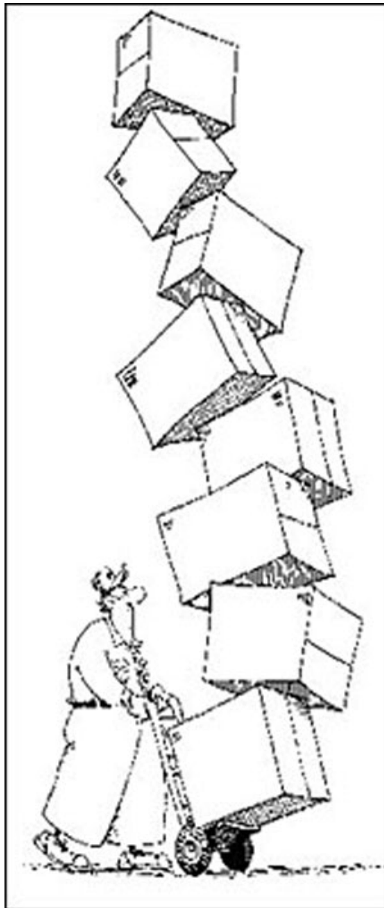
Risky Business



The object of the credit management function is to maximise the overall level of profitability and not, as is the general concept, to eradicate bad debt. In any enterprise that involves the taking of risk it is the overall control of such risks that produces the required results. Restrictions that are too rigid and exercised against credit clients will often be reflected in the potential of any organisation not being realised. ***www.payontime.co.uk***

Profit is the motivating force that creates and provides the energy that any commercial or industrial organisation needs in order to survive. The greater the level of profitability in each sale the smaller the risk that is undertaken. The level of risk can also be converted favourably if low margins of profit exists, where the debtors involved reflect high credit standards. In either instance should both situations involve extended credit terms the risk could justifiably be acceptable to promote greater sales volumes. Even in the first example, should a debtor default in any payment, the amount of overall profit, even after adjustment for the particular debt, could still prove reasonable. By offering credit or extending existing credit terms with selected accounts, higher sales volumes can be achieved.

By comparing profit value on higher sales and allowing for the additional cost that extended periods will create, the overall percentage profit may decrease but the actual profit value achieved may rise. Credit management could and does contribute not only to the day to day liquidity of a company but also to the general sales effort.

The assessment of debtors into risk categories is very much an investment decision, thus a certain amount of flexibility must be allowed from time to time, to take into account the points previously discussed. A basic categorisation policy would be to allocate four general headings under which debtors can be evaluated. Each heading would be given a prefix number, alphabetical listing or even colour coding. Whichever method is chosen to identify the category it should be readily recognisable to administrative staff. The different risk categories may require different collection procedures which could also be reflected by the risk categorisation. ***www.barrettwells.co.uk/credit_-_introduction.html***

Different risk categories require separate collection procedures and the time element between each should also reflect the standard of that account. In the instances of special agreements being negotiated, regarding extended credit periods, on the expiration of the term the defined series of recovery actions should be engaged relating to the particular debtors code. The final and one of the most important categorisations involved in credit management is that of assessing the value of credit allowable against individual debtors. Existing accounts will have historically proved their viability relating to their sales volume and settlement terms and can be categorised from experience. Other methods include acquiring credit reports, bank and trade references and sales reports of business achieved by competitors. The last item could be misleading however, particularly if larger orders are placed and the competitive company still appear to neglect the account. It could be due to poor settlement on the part of the prospective debtor. ***www.payontime.co.uk/start_up/su_download_bpp.html***

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