Protecting our largest liquid asset

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Trade credit is the largest source of business financing and many economists contend that trade credit is the economic fuel driving the worldwide economy. This hypothesis has been evidently proved and confirmed by many businesses that are finding it difficult to get the usual credit terms from their suppliers due to the current international economic and financial turmoil.

Today's commercial environment is not at all rosy for the international business community. Unemployment is a major concern for many governments, hefty austerity measures are being introduced in a number of countries that were once considered as tiger economies, and big household names had to close their doors to business. This situation has led to less demand for goods and services by customers and harsher competition for businesses.

With businesses competing intensely to maintain their market share, trade credit has recently become inevitable and even more important as it encourages customers to buy. However, this is a big challenge for businesses because whilst they are offering better credit terms to increase sales, trade credit and loans have been rationed by the major financial institutions across the globe, leaving a number of businesses suffering poor cash flow.

A survey conducted by the Credit Management Research Centre, at Leeds University Business School, reveals that in the UK, more than 80% of daily trade transactions are on credit terms and as a component of the money supply, business-to-business credit exceeds the primary money supply (M1).

Furthermore, trade credit is being considered by businesses as a means to generate more sales and better credit terms are being offered and extended to gain and sustain competitive advantage in the market. Some businesses argue that they would lose sales if they were less flexible on credit terms.

But if credit is so vital in doing business in today's hostile environment, how can the suppliers manage their past-due accounts, protect their cash flow and minimise the risk associated with trade credit?

Firstly, one has to acknowledge that managing credit is an art in itself. This entails the person responsible for managing credit to be skilled and adequately trained like any other professional working in other business functions or departments.

Secondly, the credit controller should have a sound understanding of the basics of managing credit. S/He should be able to act proactively and deploy good credit management practices by analysing and evaluating the financial ability of the customer requesting credit; assessing how much credit to allow within the constraints of the available finance; processing credit sales orders efficiently and issuing invoices promptly, monitoring the existing customers and equally important, collecting dues on time.

But to achieve best results, the credit controller should possess good interpersonal skills that complement numeracy and literacy. People employed in the credit function should be willing to meet with customers and build long-term customer relationship; should be able to integrate with his colleagues and peers; should be a leader and able to motivate his/her team; should be IT literate; and above all, should strive to understand and meet customers' expectations, needs and culture.

My question is - *how can one be effective in collections if s/he does not know the customer, let alone the reason behind the customer paying late?*

The job of the credit staff is far from crunching numbers and mitigating risk. In today's commercial scenario, the credit controller should be the one who writes, communicates, implements and manages an effective credit policy that is in line with the current commercial scenario whilst meeting the different expectations of the stakeholders of the business, including the profit element at the end of the day.

Hence, credit staff development and training are important in order to protect this major liquid asset.

Having the most pertinent credit information and credit tools together with skilled personnel is the recipe to take profitable credit decisions that protects cash flow, maintains market share and ensures long-term profit.

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He obtained his MBA from Henley Management College, Member of the Chartered Institute of Marketing (UK), and Fellow of the Chartered Institute of Credit Management (UK).

He has contributed with intuitive workshops and presentations addressed to various business people worldwide. Josef is a regular contributor of business articles to business press.