

BUSINESS CREDIT MANAGEMENT ASSOCIATION

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Ten Tips on Limiting Bad Debt Losses!

1. Periodically request and review financial statements from every customer
2. Require customers needing a credit limit in excess of a specified dollar amount [such as \$250,000] to provide financial statements no less frequently than annually and use those statements to monitor the risk of extending >\$250,000 in credit to that company
3. Require customers requesting credit limits in excess of a specified dollar amount [such as \$1 million] to provide quarterly financial statements for your review
4. Monitor customers' payment patterns and when a customer's starts becoming chronically slow, update the file and determine if the assigned credit limit is appropriate
5. Update the credit files on active accounts no less frequently than annually. This will not prevent bad debt losses, but it will reduce their frequency and severity
6. If an account becomes seriously past due, do not return to business as usual just because the customer finally paid the past due balance. Instead, update the credit file and determine the appropriate credit limit and payment terms
7. Close gaps that could allow orders to be released without credit approval
8. Limit credit granting authority in your department, especially as it relates to overrides of established credit limits
9. Join and become active in an industry credit group because these groups often provide advanced notice of sorts relating to companies that might become problem accounts
10. Avoid the temptation to make business decisions. Your role is to make sound credit decisions. While not every good credit decision is a good business decision, your role is to make credit decisions...not business decisions.

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