The importance of an excellent Credit Policy

The word ‘Policy’ can appear offputting to many people but it should merely be a way of explaining your preferred way of doing things. The major challenge of a Credit Policy is the practical adoption and implementation of the procedures within it.

Most organisations have dedicated sales order, manufacturing, accounting and ordering systems but very little around credit management.

Attempting to implement a Credit Policy without systems to support it is a brave choice of decision. The fact is many Credit Policies are not implemented fully because the level of administration to effectively manage the processes is too high. At worse assumptions are made that employees are following policy, but there are no proper checks or controls.

So why even bother having a Credit Policy unless you have a Credit Management System?

1.1. Why do we need a Credit Policy?

1.1.1. Good Credit Management is an essential component and a fundamental part of our commercial strategy. It is as important as the sales and the profits stated on our monthly profit and loss accounts but should not be at odds with our desire to provide excellent service and care to our customers.

1.1.2. This policy and its implementation will ensure that the revenue we record translates itself into cash according to the terms of credit, which we extend to our customers.

1.1.3. A Credit Policy is not designed to be a restrictive straight jacket. The skill is to combine controls with sensible application of policies. Customer satisfaction at a profit.

1.1.4. A Credit Policy is not something that is only operated by the Credit Control Department. All staff involved with customers, in any way, need to be aware of the Credit Policy and ensure that it is operated consistently. Customers do not have a divine right to take credit. Payment to our terms is an integral part of the contract the customer has entered into.

1.1.5. Purpose of Credit Control

Extending credit to our customers is an aid to selling. Our Company is saying to our customers “do not pay us when you receive the goods or services – pay us later”. This inevitably means that there is an element of risk that we will not be paid. If the risk appears too high, then we may refuse to allow credit and ask for payment in advance.

Therefore, Credit Control is needed to monitor the granting of credit and to ensure that where it is granted, payment is obtained as quickly as possible.
The importance of an excellent Credit Policy

The various roles of the credit control function within both Branches and Accounts Receivable include:

- Maintain good cash flow
- Reduce the risk of bad debt
- Manage the company’s largest asset – it’s debtors
- Minimise the costs of granting credit
- Promote good customer relations and prompt payment
- Liaise with the Sales Operation, Branches and each other, encouraging teamwork.
- Develop and maintain the Company Credit Policy and associated procedures.

All these actions contribute to maintaining healthy company profits

1.2. What are the objectives of this Policy?

1.2.1. Good Cash Flow – to reduce and maintain our Debtor Days Outstanding to below the company’s stated target, which will be constantly reviewed and updated to reflect the company’s needs and the trading conditions we are facing.

1.2.2. Minimal Bad Debts – to reduce and maintain bad debts to within agreed annual targets

1.2.3. Good Customer Service – to advise customers within 3 working days of our decision regarding an Application for a Credit Account to ensure all queries are answered within the designated timescales.

1.2.4. A Team Approach – to ensure that all staff work together and operate the Credit Policy at all times to achieve these objectives.

1.2.5. Clear Management Information – to provide and distribute timely and accurate reporting on our achievement against our Key Performance Indicators (K.P.I.’s) and to provide other Management Information on our debt position and trends on an ongoing basis.

1.2.6. Communications to Staff – to keep staff informed of their achievement against Key Performance Indicators on a daily, weekly and monthly basis.
The importance of an excellent Credit Policy

We provide a range of tools to support Credit Policies and improve the levels of performance within your business.

If you are looking for a simple, cost effective solution to complement your existing SAP, Oracle, PeopleSoft, Movex or JDE system the NEXUM Dashboard is the answer.

The NEXUM Dashboard simply connects to your existing accounting/ ERP system and provides accurate and timely information relating to:

- Team/ Department/ Branch KPI
- Collection by Activity KPI
- Cost of recoveries KPI
- Average Days to Collect KPI
- Debtors By Risk
- Days Sales Outstanding
- Team/ Individual performance to target KPI
- Payment Profile KPI
- Cash/ Cost/ Fee Forecasting KPI
- Historical Trends & Analysis KPI
The importance of an excellent Credit Policy

If you are looking to implement a system to manage accounts in arrears then you should consider NEXUM pre-legal which offers a range of key functions to improve the performance of your business.

NEXUM provides you with a comprehensive and detailed analysis of each debtor including copies of all correspondence including letters, emails, faxes and SMS text messages both to and from the debtor. Once engaged in communication with the debtor requests for copy documents can be completed at the press of a button. In addition an reasons for non payment can be recorded in detail and addressed within NEXUM as part of a dispute resolution path.

- User definable collection strategies
- User Information 'cockpit' for enquiries
- Blending of Credit Agency data for scoring
- Multiple Debtor capability
- Multiple Jurisdictions
- Multiple Language support
- Multiple Currency
- Integration with E-mail, SMS & Fax
- Document Management capability
- Interactive Diary/event support
- Sql and Oracle Database options
- Integration with Accounting/ ERP systems
- Electronic feed of new instructions
- Powerful reporting Dashboard
- Thin client support
- Integration with major email systems including Outlook, Eudora and Lotus Mail.

Visit

www.bwareolutions.com

www.risk2resolve.com