Credit Policy Guide

Used by +1,000 companies

Steps for successful credit control

Global Economic Outlook for 2023

The economic outlook for 2023 is cautiously optimistic, with many economies showing signs of recovery and growth. However, high interest rates and inflation are significant challenges that are hindering this growth and impacting businesses' cashflow.

Interest rates have been rising as central banks attempt to curb inflation and keep the economy from overheating. This increase in borrowing costs reduces spending and investment, making it more difficult for businesses across industries to access the capital they need to grow. High inflation erodes the purchasing power of consumers and reduces spending, making it more difficult for businesses to maintain cashflow and investment.

The challenges posed by high interest rates and inflation must be addressed to support businesses' cashflow.

How to address these challenges?

Kolleno interviewed multiple CFOs, credit controllers, finance managers, and business managers within B2B and B2C sectors across industries. We found that most of them are seeking to overcome 2023 challenges by modernizing and simplifying their operations and introducing a credit policy (unless one is already in place).

Accelerating account receivables can help businesses in 2023 by improving cash flow and provide the necessary liquidity to meet financial obligations. By modernising and simplifying operations, your company can optimize invoicing and collections processes, reduce the time it takes to receive payments, and streamline cash management. Introducing a credit policy helps your company manage credit exposure and minimise losses due to unpaid invoices. With faster cash flow and better credit management, businesses can improve financial stability, invest in growth initiatives, and better weather any economic challenges they may face in 2023.

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1. Introduction

1.1 Why do not customers pay on time?

Before we speak on how to accelerate your account receivables and get your clients to pay on time, we should understand the reasons what is preventing them from doing so.

When it comes to customers not paying on time, it's important to assume that they have the best intentions and genuinely want to pay for your product or service. Most of the time, a customer does not pay due to some an internal reason.

Here are some of the most common reasons that can lead to delayed invoice payments:

- Failure to send invoices to the customer on time;
- Incorrect billing information in the invoice;
- The payer's or billing contact's email address is missing or incorrect;
- Errors in billing amount or items;
- Failure to send relevant support documents, such as a purchase order or statement of work, along with the invoice.

Fortunately, these issues are often easy to correct. To ensure the best collection practices, it's essential to focus on sending the right information to the right person at the right time.

This means maintaining a clean customer record and contact data, ensuring timely and personalised delivery of the invoice, and implementing proactive collection follow-ups. It's important to understand which type of invoice and mode of delivery each customer prefers, and to remind the right person at the right time with the appropriate information.

By following these simple steps, you can help ensure timely payment from your customers and maintain a healthy cash flow for your company.

1.2 Purpose of this Credit Policy Guide

Kolleno understands that effective accounts receivable management is critical to the success of any company. As the author of this credit policy guide, Kolleno's purpose is to provide our clients with a well-defined credit policy that will assist them in properly managing their accounts receivable.

This credit policy guide is intended to assist our clients in developing clear and consistent credit policies and processes that are in line with their business goals and industry standards. It establishes a framework for evaluating creditworthiness, monitoring credit, reporting and dealing with late payments, and reconciling accounts receivable.

Our clients may streamline their accounts receivable procedures, minimise bad debts and days sales outstanding, and enhance cash flow by implementing our credit policy guide. The guidance also assists our clients in reducing credit risks, improving customer relationships, and maintaining a healthy financial position.

We understand that every business is unique, and that credit policies must be adapted to each client's specific demands and circumstances. This handbook is intended to help our clients build or revise their credit policies and processes. We advise our clients to utilise this guidance as a tool to develop a credit policy that is appropriate for their business and to evaluate and update their credit policy on a regular basis to reflect changes in their business environment.

In the next section, we will dive deeper into why your company needs a credit policy and we will discuss how accounts receivable affect your business.

2. Understanding your Receivables

Clear credit policies and procedures are essential for efficient accounts receivable management. A well-defined credit policy assists companies in reducing credit risks, bad debts, and improving cash flow. It should include credit-extension criteria, credit limits and conditions, processes for monitoring credit and dealing with late payments.

Furthermore, creating clear credit policies and procedures can assist firms in developing good relationships with their clients. Transparency and uniformity in the credit process can promote client loyalty and revenue.

In this section we will discuss accounts receivable more in depth, talking about what ageing reports are as well as understanding how your customers are classified based on the credit you extend to them.

2.1 Ageing Report

One important tool for managing accounts receivable for any business is the ageing report. This report provides a clear overview of the status of unpaid invoices and the amount of time that has elapsed since they were due. By examining this data, businesses can prioritize their collection efforts, target follow-up actions, and make informed decisions about the allowance for doubtful accounts.

In ageing reports, outstanding invoices are typically classified by the amount of time that has elapsed since they were due, such as 30 days overdue, 60 days overdue, and so on. Finance teams can use this data to track the progression of past-due invoices and identify patterns in payment behaviour. This can help businesses enhance cash flow, reduce the risk of bad debts, and gain control of their accounts receivable.

Moreover, ageing reports can provide valuable insights into the performance of clients, sales channels, and product lines. This data can be used to negotiate payment terms, manage credit limits, and adjust company operations that impact payment processing. By leveraging ageing reports, companies can maximize the return on their credit sales strategy and gain greater control over their accounts receivable.

Here at Kolleno, our ageing reports also include customer touch points thus giving you an insight into how much effort any given customer requires to receive their payment.
you extend to them.

2.2 Know your clients

Before you begin following up on clients' outstanding balances, you should first develop a strategy for more efficient approach. What does this mean? You should determine the following:

- Who to contact first?
- How to collect? i.e. cadence and stakeholders involved
- How to address situations/objections?

Because your collection approach will fluctuate depending on who the customer is, it is critical that you prioritise your list of customers with outstanding balance and have multiple collections techniques for different priority categories.

The traditional method of prioritising your clients is based solely on the invoice value, the customer size, as well as the invoice age. However, this technique has limitations because it does not account for following factors:

Factor	Why Important
Invoice Status • **Promise to pay** • **Disputed**	Allows to determine the right follow-up strategy based on the type of the status along with the amount and age of the invoice
# of Communications	Depending on the number of communications in each channel, you can determine the best means to approach a client or group of clients
Payment History	Is any given customer as serial offender of your payment terms? Do they comply in general and only a certain invoice is disputed?
Current credit exposure	Overall customer balance and its % of your overall business revenue, will dictate how much effort you should put into trying to collect timely payments
Client relationship	Do you or sales have a strong enough relationship with a client to be able to pick up the phone at any point in time and speak to a decision maker to make the payment? Is your relationship only with account payables team? Do you have an escalation contact?

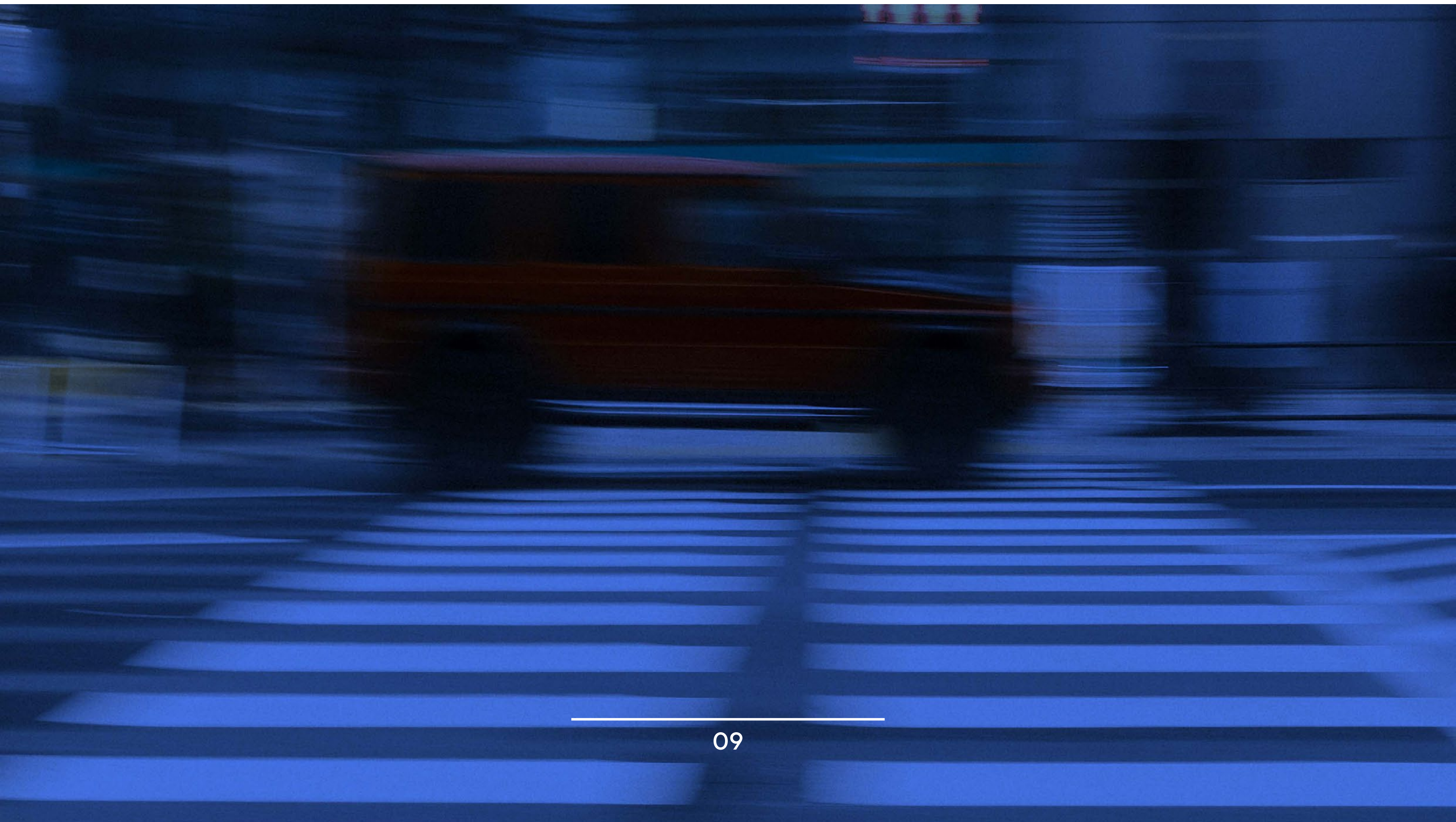
3. Actions on your accounts receivables

To maximise collections and reduce bad debts, it's important to prioritise and allocate resources effectively. This is where a prioritisation framework comes in handy. By using a framework to identify and prioritise delinquent accounts, businesses can focus their collection efforts on those accounts that are most likely to be recovered. In this section, we will provide guidance on how to develop a prioritisation framework and share best practises for efficiently managing your accounts receivable.

3.1 A framework to prioritise the chase

Before starting the follow-up process for clients with accounts receivable, it is important to develop a strategy for more efficient collections. This includes determining who to collect from first, the cadence and stakeholders involved in the collection process, and how to address situations and objections.

We propose the following framework to prioritise chasing of your clients.



1. Sort all your clients into overdue categories

Dividing accounts receivable into overdue categories is a crucial step in prioritizing the chase. A common practise is to sort all overdue accounts into 1-30, 31-60, 61-90, and 90+ days categories. Depending on your payment and contract terms these may vary.

Category	Reasons	Ease of collection
1-30 Days	• Wrong contact person • Key contact person away / sick • Payment run delay • Simply forgotten invoice	**Easy**
31-60 Days	• Large scale customer who dictates their own payment terms • Line-item questions that require broader team involvement • Account payables team change	**Medium**
61-90 Days	• Large scale customer questioning a line item • Invoice dispute where the customer is questioning several line items • Company acquisition	**Difficult**
91-180 Days	• Large scale customer disputing several invoices and / or line items • Company acquisition / restructuring	**Very Difficult**
180+ Days	• Insolvency • Fundamental disagreement on the service / product delivered	**Bad Debt**

Once accounts have been classified by their overdue groups, you can prioritise your efforts accordingly. For example, it may be worth dedicating more resources to collecting accounts in the 90-day category, as they are at the greatest risk of becoming bad debts. Alternatively, you may want to focus on accounts in the 30-day category to prevent them from becoming overdue for longer periods.

By dividing accounts into overdue categories, you can ensure that you are dedicating the appropriate level of resources to each account. It's important to look at and update the overdue categories on a regular basis to make sure they still match your business goals and industry standards.

2. Identify largest debtors from each category

Identifying the largest debtors is another essential step in prioritising the chase of accounts receivable. These are the customers who owe the most money to your business, and as such, their debts are likely to have the biggest impact on your cash flow.

To identify your largest debtors, you should review your accounts receivable ageing report. This report will show you a breakdown of all outstanding invoices, including the customer's name, the amount owed, and the age of the debt. By reviewing this report, you can quickly identify which customers owe the most money to your business.

Once you have identified your largest debtors, you can prioritise your efforts to collect their outstanding balances. For example, you may want to allocate more resources to following up with these customers, or you may want to offer them a repayment plan to help them pay off their debts more quickly.

It's important to note that prioritising your largest debtors does not mean neglecting your smaller debts. Every account should be followed up on, regardless of the amount owed. However, by prioritising your largest debts, you can ensure that you are dedicating your resources in the most effective way possible.

3. Analyse past and present customer behaviour

When prioritising the chase of accounts receivable, it is important to consider the behaviour of your customers, both past and present. Key factors to take into account:

- Payment history
- Communication history
- Disputed invoices both past and present

By assessing customer behaviour, you can identify which customers are likely to pay their debts promptly and which may require additional follow-up. For example, customers who have a history of paying on time and who communicate openly and transparently about any issues with their invoices are less likely to require significant follow-up effort.

On the other hand, customers who have a history of late payments, who avoid communication about their debts, or who have disputed previous invoices may require additional effort to receive the payment. In some cases, you may need to escalate your collection efforts, such as involving a debt collection agency or taking legal action.

Please note that customer behaviour can change over time, so it is essential to regularly review your accounts receivable and assess customer behaviour on an ongoing basis.

4. Client Type

The type of a client can also play a role in prioritising the chase of accounts receivables. Different types of clients may have different payment terms and may require different levels of follow-up.

Client type	Description	Strategy
Small Corporate	• Headcount: 1-20 employees • Payment terms: adheres to contract terms • Account payables: owner founder / dedicated AP personnel • Payment process: simple	Initiate follow-up process before the invoice is due. Utilise all communication channels.
Medium Corporate	• Headcount: 20-100 employees • Payment terms: most of the time adheres to contract terms • Account payables: dedicated AP personnel • Payment process: simple	Initiate follow-up process before the invoice is due. Utilise email and phone calls.
Large Corporate	• Headcount: 100+ employees • Payment terms: has its own payment run dates • Account payables: dedicated AP team • Payment process: can be complicated including a specified invoice portal	Initiate follow-up process before the invoice is due. Utilise email and phone calls.
Government Entity	• Payment terms: has its own payment run dates • Account payables: dedicated AP team so maybe difficult to track down the right person • Payment process: complicated including invoice submission portal	Initiate follow-up process before the invoice is due. Utilise email and phone calls.

It's important to understand the payment terms and processes for each type of client to ensure that you are prioritising your collection efforts effectively. In some cases, it may be necessary to establish different collection strategies for different types of clients. By doing so, you can ensure that you are dedicating your resources to the customers who require the most attention while also maintaining strong relationships with all of your clients.

3.2 Action plan

After introducing our prioritisation framework, in this subsection we provide an action plan that proposes actions for each common type of customer you may have. This should be used as merely a guide as each business is different and their clients are unique.

Compliant clients – are usually long-term happy clients that pay their invoices timely and are very responsive to communications.

Action: generally, no communications are needed for this client, as they are mindful of paying their invoices before they are overdue. If one of these clients has an overdue invoice, the best practice is to send a kind reminder with their invoice attached requesting the payment of such invoice/s.

For invoices with a promise to pay, there is intent to pay the whole balance. As such, a gentle reminder will also work for these types of customers.

Critical clients – need more attention and effort to collect cash due to their high cash flow impact. Not investing the right amount of time and effort can lead to potential delinquencies or bad debts.

Critical invoices can come from:

- **New customers with an overdue invoice**

Action: Be proactive in establishing a relationship with the customer and their point of contact, and be cautious of potential delinquencies. Connect warmly and send a reminder if the invoice is past due.

- **Existing high-risk customers**

Action: Follow-ups should be handled by Account Managers or CSMs in high value or large enterprises, with an email from the collector keeping the AM/CSM in the loop and a call to the customer's finance team to understand the reason for late payment.

- **Customers with aged high-value invoices and potential delinquencies (after several follow-ups)**

Action: Escalate these high-value invoices to either Level 1 (involving the AM or CSM, highlighting the number of follow-ups and potential delinquencies) or Level 2 (involving the senior management or CEO).

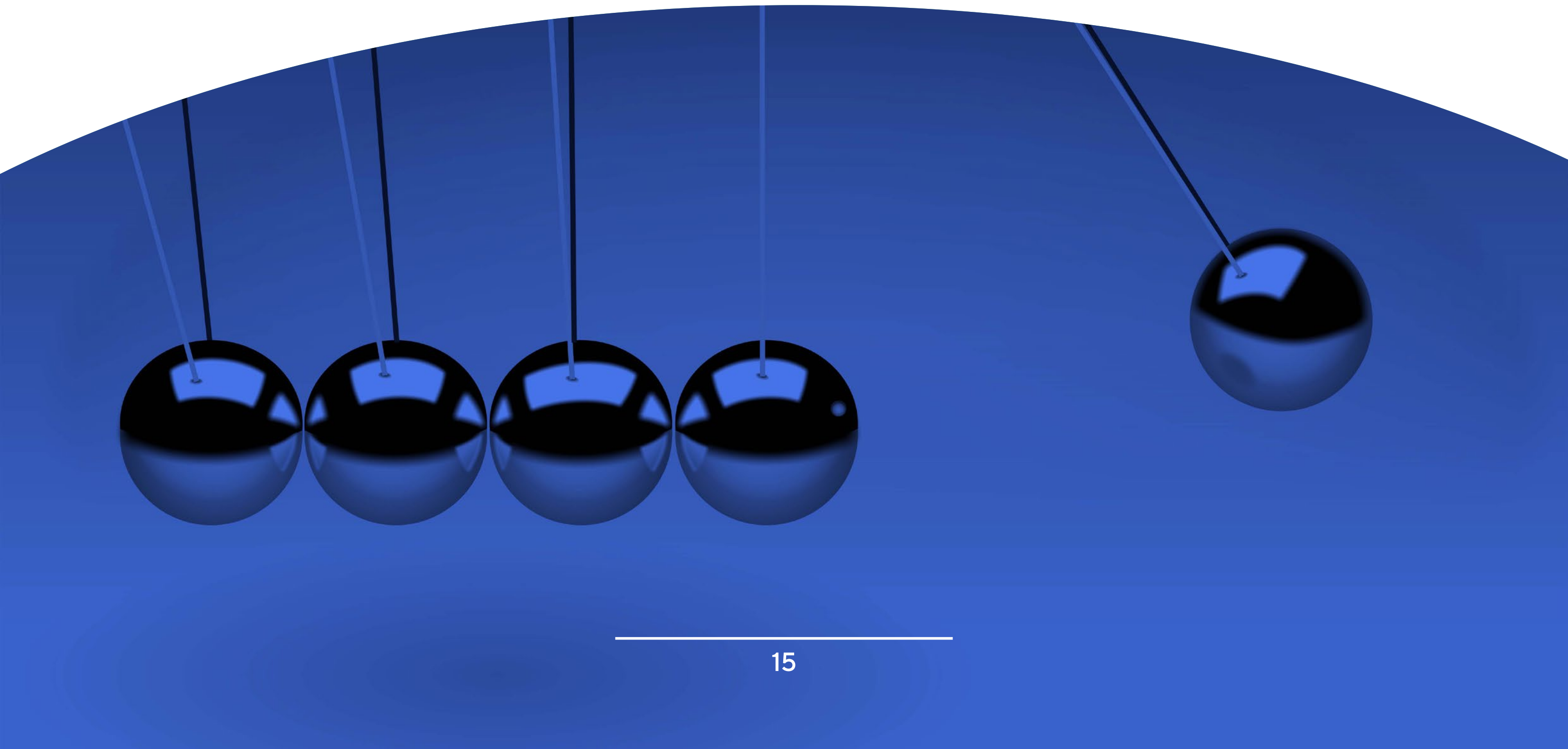
- **Customer with disputed invoices**

Action: review the case with the AM that onboarded the client as well as an expert lawyer (if needed). There may be a good reason for dispute on the client's side so be open to the possibility of losing the case.

Unresponsive clients with low invoice values – these are the type of clients whose invoice balance is low and they have a delay in the payment. In some occasions, 80% of invoices from a [type of company] can contribute to only 20% of the revenue. Chasing these accounts is time and effort consuming and low ROI.

Action: Automating personalised follow ups for these customers will save your staff a lot of time. Reminders to low-risk consumers (with good contact/relationship) will speed up collections in this case.

You might also consider offering these customers shorter payment terms (due period) to speed up the total collection cycle and reduce risk in collections.



3.3 Dealing with the hardest clients

In some instances, clients may become very difficult and refuse to make any payments. In these circumstances, we propose a series of escalation actions.

Action	Description	Outcome
Account Suspension Notice	Once you detect a potential delinquency, notify your client of a product / account suspension and provide them with a timeline to bring their account back into compliance with your payment terms.	Client makes payment and carries on using the product / service. Churns
Account Suspension	The client ignored your suspension notice, now time to take action and suspend all services / product until payment is resolved.	Initiate follow-up process before the invoice is due. Utilise email and phone calls.
Collection	Your accounts receivable are now beyond 180 days and you have taken every effort to recover it. At this point, you can opt to hand these clients to a collection agency and share % of the amount recovered.	Initiate follow-up process before the invoice is due. Utilise email and phone calls.
Legal action (entails a cost of hiring a lawyer)	When you have invested significant resources (time and money) in a customer who becomes fully delinquent and the invoice value is extremely high, this is an alternative to explore.	Initiate follow-up process before the invoice is due. Utilise email and phone calls.

4. Collection strategy and key metrics

In this section we will cover some basic collection strategies you can set up and key metrics to keep in mind to monitor your business performance.

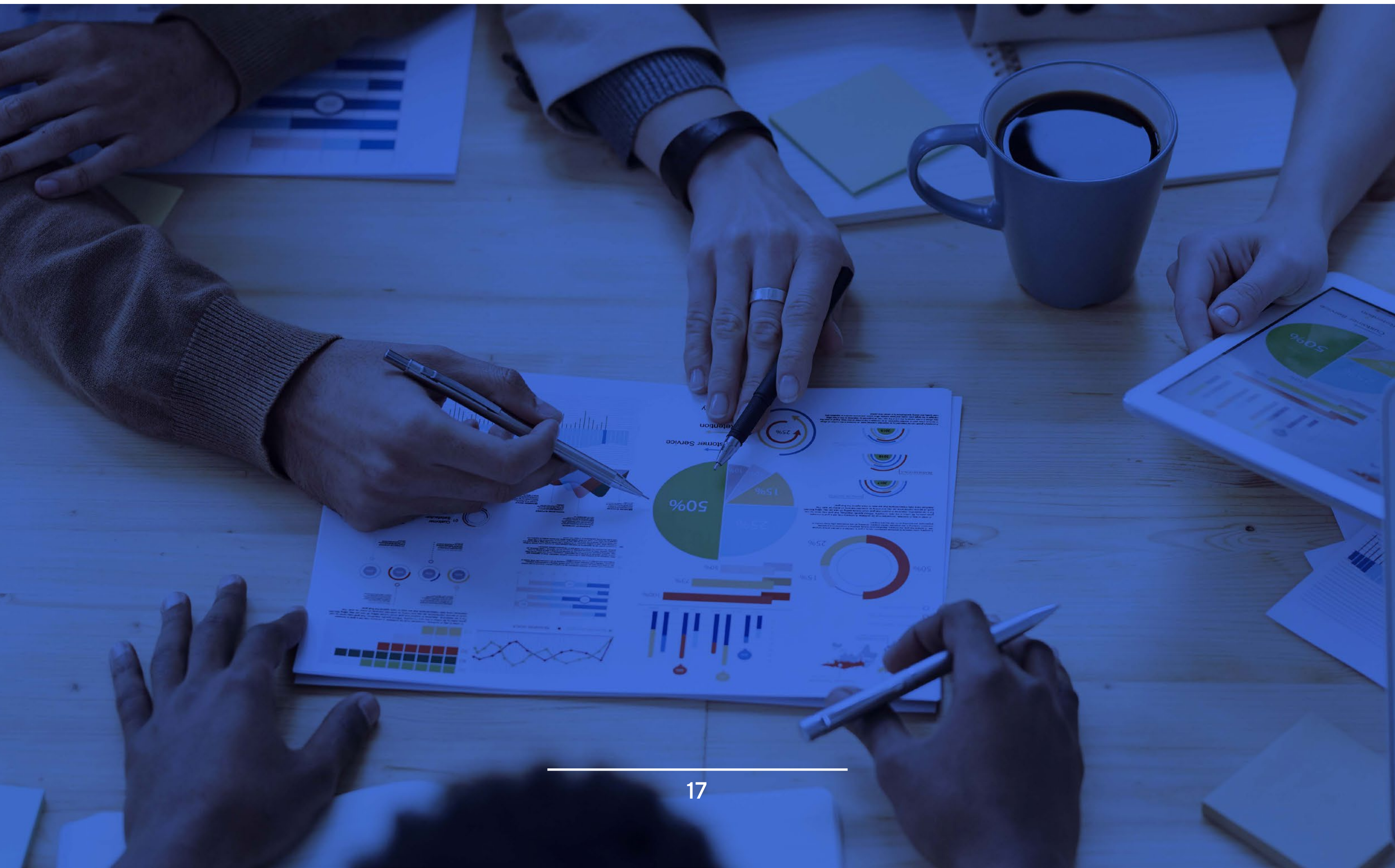
4.1 Strategy

In an ideal world, each of your clients would have a specific collection strategy allowing for the hyper-personalised approach. This becomes more and more challenging as your company grows.

Having works with numerous clients across various industries, we suggest starting with the following two strategies.

4.1.1 Late Payment Strategy

When you look at your accounts receivable and ageing report, the category of clients you want to tackle first is anyone that is already overdue.



Strategy Steps

Client type: Corporate

1. Gentle missed payment reminder email

4 Days

2. Follow-up on previous email

2 Days

3. Call Customer

3 Days

4. Confirmation of receipt of your previous communication email

5 Days

5. Immediate payment requirement email

1 Day

6. Call customer

3 Days

7. Account suspension notice email

5 Days

8. Account suspension email

1 Day

9. Call customer

3 Days

10. Legal notice email

5 Days

11. Legal action

Client type: Individual

1. Gentle missed payment reminder email

4 Days

2. SMS Reminder

1 Day

3. Call Customer

3 Days

4. Confirmation of receipt of your previous communication email

3 Days

5. SMS Reminder

1 Days

6. Call customer

2 Days

7. Account suspension notice email & SMS

5 Days

8. Account suspension email & SMS

1 Days

9. Call customer

3 Days

10. Legal notice email & SMS

5 Days

11. Legal action

4.1.2 Main Payment Strategy

While you are utilising a late payment strategy to follow up on all the overdue accounts, it is extremely important to start following up with your due customers to ensure that these invoices to do become overdue.

We suggest following this simple strategy to follow up on the due customer.

Strategy Steps

Client type: Corporate

1. Statement of Accounts

15 Days before due

2. Upcoming payment reminder & call customer

7 Days before due

3. Payment due reminder

Due

Follow Late Payment Strategy steps

5 Days overdue

Client type: Individual

1. Statement of Accounts	
	15 Days before due
2. Upcoming payment reminder & call customer	
	7 Days before due
3. Payment due reminder	
	Due
Follow Late Payment Strategy steps	
	5 Days overdue
Follow Late Payment Strategy steps	
	5 Days overdue

4.2 Key Metrics

Measuring collection performance is an essential part of managing your accounts receivable effectively. By tracking key metrics, you can gain valuable insights into the effectiveness of your collection efforts and identify areas for improvement. However, with so many metrics to choose from, it can be challenging to know where to focus your attention. In this section, we will explore some of the key metrics that can help you measure collection performance and make data-driven decisions. By tracking these metrics regularly, you can gain a better understanding of your collection performance and take action to improve your cash flow and reduce bad debts.

Metric	Description	Benefits
Total balance collected	The total amount collected in a month up to a specific date. It shows you how much money you have collected so far in the current month	Track the trend of your cashflow over time Benchmark collection efforts to evaluate strategies or collection frameworks that address your business needs best
Average delay in payment (ADP)	The average time it takes a customer to make a payment from the time the invoice due	Understand how long it takes your customers to pay Evaluate your collections performance and if it is helping to reduce payment delays
Days sales outstanding (DSO)	How long your sales remain uncollected i.e., another method of assessing how long it takes to collect a specific receivable amount. The key difference is that DSO is unconcerned with which invoices have been paid or delayed. In turn, it measures how much outstanding balance is locked and for how long	DSO is the most generally used metric for measuring account receivable performance by finance teams, and it is applicable across all sectors and sizes A DSO of less than 45 days (with net 30 terms) is usually regarded favourable. However, it varies on the industry

5. Acing the chase: best practices to maintain financial stability

In this section, a series of best practices are outlined to help you streamline your collection efforts. These practices are to be implemented as part of your journey to achieve more efficient collections.

5.1 Centralisation: accurate live & historic data

It is known that cash is king, but as technology keeps disrupting the business scene, data has gained a lot of relevance, as it can be used to give us valuable insights into our performance and efficiency.

The challenge comes when that data is **inconsistent, outdated, and difficult to access.**

Inaccurate client data originates from the initial step of registering the billing information of your client. At Kolleno, we always advise our clients to collect as accurate as possible and necessary billing information, whilst maintaining the strictest transparency policy as to what data is collected and how it is used.

Information Required: Billing

- Company legal name
- Company registered address
- Contact information (at least 2): phone and email
- Point of contact for disputes or escalations

Information Required: Contract terms

- Billing terms (recurring/contractual)
- Frequency (if the billing is recurring)
- Payment terms (as per your policy)
- Late payment fees (if applicable)

Outdated contact information can pose a great risk for companies by delaying payments and reducing company's cashflow. It is key to send your invoices and communications to the correct contact to ensure that any disputes are resolved as soon as possible.

To mitigate this, we recommend our clients to:

- Establish a process to regularly update customer data
- Use cloud-based ERP software for easy logging and storage of data
- Confirmation emails/SMS to verify the contact information

5.2 Standardised credit, payments, and invoicing

Based on Kolleno's experience and our clients' feedback, the best way to address timely payment of invoices is to have a standard credit & invoicing policy.

Here is an example of a credit policy with clear payment and invoicing terms:

Payment & Invoicing Terms:

- Payment is due 30 days from the date of the invoice.
- Invoices will be sent via email or mail within 24 hours of the completion of the service or delivery of the product.
- All payments must be made in the currency specified on the invoice.
- Late payments (i.e., anything invoices that is overdue for more than 60 days) will be subject to a late fee of 2% per month, or the maximum allowed by law, whichever is lower.
- If an account becomes delinquent, further credit may be denied until the account is brought up to date.
- Any customer above 180 days will be passed on to external debt collection agency and written off from the balance sheet

Credit Policy:

- Before extending credit to a new customer, a credit check will be performed to assess their creditworthiness.
- Customers will be assigned a credit limit based on their credit history, payment track record, and other relevant factors.
- Invoices will clearly outline the products or services provided, the total amount due, and the payment terms.
- If a customer is unable to pay within the designated timeline, they must contact the company to discuss alternative payment arrangements.
- If a customer consistently pays on time, they may be eligible for extended payment terms or other benefits.

One of the obvious, simple things to do that is sometimes overlooked is to send the invoice as soon as it is generated, verifying to see if it is received by the customer and by the correct person. Additionally, it ensures that your data is up-to-date and clean.

Taking the initiative to send the bill in the right format and way could save you a lot of time.

6. Keeping your bank account healthy and your clients happy: Is it possible?

The short answer is **Yes**.

At Kolleno, we have put together years of experience in the field of account receivable management and the latest AI and automation technology to completely disrupt the way companies do collections.

We have developed a platform that synchronises with your accounting software or ERP to get customer and invoice data in a correct, clean format. The first step after you the data is synchronised is creating your tailored collection strategy, which, in other words, is equivalent to taking this whole guide and turning it into an automated workflow that will act as an invisible member of your collections team, that works with no sleep or lunch breaks.

But that is not all we offer. Additionally, you will be able to get an instant snapshot of where does your company's accounts receivable and cash flow position stands. This is thanks to our Dashboard and Reporting sections, which allow you to quickly get financial insights into how your accounts have been performing for specific periods of time.

In conclusion, we hope that this credit policy guide has provided you with valuable insights on how to manage your accounts receivable and chase payments effectively. By understanding your receivables and taking necessary actions, you can prioritise and manage your cash flow efficiently. We have also shared our recommended collection strategy and key metrics that can help you stay on top of your payment collections. By choosing Kolleno, you can improve your cash flow whilst keeping your clients happy. We believe that our solution can benefit your finance team and we encourage you to give it a try.