



Creating Your Credit Policy

A Veritas Inside Guide

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Every business that extends credit to its customers needs to ensure that it gets paid promptly. A credit policy ensures that credit control is seen as integral to the customer service experience, by resolving issues and queries rapidly and ensuring bad debts are minimised. But what is a credit policy and what should it contain?

Your credit policy needs to describe all the aspects of managing the extension of credit to your customers as clearly as possible. It ensures that you manage your risk as a business, whilst maximising the potential purchasing power of your customer with effective credit risk management procedures.

Your credit policy should be working with you to ensure your cash flows and bad debts are minimised. Every member of your business, from the team that receives your customers' orders through to the delivery drivers, needs to clearly understand your policy for making sales on credit.

A good credit controller will know the sales order process from start to finish. They will know where to go when things go wrong. And they will be excellent negotiators, ensuring you get paid to the agreed terms. Your credit policy effectively covers every aspect of what your credit controller is delivering to you, as a vital part of your business.

The credit policy is a 'living' document that is fine-tuned continually as your business develops and credit risk challenges are encountered. It therefore needs to be updated regularly and any changes communicated on an on-going basis, since a professional, well-crafted policy touches all aspects of your business.

What should your Credit Policy contain?

Your credit policy will be specific to your business and your business needs. It will reflect your risk appetite and is therefore unique to you. However, there are 'standard' sections that provide a solid foundation:

Definition of roles and responsibilities

This section will describe the roles, responsibilities and reporting structures that exist within your business for everyone involved in the sales order to cash process. A structure chart included here is always useful.

Credit risk management

Your credit risk policy is detailed in this section. This includes the process for new account opening and the setting, monitoring and amendments of credit limits. Most businesses have an authorisation process for extending credit to customers because it is the money from the business that is being spent to finance the credit period. So, credit risk management incorporates who you are going to extend credit to, how much you are going to extend and what to do if the customer wants to buy more than their credit limit allows. The added bonus to effective management of credit risk is that it will also tell you which customers could potentially be buying more from you but are not currently doing so.

Invoicing process

The procedure for raising and issuing invoices to the customer is detailed here. Whilst there will always be variations to an individual customer's wants and needs, the basic process of invoicing is documented in this section and the mechanisms that are followed to vary that process (and just as importantly – who in your organisation says that it is OK to do so). The policy should also define the procedure for updating customer records for any new information, ensuring that you Know Your Customer.

Query management

The part of the credit policy that has the most impact on effective credit control by far is the query resolution process. Organisations that have a clear definition of the query, who is responsible for resolving it, how quickly it is resolved and how this is communicated both to the customer and within the organisation, usually have very few issues with getting paid on time. Your credit policy would detail all these responsibilities. It is important that all those you involve in your query resolution process buy in to the credit policy and adhere to its requirements.

Credit control procedure

This section of your credit policy tells the rest of the business what your credit controller will be doing to ensure that the sales invoices raised are paid on time. It will include how and when the credit controller will escalate issues and concerns and the management and monitoring of queries and potential bad debt exposures.

Sales ledger management

A great credit controller can only work effectively with a sales ledger that is correctly posted and where transactions are posted in a timely manner. The policy for posting and allocation of credit notes and cash needs to be detailed here so that the credit controller knows, at all times, who owes what and when it is due for payment. This is particularly important where there is a wider team around the credit controller involved in sales ledger management.

Reporting

This section defines the reporting within the business. It will confirm who has responsibility for the production of the information, who will have the responsibility for presenting it and, finally, who then interprets the meaning and implication of that information to your business.

Examples of some of the reports we would expect to see in a credit policy (usually referred to as the 'credit control month end reporting pack') are:

- Aged profile of the sales ledger
- Sales ledger movement on the prior month(s)
- Collections performance against targets set
- Credit Management comment on the above reports
- Query resolution performance and analysis
- Cash forecast for the following month
- Any other issues for escalation

Your credit policy can be as brief or as detailed as you require as a business but it will have the same aim. Its purpose is to ensure every member of your team involved in the sales to cash process is proactive in ensuring that you, as a business, get paid for your sales on time (and that at the same time your customers experience an excellent service).





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Please call our team and talk confidentially and informally to one of our expert advisers about your requirements and objectives.

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Meet & Plan

Built from years of working closely with businesses, our unique planning process will ask the key questions to chart where you are now, your desired destination, and your route to getting there.

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