Creating a Company Credit Policy

A 2 x 1-hour Webinar on Do’s & Dont’s when developing a new Company Credit Policy.
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Before you start.........!

• Why now? What is the objective?
• What is the Company’s Risk-related Strategy?
• Policy or Procedures? - A Policy denotes **WHAT** we do, Procedures describe **HOW** we do it.
• Are you trading Domestic, International or Both.?
• What is the intended target audience?

And realise that whatever the Company circumstances ...You already **HAVE** a Credit Policy!!!!
Credit Policy - Definition

The Credit Policy is intended to be created around your business strategy and not the other way around, to prevent losses, and ensure a safe and scalable AR management.

Guidelines that spell out how to decide which customers gets credit, the exact payment terms, the limits set on outstanding balances and how to deal with delinquent accounts.”
Credit Policy

- Master Data Management
- Payment Allocation Management
- Invoice Dispute Management
- Collection Management
- Credit Risk Management
- Performance Management
The Credit Department

- Where does it sit in the company organisation? Finance, Sales or other?
- 1 Global Credit Dept or a Regional split?
- Roles & Responsibilities
- Authority levels
Master Data Management

Credit Risk Management

Define the different types of Risk and how these will be managed.

- Country /Market Risk (political, economic, currency)
- Customer Risk
- Communication (Language)
- Legal Risk
- Risk Mitigation (Securities available /preferred in „risky“ countries.)
Credit Risk Management

Process for linking the Credit Risk management to the company strategy
Process for gathered credit information – External vs. Internal sources
Process for assigning a Risk profile for each customer.
Process for establishing /extending credit limits incl. Use of Credit insurance
Define process for documenting credit decisions both current and historic
Terms of Sales offered to customers.
Time limits for decision-making
Process for communicating credit decisions – incl. Process for escalation /exceptions
Make it flexible to include e.g. profitable customers in risky countries.
Be careful not to be too detailed (restrictive) in terms of which customers can be offered what (terms/limits etc). Framework can be rigid but with „room to maneuver“ within.
Collection Management

Collections inhouse or outsourced?
ONE Collection Strategy for all – or based on Customer segmentation?
Use of standard Dunning letters incl. Preferred distribution (post, email, fax etc)
Define process for when to use Collection calls in extension or in parallel with standard letters.
Define process for documenting call history
Escalation process for slow paying /defaulting customers
Define process for extraordinary collection process incl. Legal action
Exception handling – process for managing invoice disputes.
Payment allocation process
Dispute Management

Process for recording and tracking invoice disputes internally. Workflow based or manual?
Clearly defined roles & responsibilities in resolving invoice disputes incl „final say“ on resolution of an invoice Dispute (depending on the Dispute cause/reason)
Define approval levels for issuing credit memos
Define invoice disputes impact on the Collection process – Temporary Dunning stop etc.
Cash Allocation

Automated or manual process. High volume/Low value or High Value/Low volume
Process for managing payment mis-match (missing remittance advice/ overpayments/ underpayments.
SLAs for payment posting.
Cash Allocation process impact on Collection process.
End of Part 1

In part 2 we will look at how to Structure the actual document, and provide tips on the implementation of the policy.

Questions?
Part 2

Structuring the Policy

&

Implementation
The layout

INTRO

PARAGRAPHS

MATRIX/CHARTS

APPENDICES

SOP
Credit Policy - Structure

INTRO

• Document Purpose and Scope
• Policy ownership and change process
• Company overview and O2C overview
• Global Credit Control objectives
• Credit Organization (Org chart)
Credit Policy - Structure

PARAGRAPHS

• Billing cycle, Document types, Exceptions
• Master Data management
• Payment Terms and Approval matrix
• Credit Limit Process and Approval matrix (guidelines on how to determine limit
• Collection Strategy – Payment methods, dunning cycle, Customer segmentation
• Collection Strategy – Escalation process for slow paying /defaulting customers
• Collection Agencies and Legal Actions
• Suspension of shipment of goods and services
• Payment allocation process
• Credit Note Process and approval matrix
• Refund Process and Approval matrix
• Bad debt evaluation
• Write off process and Approval matrix
Credit Policy - Structure

APPENDICES

- Abbreviations
- Document History
- Document Approvals
- Authorization Matrix
- Organizational map Credit Control Department
- Write off codes
- Credit and Debit Notes code
- Statuses eligible for legal placement and Write off

SOP

- Playbook: Guide for Credit Controllers
Implementing the Policy

- Set up a crossfunctional feedback process during the creation of the Policy. Though be mindful that:
  - It is not a Wish List
  - You can’t please everybody all the time

- Ensure that the Credit Department staff is part of the feedback process.
- Set up a review process to ensure that the contents of the Policy is reviewed at least once a year to ensure that it remains „fit for purpose“.
- If applicable present the Credit Policy to your Credit Insurance provider.
- Ensure the Policy has not only Top level Management endorsement but more importantly ownership.
Selling Points

“The Credit Policy has to be created around the business and be a competitive advantage for the Business”

• Mission of the Credit Department – aligned with Company Mission.
• Explain the ROI to the business in implementing the policy, more money, and lower losses, result in more cash to reinvest in the product and marketing.
• Credit Dept is not „stopping Sales” – we are Protecting our Revenue.
• Credit Dept can highlight potential business opportunities for healthy companies.
• Established SLA's to deliver timely credit limit decisions and finance advisory service to support the business.
• Alignment across regions, minimizing time spent on negotiations and exceptions.
• Alignment on suspension of shipment or services (no surprises)
Performance Management

- What does Success look like??
- Define success criteria for each of the sub-processes
- Departmental as well as company targets.
- Process targets vs. Value targets.
- How are the targets communicated.
- Define process for continuous improvements both departmental and crossfunctional
In Summary

• All related business processes should be clearly defined before writing the Credit Policy.
• Clearly define who should be involved in creating the Policy and at what level.
• The Credit Policy should be transparent, but leave “room to maneuver” in changing business climates.
• The Credit Policy should enable business – not restrict it.
• Ensure Top Management ownership of the Credit Policy.
• The Credit Policy is not a static one-time document. Content should be reviewed regularly (suggest annually) to ensure it remains “fit for purpose”.

• Don’t forget – CHANGE MANAGEMENT!
End of Part 2

Questions?