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Are Your Customers' Successes or Failures Yours?

The Supply/Production Chain Only as Strong as the Weakest Link

- Abe WalkingBear Sanchez Wednesday, August 31, 2011
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If you walked into a customer's place of business and saw a fire would you say anything? Of course you would if for no other reason than your own self interest, a burned out customer doesn't buy much.

Last November at a convention in PHX I had a distribution CEO tell me that more and more of his contractor customers are Hispanic. He has hired Spanish speaking staff to better serve this growing market.

He then went on to say that while these customers are very good at what they do they also lack certain business skills like billing their own customers and managing their cash flow, and that these weaknesses in turn affect his own business. What to do?

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AdChoices ▶ If you could show a customer a better way to increase sales, improve cash flow and working capital, and implement new efficiencies that would drive down their costs and give them a competitive advantage would you do it, if for no other reason than by doing so they could/would buy more from you and be able to pay you in a more timely manner?

Should we be our business brother's keeper?

To Get To Where You Want To Go, Each Leg Has To Pull Its Share of The Load

At the start of any journey there should be a destination in mind, a plan on how to get there and a way to monitor the progress made or the lack of progress made, for both are important to know, and so it is in business.

In for-profit companies the destination is to earn more than is spent in the process and while there are dishonest and unscrupulous ways to "turn a profit" the best way to "earn a profit" is by meeting or exceeding customer expectations ...at a profit.

Every business is like a multi-legged bug on a journey and reaching it's desired destination of profitability requires the coordination of it's different business functions in the tactics, performance measures and KPIs (key performance indicators) used by the different business functions. It's like the business is the body of the bug and each business function and other businesses in the supply chain, including customers, are legs on the bug's body.

Each business function such as Sales, Warehouse Management, and Credit Approval and A/R Management are legs with specifics goals and responsibilities that contribute to successfully completing the journey.

There are Performance Measurements that measure whether or not a goal/responsibility has been reached and then there is Performance Management that tracks the work being done by each leg and monitors the results of that effort.

KPIs (key performance indicators) are used in Performance Management to evaluate the activity in which a business function/leg is engaged. The KPIs used are tied to the processes in use and assess the present state of a business function and leads to the identification of potential improvements, to keeping the body moving down the right road.

KPIs should support the progress being made toward the achievement of established goal(s), the performance measurements, for the different business functions/legs and using the wrong KPIs will have an adverse effect.

Using the right KPIs starts with and depends on having the right understanding of how that "leg" or business function can best contribute to reaching the destination. Take a misstep-step because you don't know a right from wrong goal and you may eventually get to your destination, but it'll cost you. Staying/taking the right steps depends on how the Performance of a department or business function/leg is measured.

The Credit Sales and A/R Management function/leg goals and right KPIs

Within the Credit Sales and A/R Management leg of a business on a journey to profit there are two major parts involved; Credit Sales Approval and Past due A/R Management (not collections). While "Billing" customers on Credit Purchases is a critical part of the business/bug it is found in the Accounting leg and speaks to the information being provided by Sales and the ability of Accounting to then bill customers in a timely, accurate, complete and understandable way. This first of a two part article series deals with Credit Sales Approval.

The best way for the Credit Sales Approval part of the Credit and A/R function to contribute to profitability, the goal against which performance should be measured, is to find a way to accommodate every profitable sale while remaining confident of payment via terms and conditions of sale. The goal then of Credit Sales Approval is to maximize sales and minimize loss and the Performance Measurement should be: "The % of Applied for Dollars Approved".

The management of the work performed in Credit Sales Approval requires tracking the correct actions as reflect by the KPIs:

1) the number of new Credit Applications, or better still, New Customer Information Forms being submitted
 A good vital sign to track is the number of new customer information forms (not credit apps) being submitted by each sales person and in total by Sales to Credit. If the number of submitted new customer information forms is down during key times of the month compared to the prior month and the same month the prior year, sales people can be incentivized to turn the month around. New Customer Information Forms should be completed by Sales and not customers.

For an example of a New Customer Information Form and how it should be used contact Pam@armg-usa.com

2) the time it takes for new Credit Customers to be approved
 The timely processing of submitted new customer information forms by the Credit and A/R function needs to be monitored. A New Customer Information Form represents the investment made in getting a new customer to the point where they want to buy, it is a sale waiting to happen, a customer waiting to do business. The evaluation, credit checking and credit approval process should be of the highest priority

3) the % of applied for dollars approved...think credit line and not credit limit.
 A limit means "do not exceed" and a line is a point where an action has to be taken so as to increase sales.

A vital sign to track during key times of the month is the total amount of credit that has been applied for and what % of that applied for credit was approved by the Credit area, per customer and in total. A good profit directed Credit Manager views pending sales (credit approval) as their highest priority and will focus on finding ways to approve the highest possible profitable sale while remaining confident of payment via terms and conditions of sale.

If during key times of the month the % of applied for credit approved drops, is it because the quality of the customers is down, is it due to the economy or due to the sales force calling on the wrong market? Or is it because the Credit leg isn't working hard enough to find ways to make profitable sales happen?

4) the "product value at time of sale" for each approved Credit Sale
 A vital element in profitable sales approval is the seller's product value at time of sale and yet it is very often not even taken into consideration ...

When the Sales leg/function submit quality new customers and the Credit leg/function focus in on making a profitable deal happen the % of the applied for credit approved can and should exceed 100%. A profit focused Credit Manager is like having an additional 3 or 4 good salespeople.

Start From The Basics

In medicine, basic vital signs (KPIs) include temperature, pulse, blood pressure and pain level. Vital signs are measurements taken in order to assess critical body functions and are an essential part of communication between doctors, pharmacists, nurses, therapists, nutritionist and others regarding a patient's state of being. And so it is with KPIs for different business functions/legs.

Before you can monitor the KPIs for Credit Sales you have to know what it is that you are dealing with and then you can establish the best possible outcome and goals.

1) 90 % or more of all B2B Sales involve payment at a later date...credit terms are extended

2) A/R, short term money due from the sale of products or services based on payment at a later date is often one of the largest assets many companies have.

On average the A/R is 40% or more of the total assets (less with manufacturers more with service companies and some distribution companies)

3) Next to cash on hand the A/R is among the most the most liquid of assets, being but one step removed from money in the bank and is the largest source of working capital.

4) In the course of approving Credit Sales and then managing the resulting A/R, the Credit and A/R function interfaces with customers, sales, marketing, accounting, operations, the warehouse, service, vendors/suppliers, attorneys, transportation and many others involved with the supply chain ..

Based on their understanding of a business function Management Team members need to establish clear and best goals for the different functions and then be able to monitor the progress or lack of progress being made toward those goals. They need to hire the right people capable of carrying out the tasks and then measure their work.

Managers need reliable information on which to develop strategies and then monitor the execution of plans.

All KPIs will vary based on the variables involved.

For example if a company's product value at time of sale is low due to sales and related business activity being down, the unused capacity to do business (fixed expenses) goes up. When this product value at time of sale is factored in to the credit approval decision making riskier credit sales should be approved even if this results in slower payments, a lower payment % and in time even an increase in bad debt.

If done correctly the utilization of the unused capacity (fixed expenses) will more than off-set the slow payments and increased bad debt.

The purpose of KPIs is to monitor the work being done that successfully leads to the achievement of established goals.

Again the question to be asked when it comes to vital signs is "Why?".

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Profit Centered Corporate Credit Management
 Developer of the copyrighted Profit System of B2B Credit Sales and A/R Management Abe WalkingBear Sanchez has worked with many hundreds of Business Owners, CEO and senior business managers groups internationally including at the Shakespeare Globe Theater in London.

An International speaker and trainer, WalkingBear is a founding member of PCCG profitcreditgroup.com, an international group based on the Profit System, and has authored hundreds of business articles, is a contributing columnist for The Wholesaler Magazine, is the author of Profit Centered Credit and Collections 1999, co-author of STAFDA's Foundations of a Business 2007, and co-author of the new international book, The Best Kept Profit Secret: The Executive's Guide to Transforming a Cost Center 2009. WalkingBear is also a columnist for the Progressive Distribution magazine.

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