

Video: Credit and Collections Management

Subject	Notes
On line Business	No Risk
Store or Restaurant	No Risk
Selling to customers with terms	You have risk if you are selling to customers and extending terms.
Terms	<p>You must know what the industry terms are for your customers before you start.</p> <p>You must also research how the customers pay in your industry. Do they pay 10, 30, 60 days late?</p> <p>You need to know when you will receive the cash instead of when the cash is due.</p> <p>All customer pays late!</p>
Cash Impact	When you start your business, your bills will be due immediately. If a customer is supposed to pay N30 and doesn't pay until the 90 th day, you will need reserve funds to pay your bills until the customer makes the payment.
Large Customers	You need to have a plan if you are dealing with large customers or large orders. Milestone payments can be used to schedule payments from the customer that allows you to have a positive cash flow.
Considerations with contracts	<p>Make sure to include the cost of lawyers in your cash flow module.</p> <p>Understand the risk of penalties for late delivery or quality issues.</p> <p>Look for other 3rd party fees like inspection or staging.</p> <p>Cost for Bonds</p> <p>Make sure you understand the full cost of the contract</p>
Letter of Credit	A letter of credit is a letter from a bank guaranteeing that a buyer's payment to a seller will be received on time and for the correct amount. In the event that the buyer is unable to make payment on the purchase, the bank will be required to cover the full or remaining amount of the purchase. You need to use your own collateral to establish a letter of Credit.
Terms with Vendors	When you start out your suppliers will not provide you with open payment terms. You will need to provide cash with order.
Terms impact Cash Flow	When you start your business, you will be paying all your vendors in advance and then waiting for your customers to pay you. The gap between the money going out and the money coming in has a major strain on cash flow. When you start out, you will need excess reserves to fund this cash flow gap.
Impact of a large order	If you receive a large surprise order, you need to have the cash available to buy the supplies but also pay your monthly bills. If you don't have the funds or access to a credit line, you run the risk of not being able to fill the order in a timely manner.

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Customer bankruptcy	<p>It does and will happen. The timing of a bankruptcy can cripple your business. If lucky you will receive 25 cents on a dollar.</p>
Limit Risk	<p>You must evaluate every customer you provide terms to. Banks and credit card companies are diligent and you must be too. You need a credit management plan. It's not a sale until you collect the money. A sale with collecting the money is a donation.</p>
Info on Customer Bankruptcies	<ol style="list-style-type: none"> (1) Type of Bankruptcy: Find out what type of bankruptcy the customer is filing. There are different types that have different rules and impacts (Chapter 7, 11, 13) (2) Chapter 11 and 13: Chapter 11 and 13 are considered reorganizations and the customer will be required to pay debts back according to a court plan. Usually four to seven months for the customer to start a repayment plan. (3) Chapter 7: Chapter 7 is a final bankruptcy and the assets will be liquidated to try and pay debts. (4) Stop Shipping: Stop shipping to the customer immediately. Check for any shipments in transit and stop them as you need immediately limit your exposure to the company. (5) Don't contact the customer: Stop contact with the customer immediately. Collection calls are normally a violation of the bankruptcy code and you can be sued. (You can only contact the attorney handling the bankruptcy) (6) File a Proof of Claim: You will not be paid unless you file a proof of claim that shows what the customer owes you. The distribution of funds is based on which vendor file a proof of claim. (7) Get help: Educate yourself on the steps for the different types of bankruptcy and decide if legal counsel is warranted.
Receivables – Things to consider	<p>Customers will not just pay. You need a plan before you start. Understand the cost to collect your receivables. Do you do it in-house or outsource? If outsource, make sure the collections group treats your customers the way you want them to be treated. Send Statements Calls need to be made during working so it will impact your ability to do other working hours functions. You will need to plan for time to address the issues customer have with invoices (pricing, errors, shipping, POD, freight, etc...) Monitor customer payment habits and address changes immediately.</p>

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Credit Management	<ol style="list-style-type: none">(1) Credit Reviews: Implement a credit review process for customers that have payment terms with your company. This review should be performed at the creation of the terms, periodically, and any time the customers payment habits change.(2) Distressed Customers: Do not extend terms to distressed customers. You can still sell to them but request cash with order, collateral, third party guarantees, letters of credit, Uniform Commercial Code 1 forms (lien against an asset).(3) Contracts: Sign a contract with customers with a clause detailing actions upon non-payment and bankruptcy.(4) Credit Limits: Perform thorough reviews before extending credit limits or allowing for sales over credit limits. Your initial credit limit is based on what you feel the customers can manage in their cash flow. Remember many businesses fail because they are unable to manage the cash flow. You can always get down payments or some type of security for large one-time orders.(5) Monitoring Company: Subscribe to a credit monitoring program to monitor customers with middle and high tier credit limits.(6) Monitor Payment habits: An early sign for catching customers facing cash flow problems is a change in their payment habits. When customers payment habits change you should take some time to evaluate their financials.
Cash is king	Understanding how receivables impacts your cash flow and having a rock-solid plan for collections and credit management is critical before you start your business. Remember, cash is king and sale is only good when the cash hits the bank.
Users Additional Notes:	