

An Untapped Source of Wealth



The single most important asset of any company must be its customers. From this source both the immediate and future wealth of the business is generated. In the transitional period from making sales to the ultimate realisation of those sales into the crystallised form of money, an invisible erosion takes place during its journey from your customer to your bank account.

The section of your business that oversees this crucial journey is also the one that in many companies is the least understood and in most instances is given the lowest priority. A reassessment of attitude and a widening perspective is long overdue in respect of the Credit Control Department. Such is the importance of the function in today's economic climate that its title should be renamed as the Profit Management Department. Yet regrettably many firms today still regard the credit function as a means only of collecting overdue accounts. They ignore the potential of the function as both a source of increasing sales and as a profit centre in its own right.

The initial step towards greater awareness should be for every company to devise a formula to assess the cost to them of financing the sales ledger incorporating the expense of servicing the overdraft, lost interest opportunities and the expense of collections. The formula should also recognise the benefits of The Late Payment of Commercial Debt (Interest) Act 1998. The most common method used to measure the effectiveness of the credit department is the number of days' sales that remain outstanding at a given time during a month (DSO). Given the fact that a formula is arrived at to measure costs, a simple comparison could be made in relation to total savings (and gains) by a reduction in 'Days Sales Outstanding'.

The credit control function viewed in the light of the information obtained from this comparison will be quickly seen as an otherwise untapped source of wealth producing potential within most companies. A reduction in DSO compared directly with the total daily cost of both financing and managing credit will no longer be an invisible erosive force but will be seen for the first time as a significant proportion of profit.

In a survey The British Institute of Management discovered that most companies pay too much attention to 'Bad Debt' rather than the more costly area of overdue accounts and that collecting accounts one week early could save the average company some £12,000 per year in interest charges alone. Such research again indicates the necessity for companies not only to re-appraise the methods they employ for collecting, but also and even more importantly, to change their attitude and allow the credit control department to become an integral tool in creating greater prosperity for the company.

However, the most revealing fact to emerge from the research was that it had shown that stricter collection policies did not result in any loss of orders or goodwill. Rather the reverse; better money management by the creditor created the opportunity and climate for customers to place more orders that otherwise may have gone to competitors.

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