

Credit Management – the necessary evil function?

by Josef Busuttil

Irrespective of the industry that we do business in, we are being faced by a hostile commercial environment. Who is in business knows well that in some industries, supply is exceeding demand and customers are becoming more knowledgeable and powerful. Customers are dictating the markets and those firms that are not meeting or exceeding customers' expectations are struggling.



Besides, the products and the services that firms provide are becoming more and more homogenous with little scope for differentiation.

The western world is also finding it more difficult to compete with the Asian producers. Products produced in Asia are competing well in international markets in terms of product features and quality. These are not being considered as inferior products as they used to be some few years ago. However, they are still much cheaper in terms of price!

Technological developments are also leading to shorter lifecycles for many products and growing difficulties in establishing sustainable competitive advantage.

To add insult to injury, the e-commerce phenomenon knocked down the traditional barriers that once may have existed in international trade. From the comfort of my office or sitting room, I can shop around the world online, compare product features, product warranties and prices. I can then place an order, pay for the goods by using my credit card or internet banking, and still at the comfort of my office or sitting room, I will receive the purchased goods at my doorstep in no time.

This implies that the Maltese firms, that we used to buy from before this trendy way of shopping came into existence, are no longer competing with other firms in Malta but also with other competitors from all over the world with little or no trade barriers.

This hostile commercial environment simply means that the name of the game in today's business is to strive to gain and sustain competitive advantage in the market.

Gaining and sustaining competitive advantage is an issue concerning the perception of customers on the firm and on what the firm provides. It is the customers who should perceive that a particular firm offers better value. Therefore, to be successful in achieving competitive advantage in the market, the firm should convince its prospective and existing customers that it offers the better, if not the best solutions that exist in the market.

This entails that the firm should invest in its customers and should employ a customer-oriented attitude by:

- understanding the needs and expectations of customers – know your customers is always important;
- communicating with customers and this includes listening to what the customers have to say; and
- striving to meet, if not exceed, customers' expectations.

But, isn't it the responsibility of the manufacturing department to ensure that the firm produces the best products? Isn't it the job of the marketing team to promote the products with customers? Isn't it the responsibility of the sales people to convince customers to buy from us and not from our competitors? Is there an opportunity for the credit function to assist in gaining and sustaining competitive advantage?

The answer to these questions is Yes.

Every employee, irrespective of the function or department s/he works in, should contribute wholeheartedly to gain and sustain competitive advantage in the market. And the credit team is by no means the exception – in fact, I strongly argue that the credit people have a lot to contribute in this regard.

However, the credit function cannot be of much help if it is still considered as the necessary evil function - having the role of just crunching numbers and the function that tries to find ways and means to refuse sales for the sake of preventing risk.

An adequately equipped credit function is an indispensable resource. Properly skilled and trained credit staff is a valuable asset to the business organisations. The credit function has an important role to play in gaining and sustaining competitive advantage in the market and is far from being the necessary evil function.

The credit people are the ones who are in direct contact with customers from the beginning up to the very end of the business transactions. They are in an ideal position to build good business relationship with customers. They are the employees who can foster trust between the customers and the firm. Hence, the credit team can be instrumental to build the good image and the desired unique reputation in the market.

Nevertheless, the people working in the field of credit management, who really want to contribute in gaining competitive advantage in the market, must ensure that the service they provide to customers is both Relevant and Defensible.

Relevant – The credit practitioners should always keep in mind that what they do is relevant to the customers and to the firm they are working for.

This entails the credit practitioners to know the customers and understand their needs and expectations. The internal processes and procedures should also be customer-focused.

An effective tool, that may assist firms to know their customers better, is market segmentation but unfortunately, very few firms involve the credit function in this critical exercise even though:

80 to 90 per cent in Business-to-Business transactions involve payment at a later date and credit terms are often being extended;

Customers are demanding more credit; and Credit is becoming more expensive as it is being more and more rationed.

Being relevant also entails the credit practitioners to evaluate the opportunity cost of granting credit. Credit does not come for free. Money costs money. The firm has to budget appropriately and have the necessary funds to grant credit. It also needs to turn credit risk into credit rewards. MACM provides effective information and efficient systems to help Maltese businesses to act proactively when granting and managing credit. This information is available 24x7 through its website: www.macm.org.mt

Defensible – the second element to gain and sustain competitive advantage is being Defensible. There must be barriers to replication. A firm cannot sustain competitive advantage if it lacks barriers to replication because its success will simply be duplicated by competitors. This is where the credit function has a major role to play.

The credit function is a people's function. The credit practitioners are in direct contact with customers. The way they communicate and deal with customers differ from that of their competitors.

Therefore, the credit practitioners should be trained and skilled to be flexible in meeting customers' needs and expectations. They should provide good customer service by which they help the firm to create a defensible image and reputation in the eyes of the customers.

Members of MACM recently had the opportunity to attend for three half-day workshops addressing good credit management practices. These workshops were organised by MACM. Delegates found these workshops to be not only fruitful and practical but also relevant for today's hostile market. MACM members also took the opportunity to network with their peers and with businesses in other industries. Credit circles help to learn from each other's experiences and it is a critical activity in credit management as cash flow

and credit related difficulties are often similar and paying defaulters are common.

One issue that was discussed at length during these workshops was that customers are often common. Various suppliers may be granting credit to the same customers and these suppliers are all striving not only to sell but also to get paid from these same customers. Therefore, a supplier will only sell and get paid if it is preferred from its competitors by its customers.

This involves the credit people to stay ahead of competition by being innovative and by looking for improvements on a continuous basis. Here again, the delegates who attended MACM workshops had the opportunity to discuss the four major components of the credit function, mainly, the credit sales approval, invoicing, A/R management and communication. Samples of credit management documents used at different stages throughout the credit management process were also discussed and are made available to the business community through the MACM website.

It is people and people-driven processes that are the real source of sustained competitive advantage – this is the reason why the credit function has an important role to play in today's commercial world!

Mr Busuttil is the director general of the Malta Association of Credit Management, a not-for-profit organisation, providing a central national organisation for the promotion and protection of all credit interest pertaining to Maltese businesses. It is the ICM (UK) accredited Training Centre for Malta, a member of the Federation of European Credit Management Associations – FECMA and a distributor of Graydon International Credit Reports in Malta.