



13 Credit Management Best Practices

Smyyth LLC
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1. Learn the customer business practices that impact prompt payments, and eliminate barriers to prompt payment in your own processes. Partner with your customers toward developing best business practices toward effecting timely payments and alerting you of any issues in your organization that may adversely impact this.
2. Provide training across all departments that deal with customers to ensure understanding of company policy and objectives, in order to provide a consistent message to the outside world.
3. Implement a collaborative accounts receivable work-flow system such as Carixa[™] with cross-trained staff so that any customer facing staff can initiate a solution when a customer calls about a payment, deduction, dispute, or credit related problem rather than delaying action with call backs and emails.
4. Use EDI to receive customer payments and accounts receivable detail, then using a system for timely identification and validation of disputes and deductions. The process must include timetables, routing of collection problems and deductions, and management escalation for serious issues. Tracking of collections and deductions with a robustly designed deduction management system will provide valuable insight on gaps in compliance or service levels vis-a-vis customer expectations, particularly useful in identifying systemic, recurring problems.
5. Use a credit and payment scoring model that triggers workflow actions; for example, at what point should you commence collection action? The scores should reflect credit risk, industry payment data, as well as your own experience with a customer.
6. Use credit and payment scoring (or manual methods) that evolves to reflect business needs and actual customer behaviours over time.

7. Credit policy should be a tool used to expand company revenues as well as the customer relationship. In difficult situations, credit lines and payments can be worked out collaboratively with the customer, to achieve the objectives of both parties. This may require creativity on the part of the credit manager, and use of security, documentary and other credit management tools.
8. Develop practices, processes and systems that recognize that credit and collection management is an integral part of the order to cash supply chain. Credit management impacts and is impacted by other functional areas both internally and externally. Examples would be the areas of order management, invoicing, promotions, and deductions, among others.
9. Be sure that collector performance goals are written down and that staff are held accountable for their results. The goals should be in sync with those that drive senior levels of management, but focus on more targeted metrics to draw team concentration to what's important.
10. Automatically initiate all actions based on a programmed timeline that details specific action steps for the identification of delinquent accounts based on customer credit rating/ payment histories or customer class. This allows you to more efficiently manage the company's accounts receivable investment.
11. There is only so much time, so you must prioritize collection activities. Whether triggered by predictive payment scoring systems, or by manual ledger review, organize and plan your collection targets toward outcomes that will provide the highest return. This prioritization must be by employee as well, as some are better suited for volume collections as opposed to complex collections.
12. Don't shy from using collection outsourcing companies or agencies. While they will charge for their services, the alternative may be poor DSO, higher borrowing, and bad debt write offs.
13. If you are experiencing an unacceptably high level of bad debts, perhaps your credit processes are inadequate to the task. Turnkey solutions to this include credit and collection outsourcing, or even factoring. Another possibility is credit insurance, although a credit insurer will also require that you implement effective credit controls and policies.

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Smyyth provides Order-to-Cash Outsourcing, Services and Technology. Credit services include credit groups, reporting and scoring, and trade credit insurance. Outsourcing includes management of credit, accounts receivable, collections, deduction management, and profit recovery. Our Carixa Internet technology streamlines operations, slashes costs, and increases your profits. Built on Six Sigma principles and SAS 70 Certified.

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Keywords

Credit Management, Credit Scoring, Deduction Management, Collection Managament, outsourcing