

Eight tips to improve small business credit practices

Small businesses are under pressure and bad debtors often burn them because they don't have sound credit practices. Credit policies and practices are paramount to all businesses large and small, below is a list of 8 practices to implement without costing small business an arm and a leg.

1. **Develop a credit policy.** Take the time to write out a clear and concise credit policy that applies to all of your customers and clients. Businesses should take into consideration some of the following tips when developing their credit policies.
2. **Know who you are dealing with.** Part of your credit policy should include finding out who is actually behind the business that wants credit advanced. Reviews of the ABR Website and ASIC Searches can be used to verify registration details and ownership. In addition, by signing up to a service such as [CreditorWatch](#), you can better know the credit history of those you are doing business with. Other subscription services are available to further investigate the business and its directors.
3. **Know the credit history of company directors.** Checks can include individual director reports which detail the directors' commercial credit history and any known relationships with other commercial entities.
4. **Implement the policy.** Make sure staff are educated on how the policy is to be applied. Credit application forms and check lists help staff follow the correct credit approval process.
5. **Request back-up if customers fail the credit check.** If the new customer cannot provide a satisfactory credit record, get them to provide a guarantor who is financially sound.
6. **Don't forget, existing customers can be bad debtors too.** Make sure the credit policy applies to the existing customer before additional credit is extended. Regular spot checks need to be done on existing customers as well, CreditorWatch can be a great tool for this purpose.
7. **Create a regular, adequate system to highlight debtors.** You need to be able to regularly and quickly identify when customers' payments are overdue or they have exceed their credit limit.
8. **Put a policy in place for recovering bad debts.** To recover a debt you may wish to take legal action, however, you should always weigh up the advantages and disadvantages of legal action for the recovery of bad debts.

If in doubt, ask Your Virtual CFO for some assistance.

Websites to check out:

www.vedaadvantage.com.au

www.creditorwatch.com.au

