# A guide to Credit Management for SME's

PCR Computers Ltd
4 The Pavilions, 31-33 Brighton Road, South Croydon, Surrey CR2 6EB
Tel: +44 (0) 208 681 0000 | Fax: +44 (0) 208 681 0009
www.pcr-ltd.co.uk

## Executive Summary

This whitepaper investigates the growing pressure late payments are having on small-to-medium size enterprises and highlights how these can be countered through improved customer intelligence and strong credit management processes.

## Credit Management: a definition

Cash is the lifeblood of a business and good cash flow is essential to ensuring the everyday operation and future growth of an organisation. Managing customer debt is referred to as credit management.

## The business landscape

For a business to survive, let alone thrive, it needs to be paid for the products and services it provides in order to cover costs and ultimately make a profit. The certainty of getting paid enables businesses to plan both for their short and longer term futures.

However, over half of all UK SMEs (59 per cent) across the country are experiencing late payments from customers and having to wait an average of 43.4 days longer than their original agreed payment terms before invoices are paid[1]. And it's a trend that seems to be worsening as the amount owed in July 2012 was an all-time high of £36.4 billion[1] compared with £33.6 billion six month's earlier[2].

The consequences of late payment can result in financial or operational problems, stifle growth or go as far as causing the collapse and closure of a business.

In 2012, it is estimated that 124,000 micro, small and medium size employers were almost put out of business through late payment, while 177,000 had to delay investment decisions[3]. Furthermore, 98,000 SMEs have lost turnover due to late payment and 209,000 have seen profitability reduced[3].

The economic climate isn't helping the situation either as firms, particularly SMEs, have been finding it harder to secure finance to keep them afloat during cash flow dips.

Large companies are the biggest culprits, accounting for 37 per cent of late payment debt[1]. They are followed by SMEs at 25 per cent while government and not-for-profit organisations are the fastest payers, contributing to overdue debt for just six per cent of firms[1].

Late payment doesn't just impact individual companies, but the broader economy as it inevitably extends across the entire supply chain.

Recognising this, the UK government has become one of the first in Europe to put measures in place aimed at tackling the issue of late payment.

The Prompt Payment Code[4], which is being championed by organisations including the British Chambers of Commerce (BCC), Confederation of British Industry (CBI), Forum of Private Business (FPB), Federation of Small Business (FSB) and Institute of Directors (IoD), aims to encourage and promote best practice between organisations and their suppliers. Signatories to the Code commit to 'paying their suppliers within clearly defined terms and commit also to ensuring there is a proper process for dealing with any issues that may arise'. While the current signatories to the Code represent 60 per cent of total UK supply chain value[5], the code alone isn't going to solve the problem. SMEs need to also take ownership and a firm stance when it comes to managing their debts.

## Warning signs

Having a good understanding of customers not only encourages sales but can also highlight when cash flow issues may be pending. This in turn may trigger pre-empted action such as reducing credit or suspending accounts to stop the problem escalating. Warning signs can include:

- High turnover of accounting staff, who typically see first-hand if problems are pending or find themselves under increased pressure to fire-fight problems
- Order patterns becoming more sporadic
- Complaints increasing, particularly over seemingly minor issues
- Payment patterns worsening
- Repeated requests for invoices to be resubmitted or continual promises that they will be paid in the next cheque run
- Accounts people are harder, or even impossible, to reach

## Top tips to achieving prompt payment

Undertaking a series of processes from the outset of a supplier agreement can help avoid potential problems altogether. Prevention is almost always better than cure and by taking certain steps which will encourage prompt payment, the probability of credit problems is significantly reduced. These include:

- Having a good understanding of your customer. For example, are they a legitimate firm? Do they have a weak credit rating?
- Agreeing payment terms in advance and considering late payment penalties or early payment discounts
- Ensuring invoices are accurate, clear and issued promptly
- Chasing overdue payments

## How technology can help

It's estimated that SMEs spend an average of 14 days a year (three weeks) pursuing payment. This costs firms around £700 million even when based on minimum wage figures[1].

Credit management systems have been developed with the aim of reducing the amount of time a business spends managing debtors and encouraging faster payments.

They are there to provide a complete overview of the financial position of a company and give details of money owed (such as overdue cash to be collected and invoices due for payment), as well as provide a detailed analysis of customer debt.

Managers can see at a glance who owes what and if there are any outstanding actions that need to be resolved before payment will be made. And credit controllers can set Diary actions so that they know who needs to be chased and when.

Crucially, some credit management systems go as far as to allow credit limits to be adjusted or accounts to be put on hold for particularly bad payers. This creates a synergy between sales and financial teams and stops customer debts spiralling out of control.

Having robust processes in place for credit management can help make the difference between a firm being top or bottom of a creditor list. In fact, having a good credit control system in place was cited by SMEs as being the joint fourth most effective method for minimising late payment, alongside having clear terms and conditions and creating a payment schedule[3]. In the same list, regular/continuous calling and withholding future services or supplies were second and third respectively, while relationship building came third.

## Closing the circle

It is clear that poor credit management can result in catastrophic consequences for businesses and as market conditions remain tough, few can afford to leave this crucial area to chance. But if handled well, good credit management can benefit both the individual businesses as well as strengthening the economy as a whole, bringing the whole process full circle.

Simple, proactive steps, such as improving cash collection performance, streamlining credit control procedures and addressing bad debts appropriately, can help build and maintain strong relationships with customers and ensure a healthy and successful business.

---

## About PCR

PCR Computers Ltd has been established since 1992, and specialise in implementing and supporting computerised accounting systems in the SME market.

PCR are one of the leading Pegasus Partners for Opera 3 and have a long standing, strong relationship with Pegasus Software Ltd.  As such we have considerable experience with the successful implementation and support of numerous Pegasus Software Implementations

PCR works with a full range of technologies, including SQL Server, Windows 2003 Server, Windows XP, Office XP, Thin Client, Crystal Reports and Network Configuration. PCR are a certified Microsoft Silver Partner – independent recognition of our skills.

PCR works with a wide variety of clients. Some of our well known clients include Royal Bank of Scotland plc, JO Hambro and The Royal Borough of Kensington and Chelsea.

**Visit www.pcr-ltd.co.uk or call 020 8681 0000.**

1 BACS, July 2012
2 BACS November 2011
3 The Forum of Private Business, April 2012
4 http://www.promptpaymentcode.org.uk/
5 Experian September 2012

PCR Computers Ltd
4 The Pavilions, 31-33 Brighton Road, South Croydon, Surrey CR2 6EB

Tel:  +44 (0) 208 681 0000 | Fax: +44 (0) 208 681 0009
www.pcr-ltd.co.uk