# Managing Accounts Receivable

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## Effective Accounts Receivable (A/R) Management

Do you have a dedicated credit controller, responsible for A/R Management within your business organisation?

How experienced, skilled and qualified in the field of credit management is your credit controller?

How often does the credit controller meet the sales team?

Is gaining and sustaining good customer relationships one of the primary objectives of the credit controller?

Do you have a credit policy in place, defining and setting good credit management practices and is the credit controller abiding to it?

Is credit worthiness analysis being deployed prior to granting credit to customers and are existing credit customers being continuously and periodically monitored?

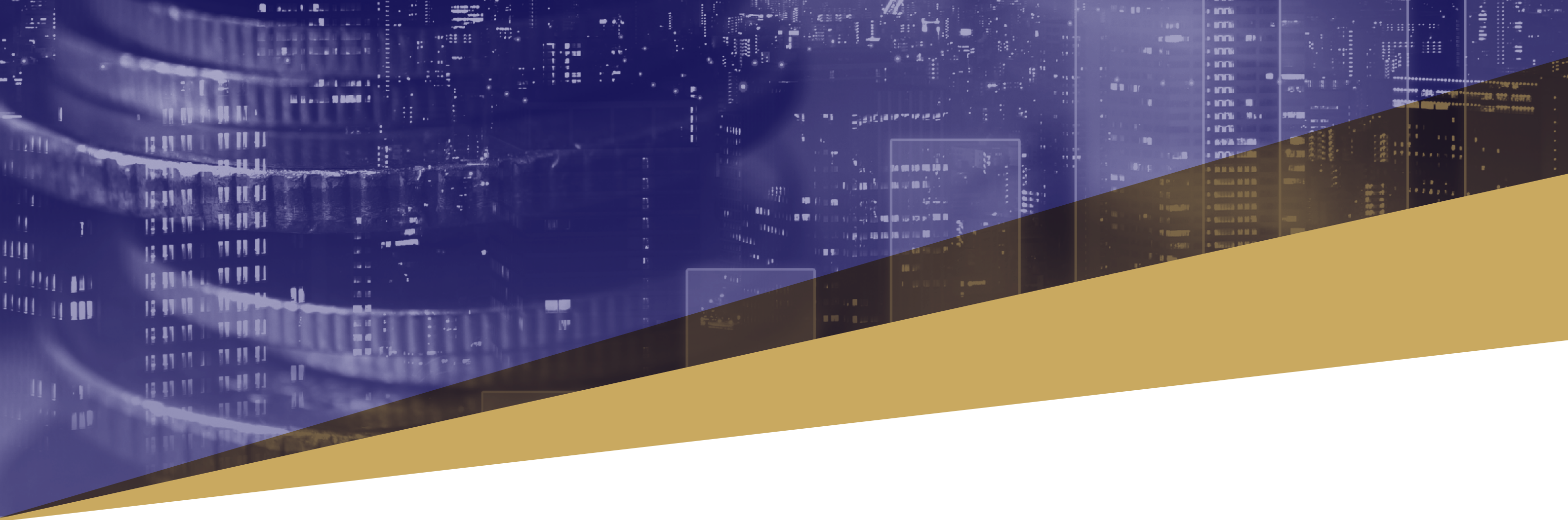
Do you make use of the 'My Accounts' tool provided by MACM to its members to monitor 'Debtors' daily?

Are you categorising your existing 'Debtors' according to their payment behaviour and their specific risks?

Are you taking proactive credit decisions to secure your cash flow and long-term profit?

MACM
MALTA ASSOCIATION OF CREDIT MANAGEMENT

MINISTRY FOR THE ECONOMY,
INVESTMENT AND SMALL BUSINESSES



Accounts Receivable (A/R) is one step away from cash in bank, 'idle' money waiting for the customer to make payment. A/R represents 40% on average of the total assets of a business selling on credit and these assets are liquid.

A/R Management determines how healthy the cash flow of a business is and therefore managing A/R should be taken seriously: Mitigating risks involved in credit, addressing late paying customers, minimising bad debts losses whilst sustaining good credit customer relationships to increase profitable sales are key for the success of any business.

Categorising existing credit customers is commendable in order to get to know your customers better; understand your customers' needs, attitudes and behaviour clearly; while deploying your limited resources when and where they are most effective and fruitful.

A business can categorise its existing customers under four main segments:

1. Prompt-paying customers
2. Slow-paying customers
3. Late-paying customers
4. Fraudulent Debtors

**Prompt-paying customers** These are customers who pay within the agreed credit terms.
**Action:** *Invest in good customer relationship and encourage repeat business.*

**Slow-paying customers** These customers may not be well-organised, bureaucratic or may extend credit from their suppliers to short-term finance their operation.
**Action:** *Build and maintain good rapport with these customers. Call them early and often and take personal interest in the person responsible for payment.*

**Late-paying customers** Customers falling under this category are those who may have filed a dispute and will only pay when they are satisfied with the sale; customers who are not able to pay by due date but can pay and will pay in the near future; and customers who cannot meet their liabilities and will eventually file for bankruptcy.
**Action:** *Resolve any disputes promptly. Ensure that customers are not overtrading. Support and invest in customers who may be profitable in the longer-term (profitable late payers). Stop supplies and lower exposure as much as possible (strictly COD sales) when customers are identified to be in the red and will soon file for bankruptcy.*

**Fraudulent Debtors** These are customers who avoid payment or those who may be operating fraudulently with no intention to pay.
**Action:** *Manage risks to avoid fraudulent debtors which would only lead to bad debt losses. Report these fraudsters to MACM. Take appropriate legal action.*

**The Late Payment Directive...**

4. Establishes that public authorities must pay for the goods and services that they procure within 30 days or, in very exceptional circumstances, within 60 days.

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