HOW TO SUCCESSFULLY

Extend Business Credit

data axle credit solutions

Introduction

For many companies, extending credit is an integral part of doing business. Not only can extending credit encourage sales and give companies a competitive advantage, but it can also build customer loyalty and deepen customer relationships. However, extending credit can also expose a company to financial risk if customers are delinquent in their payments. Thus, it is important to have sound policies and processes in place to effectively evaluate customer creditworthiness, set appropriate terms, and manage delinquent accounts. Following these steps will enable your company to successfully extend business credit and enhance customer relationships.

1. **Establish a Credit Policy**
2. **Use Robust Information to Make Credit Decisions**
3. **Clearly Communicate Terms and Payment Expectations**
4. **Actively Monitor Your Customer Portfolio**
5. **Proactively Manage Delinquent Accounts**

1 Establish a Credit Policy

Credit policy is designed to protect a company against the financial risks caused by customers who can't pay on time, or at all. At its most basic, a credit policy determines which customers are extended credit, sets payment terms, defines credit limits, and directs how delinquent accounts will be managed.

When establishing a credit policy, consider the following:

Business Goals

Is topline growth important, and are you willing to extend more credit to achieve that goal, or is profitability more important? Extending too much credit can be risky, but extending too little credit can stifle growth.

Customer and Product Mix

Are your customers mostly large corporations, small businesses, or a mix? Different types of businesses can have different payment patterns and risk levels. Similarly, different types of orders and products may require different terms of sale.

How Much Credit You Can Afford to Extend

Take a look at your revenue, expenses and sales patterns to figure out how much credit you can afford to extend without compromising your business operations.

Roles and Responsibilities

How do you want to divide responsibilities between sales, credit and collections?

Your credit policy should be well documented and reviewed on a regular basis – every 6 months is recommended. However, if there are significant changes in the economic climate or customer payment patterns, you should update the policy more frequently. **A robust credit policy should include, but is not limited to, the following elements:**

- **Documentation required for credit application/file**
- **Methods/approved sources for gathering credit and financial information**
- **Terms of sale**
- **Preferred payment methods (i.e. ACH, credit card, etc.)**
- **Procedure for communicating the credit decision/limit to internal stakeholders and the customer**
- **Triggers/criteria for account reviews**
- **Procedures for handling slow-paying accounts, including collections and litigation policy**

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Use Robust Data to Make Credit Decisions

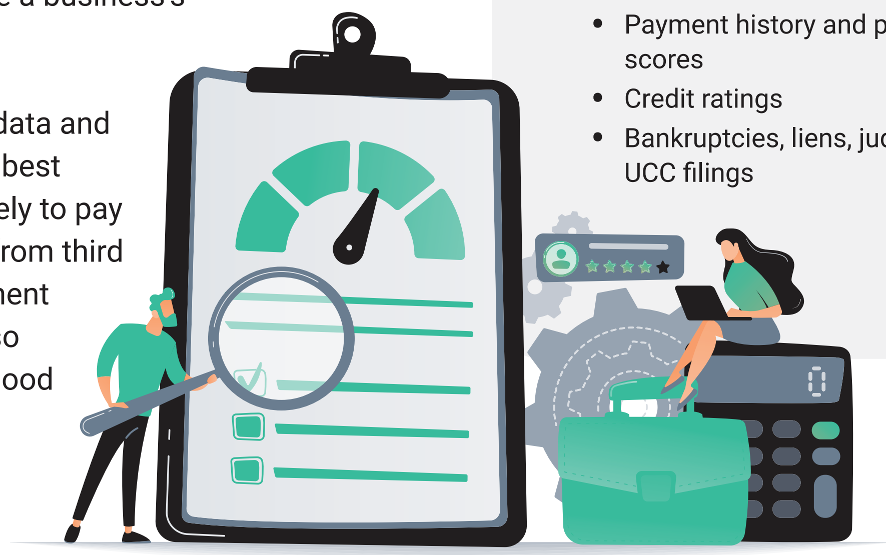
To get a reliable view of a company's financial condition, it is important to gather accurate, up-to-date information from a variety of sources. In addition to collecting information from the company itself, many credit managers leverage business credit reports, bank and trade references, and/or public records. They may also compare a company's performance with that of industry peers.

Business credit reports are an essential risk management tool for many companies because they consolidate all the critical information needed to assess credit risk in one place. They are created by companies specializing in business credit that collect, verify and analyze pertinent information from numerous sources, including public records and filings, as well as trade references. The reports also contain scores that rate a business's creditworthiness and predict its payment behavior.

It is particularly important to review trade payment data and predictive scores. Trade payment data is one of the best predictive indicators as to whether a company is likely to pay on time. Business credit agencies collect this data from third parties and use it to analyze how a company's payment behavior compares with industry averages. They also use this data to create scores that predict the likelihood of credit delinquency.

Business credit reports are available for millions of companies around the world, and usually contain the following information:

- Company description and associated information, including number of employees, financial data, ownership, and subsidiaries
- Years in business
- Industry classification
- Key executives
- Location and contact information
- Business registration details
- Payment history and predictive scores
- Credit ratings
- Bankruptcies, liens, judgments, and UCC filings

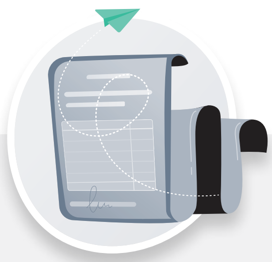


3 Clearly Communicate Terms and Payment Expectations

Clear communication helps avoid confusion about expectations or commitments which can lead to late payments and create tension between you and your customer. To help get your relationship off to a good start, make sure payment terms are clearly documented and understood. **This includes:**

Creating a Clear Contract

Detailing payment terms and penalties for late payment avoids confusion about your terms and expectations.



Invoicing Immediately

When you are slow to send invoices it can send the message that you are not concerned about being paid promptly.

Clearly Stating Due Dates and Late Payment Penalties on Each Invoice

This will help make the point that you expect to be paid on time and remind your customer of the penalties they will incur for not doing so.

4 Actively Monitor Your Customer Portfolio

Credit risk management is a dynamic process. As conditions are constantly changing, is important to review the creditworthiness of existing customers on a regular basis so you can proactively identify risks and opportunities. For example, you may find that an existing customer's business is growing and their financial condition is very strong. In such a case, you might consider raising the company's credit limit to encourage more sales. On the flip side, you may discover that an existing customer is paying other vendors late and its creditworthiness is deteriorating. In such a case, you should proactively reach out to the customer so you can learn more about the situation and work together to address it before it becomes a problem.

In addition to monitoring a company by pulling its business credit report on a regular schedule, you can sign up for alert monitoring services that are offered by business credit report companies. These services send you alerts if there are changes in a company's business credit report, such as credit score changes, new credit tradelines, and bankruptcy filings.

5 Proactively Manage Delinquent Accounts

When evaluating a delinquent account, review the customer's payment history to determine what type of slow payer you're dealing with. There are some slow payers who take their time but reliably pay at the end of the payment term, such as large corporations. As they do reliably pay, it's probably not worth trying to change their behavior. On the other hand, there are slow payers who consistently pay late. This type of behavior needs to be proactively addressed. **Tactics which many companies have found to be helpful include:**

Offering early payment incentives

Offer your customer a reduced rate for paying invoices early.

Asking for deposits or advance payment

For a customer who chronically pays late, require a deposit or advance payment if you wish to continue to do business with them.

Lowering the credit limit or placing a credit hold on delinquent customer accounts

If you find it necessary to refuse credit, do it as tactfully as possible to help preserve the relationship.

Asking for a promissory note for past due items

If your customer has a significant past due balance consider asking for a promissory note, and collateral or a guarantee to secure the note.

Hiring a collections agency if all else fails

No matter how hard you try, you won't be able to get some customers to pay. In these types of cases, a professional collections agency may be your best option.

Sometimes unique situations arise, such as a customer who pays late because of a short-term business setback. If it is a good customer you want to keep, it is in your interest to develop a mutually agreeable payment plan for the past due amount and revised terms for future sales. This will not only reduce your risk, but it will also help build the relationship. Your customer will remember you were there for them in their time of need.

Conclusion

For many companies, extending credit helps drive sales and build customer relationships. The key is to do it in a way that helps you grow your business while mitigating financial risk. Data Axle Credit Solutions (https://www.data-axle.com/what-we-do/credit-solutions/) offers a broad range of credit risk management tools including business credit reports on millions of public and private companies in North America, and around the world. We also offer a range of monitoring solutions. The breadth and depth of our business data is unparalleled. Contact us to discuss how you can incorporate these tools into your credit risk management processes.

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