



Credit: A Critical Business Function

Abe WalkingBear Sanchez

A critical business function whose true potential has yet to be realized by most companies can strengthen the efforts of the sales, customer service, operations, accounting/finance and marketing areas of business. Businesses want the different departments within their organization to cooperate; to compliment each other's efforts. No business function is an island unto itself—and when any business function's purpose is misunderstood, it adversely effects the entire operation. Cooperation creates synergy and improved profitability.

Credit and past due A/R management is often a missing link in the profit chain.

The job of Sales is to turn prospects into profitable customers. Good sales people ask questions so as to determine a prospective customer's need or desire. They then make a presentation on how their product/service will meet or exceed the need. If a customer then wishes to buy, the method of payment must be determined. Should the customer want to pay at some later date, i.e. via credit terms, the profit chain starts to fray.

Sales people are trained and paid to sell, credit professionals are not!

It's not that credit people fail to understand that without Sales there is no business; but it's how the Credit department's performance is measured that creates conflict. Management can talk about the importance of credit approval to Sales until they're blue in the face; but if they then turn around and measure DSO (days sales outstanding) and percent bad debt, the message sent is that the number one job of the Credit department is "risk management."

"Employees respect what management inspects—and not what it expects"—Dr. Don Rice Texas A&M

If DSO and percent bad debt are stressed, the results will be a harsher qualifying of prospects and a lower approval rate, and the placing of more past due customers on credit hold. A better and more profitable relationship between the Credit and Sales areas must be built on performance measurements that encourage finding ways to say "yes" to profitable sales, and that focus on keeping customers current and buying. The Credit area can play a constructive role in supporting the Customer Service, Operations, Accounting/Finance and Marketing functions, but its highest calling is to new and repeat sales.

Credit and Customer Service

Helping customers so as to retain their goodwill and continuing business is the job of every business function that has contact with customers. In many companies the largest percentage of past due customers haven't paid because of unidentified and unresolved problems. The problem may be with the customer, or with the vendor, or the result of the actions of a third party. The early identification and resolution of problems by the Credit area will raise both customer service and customer retention levels.

"Anything that can go wrong will go wrong."—Murphy's Law

"Murphy was an optimist."—WalkingBear

Credit and Operations

Seamless and smooth running business processes are a worthy goal. In the course of fixing things that have gone wrong so that past due customers pay, the credit function will uncover "areas of opportunity for improvement" throughout the entire business chain. The Credit area can and should play an important role in constantly improving the quality of a company's business processes. Quality is a must; and constant improvement of a business' processes is like earning compound interest.

"A business manager not focused on improvement becomes an administrator at best, and a bureaucrat at worst."—WalkingBear

Safeguarding the assets of a company and ensuring sufficient liquidity are major roles of the Accounting and Finance areas of business. In many companies the A/R is one of if not the largest assets and next to cash on hand A/R is the most liquid asset. The Credit area's role in creating and managing the A/R places it in an ideal position to ensure positive cashflow, quality receivables and the early identification and control of bad debt losses. A key player in a company's financial well being, the Credit area complements the efforts of the Accounting and Finance areas.

Marketing is about more than getting prospects to call, it's also about communicating with customers so as to influence them in a positive way. A credit function not attuned to a company's marketing mix—the interrelated and interdependent activities in which the company engages so as to meet its objectives—will cause the business to suffer. Credit's central role and its need and ability to interface with prospects, customers, Sales, Accounting and Finance, vendors, Operations, etc. place it in a prime position to further and to monitor a company's marketing efforts.

I really enjoyed being a Corporate Credit Manager; it was like being a spider in the middle of a web. I had tentacles that reached everywhere. Once our CEO and the rest of the management team came to understand the true potential of the Credit area; of its ability to increase sales (new and repeat), effect cashflow, identify areas of opportunity for improvement, and to support the marketing objectives... we changed the name of the department from Credit and Collections to the Customer/Sales Support Department. Along with the name change and new expectations, came new performance measurements—and a bonus based on improving profitability.

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Abe WalkingBear Sanchez is an International Speaker/Trainer/Consultant on the subject of cash flow/sales enhancement and business knowledge organization and use. Founder and President of www.armg-usa.com, WalkingBear has authored hundreds of business articles. A hard hitting and fast paced speaker, Abe brings life and energy to a critical business function whose true potential has yet to be realized by most businesses. He can be reached at 719.276.0595 or by e-mail: Abe@armg-usa.com.