Appendix Summary of Best Practices

Chapter 2 Credit Policies, Procedures, and Systems
2.1 Create a credit policy
2.2 Modify the credit policy based on product margins
2.3 Modify the credit policy based on changing economic conditions
2.4 Modify the credit policy based on potential product obsolescence
2.5 Train the credit staff about credit procedures
2.6 Create a credit scoring model
2.7 Use a third-party credit scoring model
2.8 Create a credit decision table
2.9 Arrange for automatic notification of credit rating changes
2.10 Create a customer credit file
2.11 Include a requirement for multiple contacts in the credit application
2.12 Modify the terms of the credit application in the company's favor
2.13 Do not accept any order unless a credit application is completed
2.14 Require a new credit application if customers have not ordered in some time
2.15 Require a new credit application if credit limits are exceeded
2.16 Set a short time limit for the duration of credit reviews
2.17 Enter the last credit review date in the computer system
2.18 Call new customers and explain credit terms
2.19 Issue a payment procedure to customers
2.20 Create and periodically review a report showing credit levels exceeded
2.21 Uniformly administer late fees
2.22 Install an automated credit reference system

Chapter 3 Credit Granting Techniques
3.1 Automatically grant minor credit lines to new customers
3.2 Assign new account processing to one person
3.3 Preapprove customer credit
3.4 Verify the existence of a prospective customer
3.5 Investigate unanswered questions on the credit application
3.6 Obtain credit reports on customers
3.7 Obtain additional credit application information through a customer visit
3.8 Join an industry credit group
3.9 Access the SEC filings of public customers
3.10 Refer a potential customer to a distributor
3.11 Require salesperson collection assistance in advance
3.12 Require partial cash-in, advance payments
3.13 Use COD terms sparingly
3.14 Combine COD terms with a surcharge
3.15 Offer a lease-purchase option to customers
3.16 Install a financing program for marginal customers
3.17 Perfect a security interest in personal property sold to a customer
3.18 Obtain a purchase money security interest in goods shipped
3.19 Enter into a consignment arrangement with a customer
3.20 Require senior lien holders to subordinate their liens below the company’s lien
3.21 Require personal guarantees
3.22 Require intercorporate guarantees
3.23 Obtain a letter of credit
3.24 Obtain credit insurance
3.25 Obtain an export credit guarantee
3.26 Obtain a surety bond
3.27 Shorten the terms of sale
3.28 Review the credit levels of the top 20% of customers each year
3.29 Review the credit levels of all customers issuing multiple NSF checks
3.30 Review the credit levels of all customers who skip payments
3.31 Review the credit levels of all customers who stop taking cash discounts

Chapter 4 Invoice Creation
4.1 Add contact information to the invoice
4.2 Add credit card contact information to the invoice
4.3 Clearly state the payment due date on the invoice
4.4 Clearly state the discount amount on the invoice
4.5 Remove unnecessary information from invoices
4.6 Add a receipt signature to the invoice
4.7 Add carrier route codes to billing addresses
4.8 Train the billing staff in the invoicing process
4.9 Mark all envelopes as "address correction requested"
4.10 Immediately update the customer file with address changes
4.11 Have the sales staff review contact information for recurring invoices
4.12 Automatically check errors during invoice data entry
4.13 Computerize the shipping log
4.14 Track exceptions between the shipping log and invoice register
4.15 Proofread the invoices
4.16 Reduce the number of parts in multipart invoices
4.17 Eliminate month-end statements
4.18 Replace intercompany invoicing with operating transactions
4.19 Use automated bank account deductions
4.20 Use fingerprint verification for credit card and check payments

Chapter 5 Invoice Delivery
5.1 Submit early billing of recurring invoices
5.2 Print invoices every day
5.3 Print separate invoices for each line item  
5.4 Issue single, summarized invoices each period  
5.5 Issue invoices to coincide with customer payment dates  
5.6 Have delivery person create the invoice  
5.7 Have delivery person deliver the invoice  
5.8 E-mail invoices in Acrobat format  
5.9 Issue electronic invoices through the Internet  
5.10 Transmit transactions via electronic data interchange  

**Chapter 6 Cash Collection and Application**  
6.1 Have a salesperson pick up the check in person  
6.2 Send a messenger to pick up the check  
6.3 Institute lockbox collections  
6.4 Install a lockbox truncation system  
6.5 Periodically review lockbox locations  
6.6 Access online check images from a lockbox  
6.7 Issue the corporate overnight delivery account number to customers  
6.8 Accept credit card payments  
6.9 Offer customers secure Internet payment options  
6.10 Conduct immediate review of unapplied cash  
6.11 Review restrictive endorsements before cashing checks  

**Chapter 7 Managing the Collection Department**  
7.1 Create an integrated customer service department  
7.2 Hire a credit and collection manager  
7.3 Create collection specialists  
7.4 Train the collections staff in collection techniques  
7.5 Assign new collectors to payment confirmation tasks  
7.6 Assign the best collector to the worst customers  
7.7 Clearly define account ownership  
7.8 Utilize collection call stratification  
7.9 Periodically assign collectors to different territories  
7.10 Structure the collections work day around prime calling hours  
7.11 Join the sales staff on customer visits  
7.12 Maintain an ongoing relationship with customers' payables managers  
7.13 Schedule a regular accounts review with key managers  
7.14 Meet with the sales staff regularly  
7.15 E-mail the accounts receivable aging to the sales staff  
7.16 Write off small balances with no approval  
7.17 Access customer payment information over the internet  
7.18 Simplify the pricing structure  
7.19 Grant percentage discounts for early payment  
7.20 Periodically reevaluate the discount percentage offered  
7.21 Only pay commissions from cash received  
7.22 Route cash-in-advance orders straight to the collections staff  
7.23 Conduct bad debt postmortems
7.24 Review confirming purchase orders
7.25 Offer bonuses to the collections staff
7.26 Offer bonuses to the sales staff
7.27 Report on bad debts by salesperson
7.28 Post collection results by collector

Chapter 8 Collection Systems
8.1 Create a collection policies and procedures manual
8.2 Train the sales staff in credit policies and procedures
8.3 Use a collection call database
8.4 Link to a comprehensive collections software package
8.5 Create an on-line document management system for credit information
8.6 Maintain a database of customer emergency contacts
8.7 Maintain a database of personal information about contacts
8.8 Maintain a customer orders database
8.9 Compile a customer assets database
8.10 Install a payment deduction investigation system
8.11 Implement a customer order exception tracking system
8.12 Set up automatic fax of overdue invoices
8.13 Issue dunning letters automatically
8.14 Trace individuals through an online tracking service
8.15 Lock access to the credit hold flag
8.16 Flag slow-paying customers for early contact
8.17 Periodically alter the mode of communication with customers
8.18 Periodically alter dunning letters and issuance intervals
8.19 Issue a notification letter before the due date for large invoices
8.20 Do everything required by customers' pay abies systems

Chapter 9 Collection Techniques
9.1 Thank customers who pay on time
9.2 Set up customers with EFT agreements
9.3 Require a signed purchase agreement for all major sales
9.4 Eliminate grace periods
9.5 Use dunning letters only for small overdue balances
9.6 Issue dunning letters by-e-mail
9.7 Issue dunning letters to management positions outside accounts payable
9.8 Issue attorney letters
9.9 Stamp a reminder notice on late invoices
9.10 Send invoices by certified mail to customers who repeatedly lose their invoices
9.11 Insist on payment of undisputed balances
9.12 Insist on a wire transfer when payments are repeatedly reported to be "in the mail"
9.13 Offset an overdue receivable against a payable to a customer
9.14 Send a letter confirming payment commitments
9.15 Set up a periodic payment schedule
9.16 Convert a receivable into a promissory note
9.17 Accept a merchandise return
9.18 Accept payment in kind
9.19 Add the overdue customer balance to cash-on-delivery shipments for crucial items
9.20 Notify the customer and salesperson of credit holds
9.21 Inform the sales staff when accounts are sent to a collection agency
9.22 Have both parties to a settlement sign a mutual release agreement
9.23 Send the customer a completed small claims court complaint form
9.24 Sue customers in small claims court
9.25 Prescreen customers before initiating legal action
9.26 Have a court issue a restraining notice
9.27 Retain lawyers who are experienced in money judgment collection
9.28 Reclaim goods from insolvent customers
9.29 File an involuntary bankruptcy petition for a customer
9.30 Report a customer to the Internal Revenue Service
9.31 Use the collections department to collect loans to former employees
9.32 Contact customers regarding credit balances
9.33 Negotiate with the customer

Chapter 10 Deduction Management
10.1 Centrally manage the deduction resolution process
10.2 Enforce a standard procedure for handling unauthorized deductions
10.3 Confirm and document customer insurance requirements
10.4 Summarize and resolve underlying issues causing deductions
10.5 Resolve deductions by declining order of dollar volume
10.6 Resolve pricing issues before approving orders
10.7 Resolve significant deduction issues in person
10.8 Place deduction resolution responsibility on the salesperson
10.9 Allow the customer service staff limited authority to resolve deductions
10.10 Discuss open deductions with the repairs department
10.11 Obtain better access to trade promotion information.
10.12 Cut off customers based on the size of unauthorized deductions

Chapter 11 Outsourcing Collections
11.1 Outsource collections
11.2 Outsource credit checking
11.3 Outsource dunning letters to a credit reporting agency
11.4 Outsource NSF collections
11.5 Sell accounts receivable to a factoring organization
11.6 Sell uncollectible invoices to a debt buyer
11.7 Select agencies based on performance rather than fees
11.8 Select agencies based on references
11.9 Select agencies based on prior experience with specific customers
11.10 Use only collection agencies that have integrated legal services
11.11 Use an attorney first to obtain repayment of "reasonable attorney's fees"
11.12 Use several collection agencies at once
11.13 Create an in-house collection agency
11.14 Shift smaller accounts to collection agencies immediately
11.15 Refer accounts to collection agencies sooner
11.16 Do not shift fraudulent accounts to a collection agency
11.17 Periodically verify that the collection agency is bonded
11.18 Track the regularity of collection agency remittances

Chapter 12 Billing and Collections Measurements
12.1 Average time to issue invoices
12.2 Percentage of cash applied on day of receipt
12.3 Number of cash transactions processed per person
12.4 Number of active customers per credit/collection staff
12.5 Collections cost percentage
12.6 Percentage collected of dollar volume assigned
12.7 Days sales outstanding
12.8 Sales-weighted days sales outstanding
12.9 Days delinquent sales outstanding
12.10 Percentage of receivables over XX days old
12.11 Bad debt percentage
12.12 Altman's Z-score bankruptcy prediction formula
12.13 Sales-to-working capital ratio
12.14 Debt-to-equity ratio
12.15 Quick ratio
12.16 Accounts receivable turnover
12.17 Inventory turnover