

Credit Control

The vast majority of artists and organisations face a delay between generating income and subsequently receiving the cash, example sources being from fees, grants, sales, grants and donations. From a financial perspective cash is critical in the short, medium and long term; weak control will lead to a lack of sustainability.

Credit control affects artists and organisations alike, it is a management issue that is not prioritised as much as it should be. If cash is not pulled in on time to (at least) meet cash liabilities then sustainability is normally maintained by additional borrowings and/or payment delays of liabilities – whether it can continue to be maintained is a separate issue.

There are effectively two stages to the management of credit control, namely the initial granting of credit facilities and its subsequent management. The rest of this article will look at a general framework for credit control; granting credit always carries an element of risk (of not receiving the cash), credit control is about the management of that risk.

Clients should be assessed for their credit worthiness (credit scoring), the size and status of the client is not a determinant of their credit worthiness, large organisations are as likely to default as small ones.

Credit scoring can be carried out using trade and bank references, Companies House information, county court register, client visits, rumours, first impressions and credit reference agencies. The internet is a useful tool in credit scoring and one has an access to a large amount of relevant information and credit ratings.

Ideally a written agreement should be drawn up stating the terms and conditions of payment, e.g. number of days to pay, interest being levied on late payments, legal title to goods not passing to the client until full payment is received etc. This will be important if legal action has to be instigated.

Once the invoice is issued then call the client within a few days (as part of a “post sales” review) to check that the client is happy, that there are no problems and that the invoice was received (and by the correct person/department). If payment is not received by the due date then reminder letters/faxes and phone calls need to be made, the letters or faxes will go up in severity from the “friendly” to potential court action – at this stage client relationships would have deteriorated – court actions can be instigated on-line and are procedurally efficient.

Technology can play an important part in credit control, for example the issuing of invoices via e-mail, setting up time alerts (Microsoft Outlook), and the production of credit reports showing outstanding invoices and days outstanding. Electronic delivery methods will quicken the collection processes, provide confirmation that the invoice was sent, and save money on consumables and postage.

This article first appeared in Arts Professional