6 Steps to Developing a World Class Business Credit Policy & Collections Action Plan

Business Credit Policy Strategies for Business Credit Professionals
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Introduction

Accounts receivable is typically the largest or second largest asset for most businesses, yet most companies do nothing to improve their credit and collections processes. Business credit is tight – given tough economic conditions and political uncertainty – leaving many companies scrambling for working capital. Customers are taking longer to pay due to cash flow issues within their own organizations. In fact, the CRF report “On Whose Terms?” indicates that approximately 17% of business customers do not adhere to supplier credit terms.

When we take time to look around, we suddenly see the importance of developing a formalized credit policy and we plan covering rules, regulations and procedures to manage daily operations, approval workflow, optimize our resources, reduce credit risk, and improve cash flow. The goal for a Credit Plan is to clearly define these elements so that employees conform to documented steps and procedures designed to improve all related business processes.

The Credit Research Foundation estimates that only 20% of credit departments have formalized policies. Many companies struggle to formalize policies due to ad-hoc credit management from salespeople, lack of critical financial information, or simply due to time constraints and higher priority projects.

This document outlines six easy steps to developing a world class credit policy and collections action plan to help you gain significant advantages in your business.

A credit plan should have a dramatic impact on the overall financial health of your business. It provides a documented roadmap that aligns corporate goals with business procedures. The credit plan should help your organization accomplish many goals, including reduction in bad
The Credit Research Foundation estimates that only 20% of credit departments have formalized policies.

debt and write-offs, as well as improvements in sales to cash payment cycles and improved profitability.

The plan should include a mission statement or well-defined company goal. It should also identify all employee roles and systems in the organization that are directly or indirectly related to the credit and collections process. Each role should be defined in relation to credit and collections authority and responsibility. Workflow diagrams are useful for mapping out communications and inter-departmental relationships. The plan may also include supporting data such as:

- the number of customers serviced by the organization
- credit term and credit limit policies (if any)
- annual revenues
- average outstanding receivables
- average days to pay across accounts accounting or other systems used for financial reporting
- days sales outstanding
- bad debt write-offs

and similar data.

Once your initial research is collected, you can define goals for improving these metrics using key performance indicators. For example, you may want to reduce bad debt by 10% or achieve an average days sales outstanding (DSO) of 40.

This document is designed to help you develop a credit policy and collections action plan that meets your specific business objectives. It includes tips and suggestions and samples that you may use to create a policy to improve your business. Where applicable, this document highlights how systems like Anytime Collect can be used to automate your credit and collections process to standardize your credit policy and collection procedures.

**Step One: Do Your Homework**

How do you know what you want to accomplish in credit and collections if you don’t know where you’re at today? The first step in developing a policy and an action plan is to do some research. Below are some areas that you should investigate before you start developing your policy.
Who Are Your Customers?

One of the first questions you should ask yourself is who you’re doing business with today and who you may want to do business with tomorrow. For example, you may sell products or services to commercial business accounts such as wholesale distributors or manufacturers but you may also sell to government agencies. What’s good for one group of customers may not be good for another and there may be things you can do to improve the chances that your invoices are paid on time.

For example, the US Government’s Prompt Payment Act (PPA) was enacted to ensure that federal agencies make timely payments for materials or services provided by vendors and contractors. Bills are to be paid within 30 days after receipt and acceptance of the materials and/or services or after receipt of a proper invoice—whichever is later.

As you can see from this example, one of the keys to getting paid on time from your government customers is to provide a proper invoice. This means that you have to ensure that the invoice includes everything the agency needs to approve the invoice in a timely manner.

The Prompt Payment Act does not cover cost plus contracts, cost reimbursable contracts, progress payments, or advanced payments. This is important to know for this class of customer. Instead of selling your products or services on cost plus—could you change your billing method so that it’s covered under the PPA? Also, if your invoice qualifies for the PPA then you are entitled to charge interest for late payments under the PPA.

This may be the first time that you’ve ever analyzed your customers so you may not know the best way to classify them. Some common ways to segment your customers are:

- Industry – By SIC Code or NAICS Code
- Sales Volume – Large, Medium, Small Sales Volume
- Longevity – Established vs. New Accounts

Analyzing your customers using multiple methods is sure to provide you with some insights. You may find small problems that you didn’t know existed. For example, many businesses tend to be more lenient on their larger customers because they don’t want to lose that big contract but you may discover that those larger customers are actually costing you money in the end. You may also find out that your newer accounts have a lower DSO than your established accounts because you’ve made better credit decisions than you did previously.

How Effective Are You Today?

The next thing you’ll want to do is to determine some key metrics to understand where you’re at today. Most businesses track at least two key metrics. These include days sales outstanding
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DSO: Days Sales Outstanding

In accountancy, days sales outstanding (also called DSO or days receivables) is a calculation used by a company to estimate their average collection period. It is a financial ratio that illustrates how well a company's accounts receivables are being managed. The days sales outstanding figure is an index of the relationship between outstanding receivables and credit account sales achieved over a given period.

(DSO) and bad debt write-offs. Some other metrics that you may want to track include disputed invoices and broken promises. But how do you calculate this information?

Understanding Days Sales Outstanding

DSO is a fairly basic calculation and probably the most important metric that you must track. There are various tools available to calculate your DSO using information that should be readily available – your current accounts receivable balance, annual credit sales (total sales on credit vs. pre-pay). DSO is basically your accounts receivable balance divided by sales in the same period multiplied by the number of days in the period.

\[
DSO = \frac{\text{Accounts Receivables}}{\text{Invoiced Sales in Period}} \times \text{Days in period}
\]

For example, let’s use a very simple set of data. Let’s say that you’re current accounts receivable is at $840,000 and your annual credit-based sales are $5,000,000. Your DSO is therefore $840,000 divided by $5,000,000 multiplied by 365 for a DSO of 61.32 which is comparable to the national average.

A free calculator is available here to determine what your DSO is at today.

Calculating Bad Debt Write-Offs

This metric should be pretty easy to find in your accounting system. Depending on your previous bad debt write-off practices you may want to also consider a portion of open receivables as bad debt as well. For example, the US Census Bureau estimates that the longer an invoices is unpaid, the less likely it is that it will ever be paid in full. This can have a significant impact on your bad debt calculations. Generally accepted estimates show that 26% of invoices aged between 3 to 6 months are uncollectable. This increases to 70% for invoices aged 6 to 12 months and 90% for invoices older than 12 months.
Let’s consider a company that has the following accounts receivable aging to calculate the percentage of receivables that is likely to be uncollectable bad debt.

<table>
<thead>
<tr>
<th>Aging</th>
<th>Amount $</th>
<th>Bad Debt %</th>
<th>Bad Debt Estimate $</th>
</tr>
</thead>
<tbody>
<tr>
<td>3 to 6 Months</td>
<td>$200,000</td>
<td>26%</td>
<td>$52,000</td>
</tr>
<tr>
<td>6 to 12 Months</td>
<td>$100,000</td>
<td>70%</td>
<td>$70,000</td>
</tr>
<tr>
<td>Over 12 Months</td>
<td>$50,000</td>
<td>90%</td>
<td>$45,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$167,000</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Analyzing Other Metrics**

Consider that many companies don’t pay you on time because you either didn’t send them the invoice on time for them to pay you on time or the invoice was wrong and you needed to fix it before they would pay you. These are things that you control. A Credit Research Foundation report showed that most delinquent companies delay or deny payment not due to lack of money or poor cash flow (39%) but actually due to compliance or administrative problems (61%) such as incorrect invoices or receiving the invoice too late to process payment on established credit terms.

Find out why your customers aren’t paying you on time and you will probably identify the majority of your problems in respect to credit and collections.

Find out how long it takes for your customer to get an invoice from the time that the product or service was delivered and from the time the invoice was created. If you shipped the product two weeks ago, invoiced it last week, but just sent the invoice to them via mail this week, and it takes a week for the invoice to reach your customer, that leaves only a few weeks for them to make a payment (assuming Net30 Terms) and there is very little time to resolve a dispute should one arise within the remaining two-week period.

Get your invoices to your customers faster and ensure that they are accurate by tracking dispute codes to determine reasons for non-payment so you can analyze the root cause for disputes, take correction action, and shorten your sale to cash cycle. Consider switching to electronic invoice presentment for all of your customers or at least for your key accounts.

It is probably going to be very difficult, if not impossible, for you to calculate other metrics without an integrated credit and collections system. You may want to poll your credit and/or collection employees to get some estimates on other metrics such as how many open disputes do they estimate you’re managing and how many customers have broken a promise to pay you in the past month. You may want to also track how many calls you make to customers who are past due and other activity-type metrics. Consider using a system like Anytime Collect which synchronizes with your accounting system and provides you with basic and much more advanced reporting capabilities.
Comparing Yourself To Your Peers

So it’s nice to know how you stand in respect to your days sales outstanding and bad debt write-offs but how do you know if you’re doing better or worse than your competition? The easiest way to figure this out is to participate in the Credit Research Foundation’s quarterly Benchmarking Survey which is available at: http://www.crfonline.org/surveys/benchmarking/benchmarking.asp. If you participate, you will get a free report which will show you how you compare to companies of a similar size within your specific industry. This is invaluable information and insight that can help you determine how well you’re doing compared to your peers.

If you do not want to go into this level of detail then you can use the following information as a general rule for comparing yourself to the national average. Keep in mind, however, that most companies (especially smaller companies) are not very good at managing credit and collections so these industry averages are simply representative of the business community as a whole and are not representative of world class organizations who’ve mastered credit and collections policies and procedures.

Consider that the average DSO for US businesses is 61 compared to average credit terms of 28 days. If you’re sitting at 55 DSO then you could assume that you’re doing better than the average and that would certainly be the case. However, if you’re selling on NET30 terms that means that your customers are taking you 25 days longer than terms to pay you – that’s over three weeks past their terms. Think about what it would mean for your business if you could improve your DSO to 40. What does that mean to your cash flow and how could you invest that money into your business to be more competitive.

- 61 Average DSO (USA)
- 28 Average Credit Terms
- 4% Average Bad Debt Write-Offs as a % of Sales

Step Two: Set Goals

You’ve taken the first steps toward developing a credit policy and action plan. Now you should have at least a basic understanding of where you’re at today and you should have some idea on areas that you can improve. So let’s start setting some goals based on the information you’ve collected so far.

Establish A Credit Mission Statement

A great place to start when drafting your credit policy is with a mission statement. The mission statement should reflect the ideals of your business. For example, Dell’s corporate mission statement is to be the most successful computer company in the world at delivering the best
customer experience in markets they serve. A mission statement for Dell’s business credit department is likely similar and could look something like this:

“To deliver accurate and timely information and friendly business credit services to customers delivering the best possible credit experience in the markets we serve.”

We don’t know if this is Dell’s credit mission statement but it sure would be a good one. The key elements here are centered on the customer experience through accurate and timely information provided in a friendly, non-confrontational manner.

**Lower Your DSO by 15%**

Days Sales Outstanding is one of the most important metrics you should be measuring. You can set a goal to reduce DSO now that you know where you’re at and where you are in comparison to your competition. But how much should you expect to reduce DSO? The answer depends greatly on how low your DSO is today and what policies and procedures you implement. For example, Paystream Advisors estimates that simply implementing a credit and collections system like Anytime Collect helps most businesses reduce DSO by 10 to 20 percent so a conservative goal might be 15% reduction in DSO.

**Benchmark Accounts Receivable, DSO, and Collections through the Credit Research Foundation**

[www.crfonline.org](http://www.crfonline.org)
This can have a huge impact on your bottom line – especially if you’re current DSO is close to the national average of 61. That would reduce DSO by 9 days meaning that you’re getting paid over a week faster than you are today. We all know there is a cost of extending credit to customers. This cost is directly tied to the financing costs you’d incur to borrow cash from a lending institution. Getting back to our example from earlier in this white paper – a company with $840,000 in current accounts receivable and $5,000,000 in annual credit sales would save over $7,500 annually in financing costs if their interest rate to borrow cash was at 6% just by reducing DSO by 9 days.

**Reduce Bad Debt by 20%**

According to Paystream Advisors, most companies write off 4% of credit sales annually and can reduce overall bad debt by 20% by using an automated system like Anytime Collect. This is a great goal to set even if you’re not at 4%. The chart below shows how much you could save annually by making small changes in how you manage your credit and collections process.

<table>
<thead>
<tr>
<th>Annual Credit Sales</th>
<th>4% Bad Debt Write-Off</th>
<th>Savings (20% Reduction in Bad Debt)</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1,000,000</td>
<td>$40,000</td>
<td>$8,000</td>
</tr>
<tr>
<td>$5,000,000</td>
<td>$200,000</td>
<td>$40,000</td>
</tr>
<tr>
<td>$10,000,000</td>
<td>$400,000</td>
<td>$80,000</td>
</tr>
<tr>
<td>$20,000,000</td>
<td>$800,000</td>
<td>$160,000</td>
</tr>
<tr>
<td>$50,000,000</td>
<td>$2,000,000</td>
<td>$400,000</td>
</tr>
<tr>
<td>$100,000,000</td>
<td>$4,000,000</td>
<td>$800,000</td>
</tr>
<tr>
<td>$500,000,000</td>
<td>$20,000,000</td>
<td>$4,000,000</td>
</tr>
</tbody>
</table>

The savings you can realize by reducing bad debt write-offs alone are staggering. Our $5,000,000 sample company could save up to $40,000 annually by reducing write-offs by just 20%. We’ll take a look later at some strategies that will help you accomplish this with very little effort.

**Step 3: Develop a Credit Team**

You now know where you’re at and what you want to accomplish so let’s take a look at who’s going to do the work. Even a very small company should have someone dedicated to managing credit and collections. The following section can help you understand the business case for building a team to improve your credit and collections process.

**Why You Need a Credit Department**

Consider the fact that accounts receivable is typically the largest or second largest asset for most businesses. Also consider that there are literally dozens of studies that show that the cost
of acquiring a new customer is somewhere between 5-10 times as much as retaining an existing customer. Many companies have an army of sales people but leave the credit and collections tasks to an untrained and unequipped receivables clerk.

**Who Handles Your Credit Today?**
Most companies, especially smaller businesses, have no one who is dedicated to credit and collections or they simply wait until they are faced with a cash flow problem to start dialing for dollars. In the meantime, sales reps are permitted to make important credit decisions and collections activities fall on part-time, untrained accounts receivable clerks or office managers. In some cases, companies have no one available to manage credit and collections so these tasks fall on higher income resources such as a Controller or even the CFO.

**Staffing Your Credit Department**
e2b teknologies, publishers of Anytime Collect credit and collections software have found that companies should have around 1 full time credit and collections person for every $5,000,000 in annual credit sales.

You may need more staff if you have a lot of customers or you’re processing a high volume of invoice transactions monthly because there is much more work to be done in credit and collections. This is a pretty good general rule for most businesses to follow.

Companies that don’t have a system in place to automate invoice presentment, dunning and collection letter creation and automated email deliver, or a centralized system designed for credit and collections will require a larger staff to make the improvements established in the credit and collections goals discussed earlier. Studies have shown that companies can reduce credit and collections labor by at least 10 to 20% by simply automating much of the routine written communications. For some companies that means that they can do more with fewer people and in other companies it means they can repurpose employees to more critical activities. The salary for an average accounts receivable clerk was about $34,000 in 2012. Saving even 20% of a single employee’s time has a financial benefit of $6,800 annually.

Even in the smallest company there should be at least two people who are tasked with managing credit and collections – even if it’s only part of their overall responsibilities. This should include one primary person and either a back-up or their supervisor.
Smaller companies tend to struggle with credit and collections more than larger organizations because they have fewer dedicated credit and collections resources, are often too busy in the day-to-day management of their businesses, and until recent times – did not have access to affordable and simplistic tools to help them improve their credit and collections processes.

If you book a sale and never get paid for it – did you really sell anything? Credit and collections is an extension of your sales process.
Make Credit & Collections Part of Your Sales Team
If you book a sale but never get paid for it – did you really sell anything? Credit and collections often report to finance which makes sense. However, credit and collections is not separate from sales, but rather, it is simply a step in the sales process. In fact, some companies are actually paying commission to sales reps based on what cash has been received as opposed to invoices sent to the customer.

Many companies also involve their sales team in the collections process. After all, who has the best relationship with the customer? It’s probably the sales rep that earned their business. Who calls the customer the most? Who visits the customer the most? It’s clear that the sales rep can play a key role in helping you complete the sales process by collecting on accounts receivable.

Define Responsibilities
You should have a pretty good idea by now what your credit and collections staff looks like. Now you need to define roles and responsibilities. Ask yourself the following questions and write the name of the person or multiple people who will be responsible and held accountable for these activities:

<table>
<thead>
<tr>
<th>Credit &amp; Collection Responsibility</th>
<th>Employee(s) Responsible</th>
</tr>
</thead>
<tbody>
<tr>
<td>Establish Credit for New Customers</td>
<td></td>
</tr>
<tr>
<td>Change Credit Limits/Terms</td>
<td></td>
</tr>
<tr>
<td>Place Customers on Credit Hold / Remove Credit Hold</td>
<td></td>
</tr>
<tr>
<td>Print / Send Invoices to Customers</td>
<td></td>
</tr>
<tr>
<td>Past Due Collections Activities – Calls, Emails, etc.</td>
<td></td>
</tr>
<tr>
<td>Dispute Management</td>
<td></td>
</tr>
<tr>
<td>Negotiate Payment Terms / Plans</td>
<td></td>
</tr>
<tr>
<td>Factor Invoices / Send Accounts to Third Party Collections</td>
<td></td>
</tr>
<tr>
<td>Other Activities?</td>
<td></td>
</tr>
</tbody>
</table>

Set Expectations
Each person involved in credit and collections decisions and activities needs to know what’s expected of them. These expectations should be determined at the company level and should mirror the credit mission statement. Below are some examples of expectations you may want to develop within your credit policy:

Chief Financial Officer

- The CFO is responsible for reviewing the credit department goals, metrics, and activities with the credit manager on a monthly basis.
- The CFO is responsible for factoring invoices that third party collections was unable to collect within 90 days of placement with the organization.
• The CFO is responsible for managing any and all changes to the corporate credit policy considering feedback from sales, credit management, and collectors through quarterly credit and collections meetings.
• The CFO is responsible for managing any account that has an outstanding balance of more than $50,000 regardless of the amount of time the account has been past due.
• The CFO is responsible for working with legal counsel on all credit issues that require legal action or advice.

Sales Representatives

• Sales reps will be paid commission in the next payroll cycle following receipt of payment from the customer for invoiced orders.
• The sales rep assigned to the account is responsible for reviewing past due invoices for all customers prior to submitting any new orders for the customer.
• The sales rep must submit a credit application to the credit manager for all new customers before any new order can be processed.
• Sales reps will work with the credit manager to resolve disputes within 10 business days.

Credit Managers

• Credit applications must include three trade references to be called by the credit manager prior to extending credit to any new customer.
• Credit applications must include the name of the applicant’s banking institution. The credit manager must call to confirm the account with the bank.
• The credit manager is responsible for managing disputes with the sales rep with a goal to resolve the dispute within 10 business days.
• The credit manager will place the account on hold and will contact an account within 3 business days after an invoice has become more than 30 days past due.
• All accounts with a past due balance over 60 days will be placed with third party collections by the credit manager.
• The credit manager will escalate uncollected accounts to the CFO if third party collections were unable resolve the non-payment within 90 days after the account was placed for collections.
• The credit manager is responsible for ensuring that collectors have appropriate resources, time, and information to do their jobs effectively.
• The credit manager will conduct weekly meetings with the collections staff to review metrics, collections activities, open issues, workload, and to ensure coverage for illness and vacations.

Accounts Receivable Clerk

• Invoices will be printed by the accounts receivable clerk no more than 3 days after completion of the sale or delivery of the product or service to the customer. The accounts receivable clerk is responsible for verifying the accuracy of the invoice including payment terms, whether the customer or the service is taxable or tax exempt, and verifying if the customer requires a purchase order or other information on the invoice for payment.
The accounts receivable clerk will send customer statements the first Monday of every month.

Collectors

- The collector assigned to the account is responsible for emailing, faxing, or sending a written letter reminding customers of invoices due 3-5 business days before the due date for all invoices that have an outstanding balance of more than $100.
- The collector assigned to the account is responsible for sending a past due notice to all customers with an invoice that is 1-5 days past due.
- The collector assigned to the account is responsible for making a phone call to the customer within 5-10 days after an invoice is past due.
- The collector will make a minimum of three phone call attempts and three email attempts to resolve a non-payment issue until the invoice is 30 days past due at which time it will be escalated to the credit manager for follow-up.
- All disputes will be escalated to the credit manager as soon as a dispute is identified.
- Any account with a past due balance of more than $5,000 or any invoice that is more than 30 days past due is to be assigned to the credit manager by the collector.
- All written and verbal communications with customers should be friendly and free of conflict, even for the most severe credit conditions. Written communications should utilize standard company templates and collections calls should utilize corporate call scripts for each phase in the collections process.
- Collectors will conduct an annual credit review with all active customers invoiced more than $5,000 in the previous 12 months. This annual review will cover their credit limit, credit terms, dispute and broken promise history, and average days to pay. This information will be submitted to the customer, the assigned sales rep, and to the credit manager for review with recommendations on any suggested changes to better serve the customer and the company.

Setting expectations is good for everyone involved in the credit and collections process. It provides clarity, helps to resolve issues faster, and empowers everyone to do what is right for the company. Expectations will vary greatly depending on the structure of your organization and the size of your credit department but a successful credit policy should include expectations or the goals you’ve set will probably never be attained.

The Org Chart

Smaller organizations will likely have one person that will fill the role of the accounts receivable clerk and the collector. That person may even have credit management responsibilities. Still, they should have one person that they work with as a back-up in case they are on vacation or take time off due to an extended illness. Consider cross-training an office manager or an underutilized employee as a back-up resource and make sure that the employees understand who they report to in the organization.
Credit Teams
One of the biggest decisions you’ll need to make is whether to assign accounts to collectors or to leave them in an unassigned pool that each person works together as a team. There is one major consideration that leads many companies to the decision of assigning accounts to specific collectors. Consider the Pareto Principle where 80% of revenues are typically generated from 20% of your customers. If this is the case in your organization then why not assign the top 20% of your customers to a dedicated collection representative? This allows the collector to build a rapport with the accounts payable contact at your top customer accounts, to identify major obstacles for non-payment for the bulk of your receivables, and to focus more time and energy where you have the greatest risk.

Companies that assign accounts to collectors often leave the remaining 80% of their customers (who represent typically 20% of their receivables) in an unassigned pool that can be managed by anyone on the collections team. This is also a great way to balance workloads since one collector may finish activities for their assigned accounts and can always work on the unassigned accounts if they have nothing else to do.

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**Pareto Principle in Credit Management**

80% of revenue probably comes from 20% of your accounts. Why not focus on those accounts?
Reporting Hierarchy
Larger organizations should define a clear hierarchy within their credit departments with collectors reporting to credit managers, credit managers reporting to credit supervisors, and the credit supervisors reporting to either the CFO or Director of Sales – whichever makes the most sense for the organization.

Train Your Staff
Many accounting professionals don’t know how to manage credit and fewer have been trained in best practices for collections. Accounts receivable clerks may know how to process an invoice but they probably don’t like making collections calls. The key to managing a successful credit department is training.

Training is available in a wide variety of formats. You may choose to provide some training internally or you might want to consider external resources such as hiring an accounts receivable consultant.

National Association of Credit Management
The National Association of Credit Management (NACM) is a great resource for training. Larger credit departments should consider membership in NACM for at least one person on their staff and should get involved in their local NACM chapter. NACM offers a Credit Administration Program (CAP) and Advance Credit Administration Program (ACAP) with many online webinars and on-demand and self-study offerings for busy professionals. Membership is available for your company or for a single employee for about $300 annually which includes local chapter dues.

Credit Research Foundation
Another great resource for training is the Credit Research Foundation which publishes a lot of booklets and guides to help businesses improve their overall credit and collections processes. At a minimum, no credit department is complete without the CRF’s Credit Professional’s Handbook. Membership in the CRF has a lot of benefits. Starting under $1,000, CRF Membership provides access to their entire library of more than 90 publications and more than 500 articles, quarterly reports, access to CRF members for questions and assistance, access to webinars and videos, and much more.

Other Training Resources
Other resources to consider include peer networks, other financial trade associations, online forums, LinkedIn professional groups, business books, and credit collections management case
studies ([Watch this video](#)) to see how one company collected more money in one year than they invoiced for).

**Step 4: Fine-Tune Collections Procedures**

You’re almost ready to finish your credit policy. So far you’ve learned how to measure your effectiveness, you should understand how you compare to your competitors, and you now have a defined team with a list of expectations and an overall understanding of the types of activities that you need to implement to attain your business objectives.

The next step in the process is to look closer at fine-tuning your credit and collections procedures. You may feel overwhelmed by the amount of work that implementing a credit policy may have on your organization but don’t worry – there are several ways that you can streamline your procedures using readily available resources and affordable technologies.

**Procedures by Customer Credit Class**

One tip that helps many companies is to define different credit procedures – even different collections strategies – for each segment of their customer base. You may choose to set different credit terms, credit limits, and different frequencies for credit reviews based on the customer’s credit class. For example, you may handle government customers different than commercial customers and you probably want to establish different procedures for risky customers than established customers with a great track record of paying you on-time.

**Best Practices in Collections Procedures**

No two businesses are the same but there are some best practices that transcend most businesses. This white paper has discussed many ideas on how to improve your collections procedures. Below is a short list of some best practices that world class organizations have implemented.

- **Templates** – define email and mail merge templates for all written customer communication.
- **Scripts** – develop call scripts for collectors to use as a guide. Scripts should vary depending on the task at hand or the progression of the credit issue.
- **Change Control** – store templates, scripts, your credit policy, credit applications, collection letters, and other documents in a secure environment such as SharePoint which as the ability to manage revisions with check-in and check-out capabilities.
- **Reminders** – should be sent out for every invoice that has a balance and will be due in the coming days. Most of the time you simply need to remind the customer of non-payment in order to get them to process payment in a timely manner.
Email – communication is often sent to customer on behalf of your credit department instead of a personal email inbox. This strategy helps you retain a professional image and keeps all email communications in one central location available to others on the team.

Phone Calls – should be documented in a centralized system available to anyone in the credit department. This is especially important when escalating issues or changing account responsibilities so that the account history is available for review.

Disputes – are typically identified early in the collections process and should have their own workflow and procedures which may vary depending on the nature of the dispute. It is common practice to track disputes using a dispute reason code to identify common problems that could be alleviated by making small changes. For example, if a customer is tax exempt and you continue charging them tax or you bill the customer the wrong rate for services which could be fixed by making a one-time change in your billing system.

Cash Forecasts – can be created based on feedback you get from your customers during the collections process to identify the amount and the date that you expect to be paid.

Broken Promises – are useful if you can determine when a customer promises and fails to pay you. This can be used in contract negotiation or to implement changes in their credit terms or credit limit to reduce your credit risk.

Escalation Rules – are common in some credit and collections management systems to automatically escalate credit issues to managers or to notify collectors when certain conditions happen. Best practices can be implemented within these rules to ensure that no one has to manually determine what to do or when to do it – they system can do this for you.

Step 5: Implement a Credit & Collections System

You do not have to implement business software to be effective in your credit and collections activities but it sure does help and you should at least consider the benefits and understand the potential return on investment (free ROI calculator). One question you should ask yourself is this: How much have you invested in a customer relationship management (CRM) application like SugarCRM for your sales team to acquire new accounts? If retaining an account is more affordable than acquiring a new account then shouldn’t you make a similar investment in a system designed specifically for your credit and collections department?
What Is CCM Software?

Credit & Collections Management (CCM) is a suite of integrated business applications that extend a company’s accounts receivable and accounting system to facilitate credit management, billing and invoicing, remittance processing, dispute management, and collections processes.

According to Paystream Advisors, CCM (also known as RCM) system functionality varies widely by publisher but typically supports six key functional areas – credit facilitation, billing and invoicing, remittance processing, collections management, dispute resolution, and reporting and analysis.

- **Credit Facilitation**, which includes credit scoring, credit application processing, reference checking, ordering credit reports from credit bureaus, financial statement analysis, new account approval, order approval, credit limit decisions, accounts receivable portfolio monitoring and credit risk management.

*Anytime Collect by e2b teknologies is a popular CCM business application.*
• **Pre-Bill Management** and e-Invoicing, which involves identifying invoice errors, ensuring vendor compliance, generating an accurate invoice; generation, transmittal and distribution of invoices and statements; trade promotion planning; contract management; Electronic Invoice Presentment and Payment (EIPP); and Electronic Bill Presentment and Payment (EBPP).

• **Remittance Processing**, which typically includes financial EDI (Electronic Data Interchange), EFT (Electronic Funds Transfer including ACH, Automated Clearing House), auto-cash algorithms and routines, payment-to-invoice matching, cash settlement, cash forecasting, as well as credit card processing and matching already-on-account credits, debits, and unapplied payments or adjustments.

• **Collections Management**, which includes workflow automation driven by a collection strategy engine, prioritized collection activities, integration of A/R data, a reminder system, activity logs, account and invoice level notes, integrated communication tools, faxing capabilities, e-mail, invoice reprinting, other forms of data export, payment plan calculators, imaging tools, and auto-dialers.

• **Dispute Management**, which includes dispute and deduction resolution, chargeback processing, exception reporting with automated escalation processes, a routing engine, collaboration tools, document sharing, and tools for root cause identification.

Reporting and Analysis, including cash forecasting, dashboards, email alerts, query capabilities, out-of-the-box reports, report generators, workload balancing, exception reporting, cycle time analysis, portfolio risk management, customer intelligence, and month end reporting tools.

**Benefits of CCM Software**
As outlined throughout this white paper, there are many benefits to implementing CCM software for your credit and collections department. Below is a summary of the many benefits that systems like Anytime Collect provide to small and large credit departments alike:

**Standardized Messaging** – By using email templates and corporate-defined mail merge templates you can standardize your messaging to customers to reflect your credit mission statement. Consider that each person on your team has various strengths and weaknesses. One collector may be very aggressive with customers while others may not be aggressive enough. Templates allow you to control the conversation you have with your customers to best serve their needs and those of your organization.

**Reduced Labor** – As highlighted earlier in this document, companies implementing CCM systems can automate manual tasks such as invoice presentment, reminders, past due notices, creation and assignment of collections activities, and escalations saving about $6,800 in labor. This also frees up collectors to focus more time on making phone calls and managing disputes.
Reduced Financing Costs — Reductions in financing costs are seen across the board by collecting your cash faster. For most companies, this means they are getting paid up to 9 days faster (based on national DSO averages and estimated reductions in DSO through automation).

Reduction in Bad Debt — The longer an invoice goes unpaid, the less likely it is that it will ever be paid. In fact, the US Census Bureau estimated that 26% of invoices over three months old are uncollectable. This increases to 70% uncollectable at six months and 90% uncollectable at 12 months. CCM systems typically result in a 15 to 20% reduction in bad debt. With the industry average of 4% for write-offs, that’s an $8,000 savings for every $1,000,000 in revenue.

Centralized System — Companies that don’t have a CCM system often use many disparate systems including their accounting system for financial information, Excel reports, CRM software for contacts and notes, and email systems for communications. CCM applications bring all of this together into a cohesive system available to anyone with appropriate security credentials.

The Pitfalls of ERP Software
Many companies implement ERP or accounting business applications expecting to see improvements in their organization. True, ERP software has lots of value but most ERP and generally available accounting systems offer very little in terms of accounts receivable credit and collections management.

These systems may allow you to send invoices out automatically, to document a phone call in a memo or note for a customer account, or to print an aging report but there is a black hole between the time the invoice is sent and when the payment is received and very little intelligence to help financial professionals to determine who to extend credit to and how much

The promise of RCM software is dramatic improvement in receivables performance. Using collection automation alone, many companies have seen reductions of:

- 10 to 20 percent in DSO
- 25 percent in past due receivables
- 15 to 25 percent in bad debt reserves

Paystream Advisors 2013
“...many organizations have implemented ERP solutions that are woefully inadequate in terms of receivables and collections management (RCM) functionality. These enterprise systems often replaced legacy or home-grown systems better suited to credit and collections management. As a result, RCM solutions are increasingly critically important to maintain proficiency in the corporate financial supply chain of accounts receivable (A/R) management. The inadequacy of most A/R processes is particularly apparent with corporate management’s call for greater system integrity and more accurate reporting. The application of SOX standards is continuing to generate business and system improvement pressure as well.”

- Paystream Advisors

**CRM vs. CCM**

Some credit professionals look at the credit and collections process and naturally think that it’s similar to sales. They make the mistake that they can logically extend their CRM software to help them with credit and collections.

It’s true that both CRM and CCM are connected as they are both related to sales and allow you to document what you’ve done but the big difference is that **CCM software has the tools you need to determine what you need to do.**

CRM systems were never designed for credit and collections management. Very few have even basic rules engines to create activities for collectors based on account financial information or invoice detail.

**CCM Return On Investment**

Until very recently, CCM systems were out of reach for main street businesses due to price and complexity. **CCM software** is just now coming of age with the advent of newer software as a service (SaaS) subscription models and cloud-based business application technology. Once available only for very large organizations running Oracle and SAP ERP systems, CCM is now more common for smaller businesses.

Systems like **Anytime Collect** are making it easier than ever for any business to implement CCM and best practices in their organization. Anytime Collect starts at just $89 per month (less than some corporate cell phone bills) and can be implemented, configured, and operation in less than a day.
Standard integration to popular accounting systems like Intuit QuickBooks, Microsoft Dynamics, Sage ERP, and other business systems makes it even easier for just about any company to map their credit policy to a business system to automate customer communication, centralize documents and notes, manage disputes and escalations, and streamline virtually every aspect of their credit and collections process with a return on investment in about 2 months.

**Step 6: Continuous Improvement**

“The Only Thing That Is Constant Is Change”

-Heraclitus

Our world and our businesses are constantly changing. So too will your credit policy as you expand your business into new markets, introduce new products or services, and as you continue to learn new and better ways to improve your customer experience through credit and collections.

Your credit policy is a living document that should be reviewed often, updated as-needed, and accessed daily by members of your credit department. A credit policy that exists solely in an electronic file stored somewhere on your network is useless.

All sales, finance, and credit employees should be issued a copy of the company credit policy that they should read and sign annually. Credit and collections is as important to your organization as your human resources policy.

Use the information you gain from your CCM system and knowledge you learn from continuing education and your peers to continually improve your process. Consider looking to alternative concepts for inspiration. Manufacturing, for example, offers great insight into continuous improvement and quality improvement through kaizen, six sigma, and other philosophies designed to reduce waste and to improve quality within your credit department.

When you’ve achieved your credit and collections goals – set new ones. Empower your employees to participate in the process and constantly look for better ways to serve your customers.

**Conclusion**

Developing a business credit policy can be a daunting task but one that is relatively simple by following the six easy steps outlined in this document. By doing some research you will have an understanding of how effective or ineffective you are today in comparison with your competitors. You can set goals and measure results with a clear picture of the improvements.
you’re making in your credit and collections processes. You can develop a knowledgeable and accountable credit and collections team armed with the resources they need to impact positive change for your customers and your organization. And you have all of the information you need to start fine-tuning your collections procedures to map your business process to a CCM business application such as Anytime Collect.

In the end, your credit policy will become one of the most important document in your business guiding you as you continue to streamline activities gaining valuable insights to reduce credit risks, improve cash flow, and get paid faster than you could have ever imagined.

Additional Resources

Below are links to some of the resources mentioned in this white paper and other resources that may be of interest to credit and collections professionals.

- NACM – National Association of Credit Management
- CRF - Credit Research Foundation
- Anytime Collect – Credit & Collections Management System
- DSO & Systems Return on Investment (ROI) Calculator
- 17 Things You Should Be Doing To Reduce Outstanding Accounts Receivable
- Video Case Study: How Systems Maintenance Services Reduced DSO by 40% and Collected More Money Than They Invoiced in 2012 with Anytime Collect
- Sample Business Credit Application

About e2b teknologies

e2b teknologies is the Chardon, Ohio-based publisher of Anytime Collect, an enterprise-class credit and collections management (CCM) business application designed for small and mid-size businesses. The Anytime Collect product is available through authorized resellers throughout North America. The Company is a member of NACM – the National Association of Credit Managers and has received numerous awards and accolades including the Inc. 500/5000, Case Weatherhead School of Management’s Weatherhead 100 and Lake-Geauga Fast Track 50 awards.