{ CREDIT CONTROL }

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Credit managers play a crucial role in cash and liquidity management, but companies need to invest to get the best out of it, says Philip King

For those of us that consider ourselves credit professionals, it has always been our challenge to convince others that an investment in credit management, people and resources can actually be linked directly to an improvement in bottom-line performance.

To that end, if there is one good thing that has come out of the recent financial difficulties, and subsequent return to economic growth, it is that the government, politicians and even many businesses have woken up to the critical importance of cash flow and liquidity.

So how will this return to confidence, albeit tentative, impact on the credit control function? Firstly, modern credit managers do much more than simply define the policies and practices their organisations follow in collecting payments from their 'customers'. Now, and in the future, they will proactively and positively provide input to many departments, functions and procedures to improve business flow and customer service, as well as focus on their main role of protecting their organisation's investment in debtors and recovering debt.

Their remit will, of course, vary from organisation to organisation, and industry to industry, but now credit control has become – and will continue to become – increasingly more strategic, given that large organisations are known to have strategies for either non-payment to help their own bottom-line profit, or at least significantly delay payment, causing the supplier to finance them at no cost.

The fundamental role of a credit manager is to oversee the sales ledger function, including raising invoices in a timely and accurate manner, posting cash speedily and accurately allocating that cash, agreeing invoice formats with larger customers and suppliers, and ensuring account management teams are capturing data correctly to prevent subsequent invoice queries. In times of recovery, as now, it is these 'fundamentals' that become more important than ever.

Credit managers will be assessing risk on new accounts and existing customers by way of credit information providers, reading financial accounts and establishing trading histories, something that is becoming increasingly important. (It is also becoming increasingly difficult: the position of a business today in its new report and accounts could look very different from 12 months ago, and this, in turn, could seriously impact its access to credit.)

In addition, credit managers will be involved in the creation, maintenance and management of a full credit policy – internal documents that identify all set and agreed procedures and policies that govern the credit function. They will be negotiating and agreeing conditions of business with new and existing customers, including payment terms and setting up service level agreements and credit limits. They will also be reporting to directors on the age and profile of debt, potential risks of bad debt, overtrading accounts, areas of suggested training and general customer service observations.

Furthermore, credit managers are likely to oversee or monitor the activities of tracing agents, debt collection agencies, solicitors, insolvency practitioners and other third parties. They will also find alternative ways of doing business – such as escrow accounts, guarantees and back-to-back deals – when other methods may have been rejected.

The recovery will mean that credit managers will be busier than ever, and their tangible value – not just in supporting existing business, but also in helping to identify and secure new business opportunities – will come to the fore. Sales and marketing teams will increasingly be looking to work more closely with their credit control colleagues, seeing them as an integral part of enhancing the wider 'customer relationship'.

Credit, in the future, will no longer be a given. Companies will have to demonstrate to their suppliers, and vice versa, that they are a good 'risk', and worthy of their trust. Those that manage to keep a close eye on their cash – and that invest in credit control – will emerge as winners.

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