

Credit-to-Cash Briefing:

Credit management fundamentals

Precondition for an efficient credit management is that it is optimally and consequently executed in each individual area. Serious weak points in one area can suffice to quickly frustrate the performance in other functional units too. A basic overview of the relevant issues is offered below.

<p>General credit guidelines</p>	<p>A clearly formulated credit policy is indispensable for the implementation of a successful receivables management. These guidelines mainly define what is to be executed by individual organisational and departmental units when and where. Important issues:</p> <ul style="list-style-type: none"> ▪ Are there carefully elaborated guidelines for your receivables management? ▪ (If yes): Are they scrupulously and fully implemented?
<p>Contractual framework</p>	<p>An unambiguous contractual framework will help you resolve potential legal problems with your customer. This includes for example:</p> <ul style="list-style-type: none"> ▪ period of payment ▪ order forms ▪ terms and conditions
<p>Customer data</p>	<p>It is essential to capture and maintain accurate and constantly updated customer data:</p> <ul style="list-style-type: none"> ▪ precise billing address ▪ legal form of business ▪ owner, managing director
<p>Check of creditworthiness</p>	<p>Planning to grant customers credit terms without adequate or up-to-date creditworthiness information would be rather like playing Russian roulette. Depending on the business volume and risk assessment, you should inform yourself about your customers' credit rating adequately and on a regular basis.</p>

<p>Indicators</p>	<p>Certain key figures allow you to gain an insight into the development of selected areas. These include, among others:</p> <ul style="list-style-type: none"> ▪ debtors' financing costs ▪ average days of sales outstanding (DSO) ▪ bad debts ▪ receivables structure
<p>Line of credit</p>	<p>The check of creditworthiness results in a maximum line of credit for individual customers. This is an important risk indicator and is comparable to a traffic light. Overshooting a credit ceiling should trigger appropriate reactions. Important issues:</p> <ul style="list-style-type: none"> ▪ Do you allocate lines of credit according to an established and understandable system? ▪ Are your decision makers adequately qualified to ensure well-balanced assessments?
<p>Terms of payment</p>	<p>Variations within the broad range of payment terms enable you to influence your risk exposure. Essentially, the following alternatives are at your disposal and should be taken into consideration for each individual case:</p> <ul style="list-style-type: none"> ▪ prepayment ▪ down payment ▪ payment on delivery of goods or services ▪ period of payment / due dates ▪ discounts ▪ date upon which bank account is effectively credited <p>It is advisable to supply goods or services to new or unknown customers only against cash or down payment.</p>
<p>Securities</p>	<p>You should arrange for your customers to provide securities. This will help you avoid uncollectible receivables or keep losses at a minimum if a customer files for insolvency. Especially credit insurance offers a comprehensive protection in case one of your customers fails to meet their payment obligations.</p>

Debt collection system	<p>The often bad payment behaviour in certain countries and sectors necessitates the implementation of a consequent debt collection system. Be sure to address the following issues:</p> <ul style="list-style-type: none"> ▪ Is your debt collection department well-organised and efficient, and are your collection terms consequently adhered to? ▪ Are your reminders effectively worded? ▪ Are your collection activities tailored to take into account your customers' importance and their individual circumstances? ▪ Does your debt collection include phone calls and have the relevant employees received adequate training? ▪ Do you collaborate with acknowledged collection agencies and/or solicitors if your own efforts should prove to be unsuccessful?
Customers' crisis and insolvency	<p>An appropriate conduct when a customer is experiencing difficulties, particularly prior to and during insolvency, can help you reduce a default risk. You should command a range of potential alternatives. One important factor is your staff's qualification. Be sure to secure the advice and support of seasoned solicitors.</p>
Export coverage	<p>Special expertise is required in the field of international trade transactions. This comprises:</p> <ul style="list-style-type: none"> ▪ specific payment practices ▪ securitisation tools ▪ successful collection techniques for specific countries ▪ reaction to insolvencies ▪ special sources of information ▪ alternative coverage concepts (credit insurance)
Software	<p>A considerable range of receivables management software is on the market and offers constant updates. However, prior to deciding on investing in modernisation measures you should conduct a cost-benefit analysis. Ask yourself, if your existing debt management and collection enforcement software meets your company's quality standards.</p>

<p>Outsourcing</p>	<p>Outsourcing separate functions within the receivables management is sensible if other service providers can deliver more at reasonable prices. The following areas are particularly relevant:</p> <ul style="list-style-type: none"> ▪ coverage of default/non-payment risks (credit insurance) ▪ financing (factoring/forfeiting/asset backed securities) ▪ debt collection (collection agencies, solicitors) <p>Be sure to inform yourself about the complete range of measures offered by third party service providers.</p>
<p>Benchmarks</p>	<p>A glance at the successful development of competitors or sister companies within the holding group can generate incentives to improve your own credit management. Try to obtain relevant data that enable you to draw more accurate comparisons and align your objectives according to the top performance of others.</p>
<p>Advance training for staff</p>	<p>Successful receivables management often requires seasoned, motivated and well-informed employees. Therefore, their participation in specialised events and seminars as well as the exchange of experience with other businesses and departments constitutes an important investment.</p>