do it will help your business greatly.

Daily, Weekly & monthly reviews

Every week go through the promises for that week and get them delivered. The longer you wait to follow up you are demonstrating a sign of weakness that will be picked up by your customer. Make sure the person responsible knows they are responsible and know the exact date the money is expected.

If you are not happy with extending credit to a company it is a good idea to get some form of guarantee from them. There are three types of guarantee:

1. Personal Guarantee. This is where you ask an individual, usually a director of the company to personally guarantee the debts of the company. In essence they are saying that if their Company does not meet its obligations in full, they personally undertake to pay the amount due up to the maximum amount set out in the guarantee form. When obtaining this form of security you should satisfy yourself that the person has the means to repay the amount in question. A suggested wording for a personal guarantee follows:
2. Bank Guarantee. In this case the bank is giving you an undertaking that if the person or company fails to discharge their debts in accordance with your agreement that they will pay the amount up to the guaranteed amount as set out in the document. Each bank has their own document, Please see below for a sample wording:

Personal Guarantee

In consideration of you giving credit to

[Company Name]

of

[Address]

I hereby guarantee to you the payment of all monies, at any time due to you in respect of goods/ services supplied to the above, up to a maximum of €__________ and I/we hereby agree to make good any default by the said person/ company in the payment of the amounts due for such goods/ service.

I further agree that this guarantee is to be a continuing guarantee and that no variation of the terms or extension of credit or time for payment, or indulgence, which you think proper to give, shall impair reduce my liability hereunder.

I reserve the right by one months notice in writing to you to revoke this guarantee as to all future dealings between you and the purchaser, but I agree that notwithstanding such revocation I shall remain liable in respect of all monies which have become due to you by the purchaser as at the date of such termination.

Dated this Day of 20

Signed____________________________ Date _________________________

Full Name [Please Print] ____

Address ____

In the presence of Witness:

Signed ____________________________ Date _________________________

Full Name [Please Print] ____

Bank Guarantee wording

From [the bank]
To [Your company]
Of [Your address]

In consideration of your agreeing to enter into a Contract (hereinafter called "the Contract") for the supply of goods to [your Customer]

____

of [your Customers address]

____

____

(here in after called the Customer), We ________ Bank, having our registered office at

____

Hereby guarantee payment to you of such sums as may be due to you by the customer on foot of the contract on your first written demand stating that the customer has failed to fulfil its obligations to you on foot of the contract PROVIDED ALWAYS that the maximum aggregate liability hereunder shall not exceed the sum of €_________________ (Sum in words)

Demand hereunder shall be in writing and delivered to the undermentioned address, and such demand shall be conclusive evidence, for the purposes hereof, that the sums so demanded by you are due to you by the Customer on foot of the Contract.

This Guarantee shall be a continuing guarantee by our giving 90 days notice in writing to you and on the expiry of such notice shall be null and void whether returned to us or not save in respect of any written demands received by us prior to the date of expiry of such a notice.

This Guarantee shall be governed by and constructed according to Irish Law and the jurisdiction of the High Court of the Republic of Ireland shall apply for all purposes of this Guarantee.

This Guarantee will be delivered by you to us when no longer required. All correspondence relating to this Guarantee should be addressed to The Manager, __________Bank, [Branch address]

____

Dated this _______ day of ____________ 20___

____

Signed
Branch Manager
[Bank Name] or legal representative on behalf of the bank

While not included in this example, it is normal for a bank guarantee to have an expiry date, usually one year from the date of issue. If this is the case you must be very vigilant to make sure the guarantee is renewed if required before it expires, when the date passes the guarantee is completely worthless as you can only claim on it up to the specified date.

The third form of guarantee is a parent company guarantee. The form is similar to the personal guarantee, in this case the parent company provides a guarantee for one of its subsidiaries, where the financial strength of the subsidiary is weak and the parent company is stronger.

At all times you should find a way of delivering every order and if guarantees are required they should be requested before you commence trading with them, as once the business relationship has begun it is more difficult to get them to agree to providing guarantees after the event.

All the sample documents are for guidance purposes only. You should always seek legal advice before implementing any legal agreement with your customers.