Credit-to-Cash Briefing

One customer, diverging interests? Managing credit successfully in a sales-driven environment.

It's pretty standard for sales and credit management to come at things from opposite directions when it comes to customers – but what's less common is the two acknowledging that close co-operation can significantly enhance both a business's bottom line and its longevity.

A common scenario is this: the sales team gets the deal done at all costs, then a little way down the line, the credit management team holds their sales colleagues responsible for failing to adequately scrutinise a customer's creditworthiness or the terms of payment agreed in the deal. In some cases sales actions may even impede default protection measures.

The flipside? Sales staff lament the fact that their colleagues in accounting are interfering busybodies who regularly compromise their hard-won client relationships when they issue yet another reminder notice or stop a delivery due to unpaid invoices.

On the face of it, tensions between sales and receivables management seem to be inevitable. The former prioritise increasing the company's turnover and are measured by the contracts they finalise - not if and when customers finally pay. Then the receivables manager's focus however is on safeguarding liquidity by minimising outstanding receivables and default risks. Essentially ensuring the company's very existence.

However, if both sides are able to co-operate closely, outstanding receivables can be settled earlier, improving the liquidity of their company and subsequently its chances of long-term survival for the benefit of all.

Debtor´s delight

Often, these scenarios happen due to a basic lack of communication. The channels may be in place, but inadequate communication gives rise to a host of misunderstandings. Sales people are often unaware of the complexities of debt collection: at the other end of the spectrum, credit managers do not understand the (mainly conflicting) pressures on their sales colleagues.

As a rule, the sales team will negotiate payment terms with buyers because trade credit can be a useful bargaining chip. This can however lead to a maze of terms and conditions, sometimes even resulting in a single customer receiving a different terms with each new purchase. When payments are due, the buyer has a bevy of excuses available to prolong payment periods. Popular excuses can include claims that special due dates and conditions had been negotiated or complaints about the product or service to stall for time. Meanwhile, the invoice still isn't paid and the credit management team loses precious time checking with the sales team in order to verify the customer's claims. No one wins.

It's also worth acknowledging that sales teams are more likely to be influenced by external market conditions. "The market demands these conditions. Our competitors are doing it too." These are common arguments that frequently herald conflict. This can become a problem if in a payment dispute the sales team sides with the customer in order to avoid damaging business relations. Adept late-payers will often wait for several reminder notices and employ a set of delaying tactics, e.g. complaints or demands for price reductions to prolong their trade credit free of charge.

Pooling resources

Pooling resources is a good thing. Better still, it makes sense for sales and credit management to work together in a structured way to keep late payments and payment defaults to a minimum. It's a win-win situation. Here's why.

From the perspective of the receivables management team:

- Salespeople and account managers see customers on a fairly regular basis. They know information that can be of essential importance in assessing the creditworthiness of buyers (see tip below).
- Salespeople can often influence customers' payment behaviour through their personal contacts and their understanding of their corporate/payment culture.
- Poorly handled reminders and collections procedures will harm customer relations. An awkward phone call from the credit department could damage a relationship nurtured over many years. Instinct and emotional intelligence of the sales team can be valuable and should be factored in here.
- Payment processes frequently stall due to complaints or misunderstandings with regard to the terms of payment. Customer relations maintained by the sales staff are often vital in shedding light on these cases.

But sales teams can benefit, too.

- Receivables managers can help successfully control sales activities. They'll be able to provide sales teams with up-to-date information on a client's creditworthiness, and their ability to settle their balance. This is a gift from heaven for any sales team that wants to build their sales with lucrative customers who pay; and not with bad buyers that have poor payment morale.
- Although it may seem obvious, close cooperation with the credit department improves the sales force's expertise in the field of receivables management, enhancing their competence vis-à-vis the customer.
- Close cooperation between the two disciplines is pivotal to balancing a company's payment default risk and sales policy. Put simply, boosting sales without considering the likelihood of payment default leads to payment delays, or worse, uncollectable invoices, which ultimately can result in cash flow problems.

Improving cooperation between credit management and sales force

Defining clear guidelines

A balanced risk and sales policy offers a fantastic opportunity to enhance both profit and liquidity. Based on corporate objectives clear targets should be set, e.g. by linking higher sales to more stringent credit assessment procedures. Senior management should therefore define at the outset the importance of credit management and sales within the business strategy.

Transparent guidelines for cooperation should be implemented so that both parties are aware of its importance and the processes involved. The heads of sales and credit management should clearly commit to cooperating.

Defining common fields of interest

Mutually binding terms and conditions should be clearly articulated to both sales and credit management teams so that they know what they need to factor in:

- check creditworthiness of potential, old and new customers
- terms and conditions for delivery and payment (sales price, payment terms, discounts)
- credit lines
- procedures for handling overdue payments
- procedures for payment defaults due to non-performance or complaints
- reminder letters and collections actions

Joint workshops

This provides both sides with an excellent opportunity to discuss their respective perspectives, openly address any issues and look for mutual solutions in areas such as:

- Payment behaviour of specific customers
- Issues regarding the level of credit limits
- Diverging credit assessments

Regular exchange of information on customers

A framework for the regular exchange of information should be established. For example, credit management could provide the sales team with regular status reports on due dates and payment delays. Planned reminder letters or calls to chase payment should be shared and discussed. This is also the opportunity for salespeople to share any special conditions agreed in any sale, or any likely complaints.

Performance-related remuneration

It may sound tough, but if sales commissions are related solely to turnover, the temptation will always be for sales teams to focus on getting the sale at any cost – rather than getting the balance paid. A simple shift, relating sales to a settled balance rather than a signed contract would effect a significant shift in a company's credit culture.

So, what's next?

To sum up, smart businesses have figured out that fostering a close connection between credit management and sales is vital for a healthy corporate balance sheet. It engenders trust, helps everyone on both sides understand what each other's pressures are and drives a healthy sales environment.

How do we know this? At Atradius our job is to help businesses to safely sell their products and services on credit terms. We help thousands of businesses, the world over, improve their receivables management, every year.

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Tip

How to employ sales team's experience in assessing a customer's creditworthiness

Salespeople often have unparalleled insight into important customer information that credit teams would otherwise find difficult to obtain:

Appearance

- ☐ Are offices, production facilities and warehouses in good condition?
- ☐ Are warehouses full or empty?
- ☐ Does the appearance seem to be sugar-coated, perhaps just to impress?

Personal impression

- ☐ Does the management comprise seasoned specialists commanding thorough commercial skills?
- ☐ Have business deals and accords always been kept?
- ☐ How is the working atmosphere?
- ☐ Is employee turnover increasing?

Customer behaviour

- ☐ Do prices play only a minor role in business negotiations?
- ☐ Are overly long payment terms demanded?
- ☐ Does the customer try to promote sales with discount prices?

Market development

- ☐ How do competitors assess the customer's business?

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