The Credit Function in the 21st Century

No one in business denies that the commercial environment has changed. These changes have brought about a number of critical factors which have a direct impact on the operational activities of businesses debates Josef Busuttil.

Today's business arena is characterised by a high level of competition, homogenous products, globalisation and e-commerce, more informed customers, and in some industries supply exceeds demand. To make matters worse, the current international economic and financial situation is also lending its hand to making the business environment more hostile due to late payment, payment defaults and bankruptcies.

To survive, firms are striving to properly adapt their structures, corporate objectives, strategies and tactics in a cost effective manner in order to meet today's market needs. The name of the game in doing business, irrespective of the industry, market or economic sector, has become that of gaining and sustaining competitive advantage in the market more than ever before.

Customer retention has become critically important to maintain market share and this can only be achieved if the firms are customer focused. Every department and business function should strive to assist the business organisation building and maintaining good customer relationship and the credit function is by no means the exception.

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But do firms really need to increase their costs in granting credit and invest in an effective and efficient credit function? Can they do without granting credit?

Statistics show that:

- 80% to 90% of B2B transactions involve payment at a later date and credit terms are often being extended deliberately by customers;
- Accounts Receivables (A/R) or as it is commonly known 'Debtors' are one of the largest liquid assets representing on average 40% of the total assets of an organisation; and
- More customers are demanding and expecting credit from their suppliers.

To answer the above two question, I pose two other pertinent questions - Being faced with such a demand for credit, can businesses compete without granting credit to their customers? Can businesses gain and maintain market share if they don't fully satisfy their customers' needs and expectations?

The answer to the above questions is surely 'No'. Therefore, firms should invest in granting and managing credit since it adds value to customers, and therefore it serves as the oil that keeps the wheel of a firm from squeaking.

Consequentially, a successful credit function has to meet the challenges of today's market realities as any other department within a firm. Perceiving the credit function as the sales preventive department or the department having the sole role of crunching numbers is totally inappropriate in today's business environment.

A thriving firm perceives the credit function as the function that adds value to its customers. It invests in the appropriate credit systems and staff training and development to equip the credit practitioners with the proper tools, skills and competences, which would help them better understand the changing needs of their customers. Hence, ensuring continuous high level of customer care in order to meet, if not exceed, customers' expectations.

Building and maintaining good customer relationship is not the only honourable role of the credit team. The credit practitioners are the employees that are in direct contact with the customers from the onset till the very end of the business transaction. Therefore, they are the ones who can differentiate the product, which is often homogenous in its nature, by means of high quality of service, thus augmenting the product on offer to make it more attractive and competitive to customers.

The credit function has moved away from having a purely accounting role to a more customer care and sales oriented responsibility. In today's business world, the scope of granting credit should be that 'to close 'profitable' sales that would otherwise be lost!' and 'to finding 'profitable' ways of saying 'Yes' to credit applicants.'

Nevertheless, profitable sales can only be achieved if the credit function supports sales, provides good customer service throughout the course of the business transactions, and makes the appropriate credit checks to get to know the customers prior to granting them credit.

Completing the sales by collecting money due from customers is also the responsibility of the credit function. It is the sole role of the credit practitioners to ensure sound cash flow for the business. And cash flow is critical as it is the lifeblood of a business. A firm can easily go bust if it lacks adequate cash flow, even if it is profitable on paper. The concept of competition comes into the picture here once again, as firms do not only compete when they are selling their products but also when they are collecting money from their customers. Customers have more than one supplier asking them for payment and therefore, it takes the skills and competences to be competitive at the stage of completing the sale by collecting dues.

Another role that the credit function should play is assisting the firm to become more efficient and to improve its internal processes and procedures. The credit function is ideally positioned and has the task to communicate with other business units and departments within a firm, such as Sales, Production, Distribution, Warehouse, Legal, just to name a few. This gives the credit function the opportunity to identify areas for internal systems improvement and to assist in the development of internal processes that would result in new efficiencies, hence, less operational costs, better customer satisfaction and enhanced profit.

In today's business world, the credit function's purpose is far from crunching numbers and mitigation of risk. It is a core business function that helps the organisation to identify profit opportunities, secures sound cash flow, sustains long-term customer relationship through repeat sales, and minimises operational costs through internal efficiencies. The credit function has transformed itself into a peoples' function. Firms that intend to grow and be successful should invest wholeheartedly in the proper credit tools, and in the training and development of their credit management workforce. ■

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