

Three Key Relationships That Define Credit Department's Multifunctional Role

Credit departments so often interact with different business functions, departments or units in the course of the credit process. Depending on factors such as operation size, sometimes companies even merge the department with customer service, sales, marketing or purchasing. Regardless of a department's structure or name, its evolving role provides opportunities for value-added services to internal business groups or customers. Three key departmental relationships are as follows:

The Credit/Sales Relationship

Establishing a viable credit-sales relationship is one of the most important tasks of the credit manager. Clearly define credit policy to reduce misunderstandings between the two departments. Participate in sales meetings to clarify the role and responsibility of credit—especially when dealing with customers.

Help move products or sell services with a reasonable assurance of payment. In addition, create clear delineation of responsibility for resolving customer disputes and unauthorized deductions. One of the major contributions of the credit department is to work with customers and sales representatives to find ways to approve orders. For example, a credit manager might suggest a financing method not previously considered by the customer or help locate sources of capital for a customer.

And be sure to distinguish marketing risks from credit risks. For example, to achieve adequate geographic distribution in marketing a name-brand product, it may be necessary to sell to marginal accounts or accounts with poor payment history, inadequate working capital or a deteriorating financial condition for strategic reasons. Identify the risks when accounts receivable are analyzed. The credit department must communicate the risks to sales and management while guarding the confidentiality of the sources of information relating to the customer.

The Credit/Purchasing Relationship

Purchasing departments often vet new supply sources through the credit department to ensure that the vendor or subcontractor will deliver goods or services as agreed. Knowing and understanding a company's suppliers and vendors is a function of the credit department's responsibility to avoid risk—except this potential risk is different from the typical credit function.

Besides inquiring into the backgrounds of potential suppliers, the credit department can also analyze a supplier's financial condition. At times, the credit department is asked to collect or adjust debit memoranda issued to cover claims for defective material or to settle other chargebacks and can assist in negotiating with suppliers. For example, it can arrange for other types of security such as letters of credit, UCC-1 filings and liens. It may also assure that setoff rights are retained when its company both sells to and buys from another concern. Under most state laws, a creditor has the right to offset mutual debts it owes against the debtor's liability to it.

The Credit/Manufacturing Relationship

When overproduction leads to excess inventory, it may be necessary to dispose of the goods through sales to accounts that are not ordinarily creditworthy. The credit department should closely follow these production risk sales to minimize collection costs and bad debts.

Sometimes orders are "subject to confirmation" by the credit department before shipment. This usually means that the customer must do something before goods are released such as pay an overdue balance, reduce an outstanding balance to an acceptable level or submit an interim or annual financial statement. While most of these conditional approvals result in the release of goods when they are ready, they do represent a production risk.

In periods of shortages, a customer may order goods well in excess of actual requirements. The credit department can help spot orders that are out of proportion to the relative size of the customer. A credit manager can help prevent the marketing and manufacturing departments from being misled into believing that growing sales have made additional production facilities necessary.