

Management of Receivables

SESSION 2

- **Planning for a Good system**
- Defining a clear Terms for Payment
 - Having well defined clear terms of Payments is half the battle won. We might need to have different payment terms based on what we are selling, or quantity or pricing.
 - Payment terms should be set right into the Invoice that we send and even the PO that we receive from the customer.
 - Having a down payment (or advance payment) is the best option. Most of the time, we have mythical fear that we will lose the customer if we ask for advance payment.

- Well Defined Credit Policies.
 - How much credit is to be given and to whom and for how long. Every customer might be thinking that they are different. We need to have a proper Credit Policy to cover every kind of Customer.
- Setting Responsibilities clearly
 - Who will follow up and collect the payment? There should be a very clear cut policy regarding this. Otherwise, its an everlasting buck-passing exercise and ultimately the company has to suffer.
 - In most of the SME cases, assigning the receivables responsibilities to the Sales team is a good idea.

- Proper Credit Check Process in Place.
 - Having a Credit Policy with no Credit Check in place is absolutely wasteful. Apart from financial documents and Bank details., nowadays there are many credit rating agencies, which provide online Data about the Credit ratings of any particular client.
 - It's always a very good idea to do market research of the customer before providing them with the credit. If the customer is an existing one then just analyzing past history will tell us a lot of actionable information.
 - There should be a clear policy regarding when to engage the legal team for Debt collection.

- Various options for paying.
 - With much online banking and other options, Now the banking has improved a lot. We should provide as many options to our customers to make the payment, like Bank, Cash, Credit Card, Electronic Funds Transfer, Bill discounting, Bill Purchase, etc.
- Use Technology
 - Firstly, Technology can be used in the Credit Check Process, as discussed above.

- More importantly, deploying a software solution, which makes the entire Receivable Management process a lot easier, with automations and reporting.
- While determining any Receivable management solution, make sure that it has a Mobile Application.
- There should be real time dashboard reporting that we need for smooth operations.

- Regular Ageing Analysis and Action.
 - The Customer who goes bad generally doesn't go bad overnight. They actually show a lot of signs of bad debts, before they go bad. But to catch those signals, we need to have proper aging analysis and monitoring of Receivables.
 - Also, there should be clear policy for the next actions. What should the team do, when the Customer does not pay after the bills are overdue?
 - Do we have a legal team and process in place which is competent enough to take legal actions?

- Outsource the Receivable Process.
 - This is very common, for the BFSI segment, but not for other businesses. There are debt collection agencies, who have specialized processes and capabilities to make the entire process of Receivables as smooth as possible.
 - But this is not a bad idea, as this will enable us to focus more on the other functionality of the business like Marketing, Sales, and innovation.

- **Importance of Credit Policy in Receivables Management**

- Having a well-defined credit policy is the first step in having an effective Accounts Receivables Management System. How do we define Credit policy depends on various factors. Some of the points for Credit Policy are listed below:

- Market practice. In the beginning, it is important to follow well-established policies in the market.

- Credit Policy as USP. Many Companies choose to provide more lenient credit policy, much better than the market to get more business.
- On boarding a new customer should have a strict emphasis on the credit check.
- There should be proper process and policy on when to stop billing to defaulting customers.