



**THE 12 DO'S AND DON'TS
EVERY BUSINESS SHOULD
KNOW BEFORE PROVIDING
CUSTOMERS WITH GOODS AND
SERVICES ON CREDIT.**

Offering clients goods and services on credit is a great way to grow, but can lead to a devastating loss and even business closure if it is done without the right processes in place to protect your business.

Now there is a forward-thinking credit solution to protect your business against the painful and possible business closing risk of defaulting customers.

Every business owner would like to have all sales on a cash basis, but that's not always possible in a competitive marketplace. Sometimes, sellers need to offer sales on credit terms just to get customers to buy their products. Unfortunately, selling on delayed payment terms opens up an entirely new aspect of running a business, managing the extension of trade credit to customers.

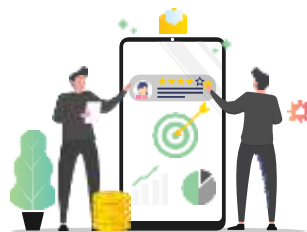
Before we look at the 12 Do's and Don'ts of extending credit, let's take a quick look at the advantages and disadvantages of providing trade credit.

The advantages of providing trade credit includes:



Increased sales:

A customer will buy more of a supplier's products if they don't have to pay cash immediately for their purchases. The most common credit terms offered by sellers are payment within 30, 60 or 90 days.



Customer loyalty:

The extension of credit terms tells the buyer that the seller considers them trustworthy and has confidence that they will pay their bills when they're due. The buyer rewards the seller's vote of confidence by continuing to make purchases.



Competitive advantage:

A seller who is able to offer trade credit to buyers has an advantage over his competitors, if they are not able to offer credit terms. This makes sense. Naturally, a buyer would prefer to purchase on credit terms than to pay cash for all of his purchases.

Incentives for customers to pay:

Even when your business offers 30 days credit as an example, sellers often encourage their customers to pay sooner by offering them a discount if they pay within 10 days. The existence of this potential discount is a huge incentive for buyers to pay earlier. If a buyer does not take advantage of the discount, this means that he's paying a very high interest rate to delay payment for the additional 20 days.



The disadvantages of providing trade credit includes:

Negative effect on cash flow:

The most immediate effect of trade credit is that sellers do not receive cash immediately for sales. Sellers have their own bills to pay and extending credit terms to buyers creates a hole in your companies' cash flow.



The need to investigate the creditworthiness of customers:

Just like a bank, a supplier who extends credit to customers' needs to analyse their credit worthiness before extending the 30, 60 or 90 days credit. This creates an administration burden and requires technical expertise to not only look at the historical performance of the customer but also to form a view on the future performance of the customer.



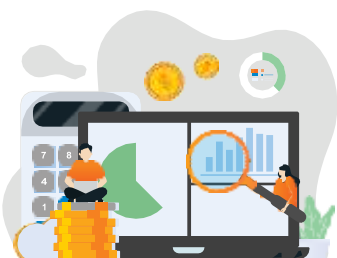
Monitoring accounts receivable:

Extending credit creates more outstanding accounts receivable, and someone needs to monitor these customers to make sure that they are paying on time. A company that is making its sales in cash does not have this problem.



Financing accounts receivable:

The extension of credit terms to buyers means that the seller has to finance these receivables. A seller may have to lean on their own suppliers to receive trade credit, borrow on their bank lines of credit or use the company's accumulated retained earnings. All of these methods have an inherent cost of capital.





Possibility of bad debts:

Inevitably, the extension of trade credit will lead to some buyers not paying their debts. When this happens, an employee or attorney needs to spend time making collections from the late payers, and, eventually, the seller may need to write off the unpaid receivables and take a loss.

Extending credit terms to buyers is common in most industries. Businesses must offer some level of extended payments to be competitive in their markets. However, offering credit terms requires taking risks and spending additional time originating, monitoring and collecting accounts receivable.

When extending credit terms by as little as 30, 60 or 90 days, this is just like offering an unsecured loan the same as a commercial bank, yet this is a risk most businesses are willing to take. You are simply providing goods or services in return for a promise to pay.

But as many business owners have learned during these tough economic times, promises are easily broken. So, before you decide to extend credit to your customers, [review this 12-point checklist](#).

What you should DO:

- Do establish a credit policy that will determine who you'll extend credit to, how much credit you'll extend as well as the period, and how you'll monitor that credit once it's been extended.
- Do develop a thorough credit application process that includes legal documents, trade references, banking information, credit-check authorisation and a collection policy.
- Do pull a consumer credit report from one of the major credit bureaus to determine the historical performance of your customer.
- Do credit analysis and establish a credit rating to predict the future performance of your customers.
- Take out Trade Credit Insurance cover on your debtors book when available.
- In addition, be sure to look at the amount of business a particular customer gives you. Offering a customer a credit limit because it brings in a lot of revenue for your business is a smart move. If it also has a long history of supporting your business, then that customer will be more likely to pay its invoices.



What you should NOT DO:

- ❑ Don't extend credit without putting your credit terms in writing.
- ❑ Don't extend credit if your business doesn't have significant cash flow.
- ❑ Don't extend credit until you become fully aware of the laws governing consumer credit. All credit providers are obliged to comply with the National Credit Act. The Act applies where a credit provider enters into a credit agreement with a consumer (all natural persons and juristic persons with an asset value or turnover less than R1mn).
- ❑ Don't extend credit limits that are greater than the risk your business can afford to take.
- ❑ Don't extend credit to every customer that your business acquires.
- ❑ Don't extend credit unless you have a credit application process in place that can manage and protect your accounts receivable which includes credit analysis and credit ratings to assist in forming a view on the future performance of your customers.

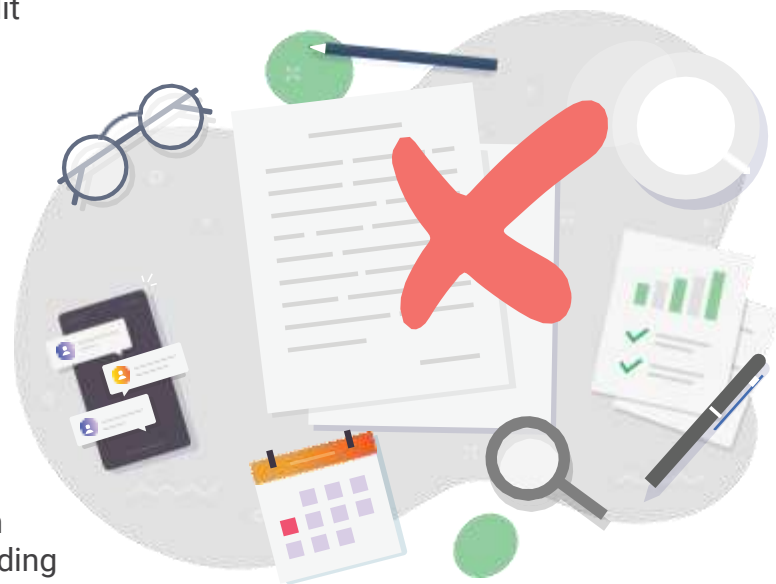
The success of any business largely depends on the acquisition of customers. Once you've been established long enough to generate solid cash flow, you can begin to extend credit to some customers.

While cash is king, providing credit as an option can benefit your business in several ways, including greater customer loyalty and sales that may increase by as much as 50 percent. Before you make a decision, you may also want to consider asking customers for additional requirements, such as personal guarantees.

And remember: Despite the risks involved, if managed correctly, the benefits of extending credit far outweigh the disadvantages.

Drake Financial Services offers small and medium enterprises a solution to help them protect their business against defaulting customers. Our Debt Protector solution follows a four-step approach.

- ❑ The first is to establish the current credit application and approval process within your business.
- ❑ Secondly, we provide credit vetting and tax compliance checks to review the credit history of your customers.
- ❑ Thirdly we provide credit analysis and credit risk ratings to you making loss predictions on specific customers into the future. We share our results with you in the form of a written recommendation and credit rating showing the results of the work performed.
- ❑ Lastly, we monitor your debt exposures as agreed on a monthly basis. Steps two and three are carried out as required and a turnaround time of 24 hours is guaranteed on any single credit application. Portfolio turnaround times are volume dependant.



The benefits you will receive from our Debt Protector solution include:

- Debtor loss prediction which gives you peace of mind that your current and future customers are credit worthy minimising the risk of any unpleasant and painful surprises.
- The ability to grow your top line with more confidence by reducing unforeseen and show-stopping defaults from customers;
- You will be able to run your business with more certainty and predictability as well as increased productivity with 24-hour turnaround times on credit decisions;
- Our credit solutions will save you time and money as you won't have to follow the time-consuming and painful legal route to make recoveries on bad debts;
- You will have less anxiety about unpredictable losses, allowing you to sleep peacefully at night knowing you have your business covered as the credit rating model we utilise, as part of the credit analysis process, has a success rate of 87% in predicting liquidations 1-2 years in advance on distressed companies as referenced by Investopedia.



Here's our offer to you:

- Before you even agree to sign-up to the Debt Protector solution, I'm going to give you a report on any new or existing client for free together with a credit rating and recommendation so that you can fully experience what you're going to get.
- I'm going to sit with you and make a recommendation about your customer and show you how to think about and use this information to give your business the best possible protection.
- I'm going to show you why this is 10x better than a standard, cut-and-paste credit bureau report that our competitors offer.
- And I'm going to show you how you should look at your portfolio of customers to give your business the lowest risk, best protection and highest growth potential while extending products and services to your customers on terms.
- All of this for free before we even ask you to sign up.
- Furthermore, if you sign up for our credit solutions you will receive three months of accounting and tax solutions at no charge.



To take advantage of our offer to safeguard your business right away, set up a 15-minute call with us today by calling me on **(011) 397-1271** or send us an email at **admin@drakefs.co.za** with your contact details and the subject line, Debt Protector, and we'll call you back. During this no-obligation introductory call we'll discuss the risk your business currently faces and the options you have to best mitigate your risk. Based on the call we can decide on the best next steps to take.

P.S. Just to recap:

If you are not currently a client of Drake Financial Services, we will do a free credit analysis on any one customer and supply you with a recommendation and credit rating. In addition, we will provide three months of accounting and tax solutions at no charge if you sign up for our credit solutions. Give us a call today on

(011) 397-1271.

Best regards

Walter Green CA(SA)

