

Overview

This standard is for entrepreneurs who manage customers' payments. If your business does not have a system to check on payments due and received from customers, it can cost many thousands of pounds. Many businesses have problems with debts from customers. Too many bad debts can even lead to the failure of your business. If you develop a way to control debts and collect payments from customers, you will keep the effect of debts on your business to a minimum and improve your cashflow. Managing customers' payments involves setting up a system to get customers to pay on time, putting the credit control system into practice, reviewing the effects of credit control system on your business.

You might do this if you are:

1. preparing a cash flow analysis for your business or a social enterprise;
2. trying to improve the viability of your business or a social enterprise;
3. expanding your business or social enterprise or changing the products or services you offer;
4. responsible for managing the accounts of a business or a social enterprise.

Performance criteria

You must be able to:

1. work out the amounts of debt owed to your business
2. confirm aims and targets for controlling credit
3. identify how you control credit, including any changes that are made to it
4. set terms and conditions for controlling credit that are in accordance with your credit control targets and the law
5. set terms and conditions of your invoicing
6. develop systems and processes, including paperwork, for keeping debts to a minimum
7. assess credit risks in advance for all new accounts, and at regular intervals for current accounts
8. encourage your customers to pay early
9. identify different ways to collect debts and assess their costs and benefits
10. choose the most cost-efficient way to collect debts in accordance with your credit
11. keep in contact with debtors to identify any problems they may have in paying
12. use suitable debt collection options for your customers
13. monitor the costs and benefits of your systems and processes to control credit
14. measure the effects of debts on business effectiveness
15. monitor the credit control systems and identify problems with controlling credit
16. change credit control targets to meet any new business needs

Knowledge and understanding

You need to know and understand:

Setting up credit control

1. how to work out the effect of debts on your business in terms of costs and cash flow
2. how to work out the costs of debt-collecting options, such as loss of client business, administrative expenses and professional fees
3. the benefits of good credit control, such as improved cash flow and interest receipts from faster payments, reduced bad debts, write-offs and lower long term administration costs
4. the targets to set for controlling credit, such as collecting payments, improving cash flow, reducing the number of bad debts and for debt write-offs
5. the relevant laws and acts affecting your credit control

Implementing credit control

6. the types of documents and methods for use in credit control
7. the credit control systems for keeping bad debts to a minimum, such as aged debtor analysis, settlement accounts, individual client risk analysis, credit references and ratings, assigning general and individual credit limits
8. the options for collecting debts, such as by phone, written reminders, legal action, using debt- collecting agencies or a factoring agency to advance funds against debts
9. how to decide the costs and benefits of meeting credit control targets and business targets
10. the costs of losing customers, administration costs, legal fees and agency commissions
11. the benefits of reducing bad debts, getting higher interest payments, healthy cash flow, keeping recovery costs down and keeping customer loyalty

Manage customers' payments

12. the legal and ethical limits on credit control

13. how often to communicate with debtors and creditors

Monitoring credit control

14. how to assess the risks in relation to volume of business expected from the customer

15. the customer credit references, credit rating, bank and trade references, accounts and financial statements and other known creditors

16. the problems from putting credit control systems into practice, such as the overall proportion of customers who are in debt to business, customers who go bankrupt or go into liquidation, unusually large orders, breakdown in customer service, failure by business to keep delivery promises, changes in staff or making promises

17. how to get feedback from clients about credit control

18. the customers and staff that need to be informed about credit control systems

Information and advice

19. the sources and information and help about credit control

Manage customers' payments

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