

## **Improving Your Credit Policy**

One of the most important elements of a successful business is the ability to maintain healthy levels of cash flow. In effect this means establishing effective methods for dealing with both debtors and creditors. Strong and viable businesses can find themselves in financial trouble because a large customer has failed to pay their debt on time, but extending credit lines or selling debts to third parties can become expensive. Although there can be any number of reasons why a customer is not paying its debts on time, your business will undoubtedly benefit from implementing and enforcing a robust credit policy.

Regardless of the size and nature of your business, if there is a lapse in time between when you offer services or goods to a customer, and when you get paid – this is in real terms like handing over cash. Businesses often fail to consider the risks relating to any particular customer because they disassociate their services from the monetary equivalent. However, thinking of your business's services in this way means that you are less likely to get into trouble over extending credit to a customer who has no means, or intention, of paying their debt to you.

### **Who Is Your Debtor?**

When dealing with a new customer it is vitally important to verify the information that they provide to you. Check their company or personal information, run credit checks, and ensure that you have the correct telephone number, address and email for them. If you are dealing with a business, ask them to provide references from other businesses.

Remember that, in the worst-case scenario, you may want to obtain judgment against your debtor. If they fail to pay the judgment debt, you will need to know about their financial circumstances in order to consider the best ways to enforce the debt. Although there are ways of finding this out post judgment, it is much more preferable to know your debtor before they become a customer, rather than after they become a problem.

### **Terms Of Business**

The terms of a credit policy are to be taken seriously and should be regarded as contractual terms of business. You must ensure that your terms are evident on your invoices, so that there can be no confusion as to when an account becomes due. Your terms should be reviewed and if necessary renegotiated with customers on an annual basis. During each year, monitor the payments your customer makes, the time they take to make them, and how many follow-ups are needed.

Ensure that your sales people are well informed as to your terms: Favourable terms for low-risk customers may be a selling point. Perhaps obviously, do not extend any credit to anyone until they have agreed and signed terms and conditions with you.

### **Categorise Your Customers**

Depending on the nature of your business and whether you are dealing with businesses or consumers, you may have identified several categories of risk depending on creditworthiness, trade references, past history and other factors. If

a customer is deemed to be high risk, insist on 50% upfront. If they are experiencing cash flow difficulties, ask for a promissory note, which is a contractual agreement that determines how a debt is to be paid over a period of time, whether with or without interest.

### **When Payment Is Due**

When invoices are unpaid, it is important to be pro-active. Do not allow late payments to sit idle. Contact your customer to find out why the invoice has not been paid, rather than letting it lapse. It may be that an invoice has been lost, or is incorrect, so rectify it early on. Maintain good lines of communication with your debtor and be firm but understanding. A client is more likely to pay a creditor who has been firm but pleasant. Often, payments will be made in order of priority – and if you have been pro-active about collecting your debt, you will be first in line regardless of the age of the other debts.

If you need help with recovering debts, contact our specialist debt recovery lawyers for advice today.

*For more information contact PCB Solicitors on 01743 248148  
or visit our website – [www.pcblaw.co.uk](http://www.pcblaw.co.uk)*

**PCB**

SOLICITORS