Overview

The credit and sales relationship is symbiotic; one does not exist without the other in a successful organization. Both departments use much the same customer information to accomplish their objectives, albeit independent of the other, and each department can provide information that helps the other do its work more efficiently. This chapter looks at some ways credit and sales can work together to maximize efficiencies, make a positive impact on company profits and provide the best possible customer service.

Think about this

Q. How can the actions of the credit and sales department enhance the credit-sales partnership?

Disciplinary Core Ideas

After reading this chapter, the reader should understand:

- How credit can be a sales tool.
- Describe the Cs of the credit and sales partnership.
- Dealing with new or potential customers.
- Dealing with existing customers.
- How credit contributes to the sales department.

Chapter Outline

1. The Basis for the Credit-Sales Partnership 4-2
2. Promoting the New or Potential Customer 4-6
3. The Established Customer 4-7
4. The Credit Department’s Contribution to Sales 4-11
The Basis for the Credit-Sales Partnership

Credit as a Sales Tool

Virtually every business transaction that concerns another business involves credit. Business credit is the single largest source of business financing by volume, even exceeding bank loans. Without business credit, the world economy would not exist.

Credit is an investment that a company makes in receivables; credit managers are responsible for managing this investment making them, in essence, the caretakers and managers of their company’s investment. As an investment manager, the role of the credit manager is to maximize the benefit of the investment while minimizing the danger, looking for the greatest possible return at an acceptable risk. Simultaneously, credit management is the support system for the company’s sales efforts; without sales, there would be no receivables—no investment—to manage.

It should come as no surprise that the extension of credit in our sales-based financial system is common; the few businesses that do not offer credit terms for purchases usually accept checks in lieu of cash, which is a form of short-term credit. The availability of credit is a powerful selling tool and is used to:

- Generate sales.
- Improve profit margins due to sound credit decisions, which increase sales volumes.
- Grow a potential market share.
- Provide good customer service.
- Strengthen customer loyalty.
- Meet customer demand.
- Remain competitive.

Figure 4-1  Credit and Sales

Credit and Sales: Are the Priorities Really That Different?

<table>
<thead>
<tr>
<th>Credit and Collections</th>
<th>Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>Meet financial objectives</td>
<td>Meet sales objectives</td>
</tr>
<tr>
<td>Provide timely decisions</td>
<td>Deal with fast-paced competitive environment</td>
</tr>
<tr>
<td>Maximize profitable revenue, managed risk</td>
<td>Profitable sales</td>
</tr>
<tr>
<td>Provide a fair, consistent and predictable credit policy</td>
<td>Want a fair, consistent and predictable credit policy</td>
</tr>
<tr>
<td>Customer service</td>
<td>Customer relationships</td>
</tr>
<tr>
<td>Keep stakeholders informed</td>
<td>Be knowledgeable about account status</td>
</tr>
<tr>
<td>Provide unique expertise to approve and retain customers</td>
<td>Able to identify “real” opportunities</td>
</tr>
<tr>
<td>Proactive</td>
<td>Avoid shipment interruptions</td>
</tr>
<tr>
<td>An agent for process improvement</td>
<td>Timely, accurate processes</td>
</tr>
</tbody>
</table>

It Is Not a Tug of War
The Cs of the Credit and Sales Partnership

The Three Cs of Credit best explain the sales and credit relationship. The first C is Communication. Here are a few ways that sales and credit can strengthen the lines of communication:

Sharing Information

Typically the customer relationship begins with the sales team and ends with the credit team. But the lines are much more blurred in the current business environment. The customer may make initial contact through the company’s website or customer service department or even the credit department when the purchase will not be cash. Sales and credit may have different customer contacts, ranging from the CFO to the inventory manager, bringing different pieces of information that are all important when evaluating credit:

- **Purchasing.** Learning about competitors and what they did wrong, the price point for the product, order frequency and preferred lot size.
- **Inventory Manager.** Learning where to ship product.
- **The CFO.** Learning information about the company’s financial results, both past and projected, the seasonality of the business, along with cash flow cycles, and the end customers.
- **Accounts payable.** Learning payment cycles and methods of payment.

The sales staff can be a valuable source of information for the credit department. They can observe and share details that may substantiate or negate other credit information, such as credit reports, credit references and financial statements. Observation of external building conditions, plant locations and general knowledge about a particular industry can add valuable information, which is particularly important with marginal prospects.

Using Technology

Technology can be leveraged to improve communications between sales and credit. Even if the sales and credit departments use different software they should have access to common network storage to view and retrieve data. Alerts may be set up regarding customer account status, especially if commissions are contingent on collections. Company Intranet sites can be used to publish credit policies for reference by the sales team.

Share Initial Credit Investigation Findings

Upon reviewing a customer’s credit history, the credit professional should notify the sales team if a customer is deemed a high risk, so they can determine if this is a risk the company wants to assume, knowing payments may be slow and there is a higher probability of slow payments or bankruptcy.

Join the Sales Team

Sales meetings bring to light many of the obstacles they face just trying to move product out the door. Sales meetings tend to be positive and upbeat as opposed to credit meetings, which tend to focus on the problem accounts. Attending sales meetings also presents an opportunity to get “face time” with all the sales associates and managers at once.

Educate the Sales Team

The credit department may offer to provide training to sales team members to explain the credit application or the credit approval process so that they understand what is involved. Sales and a credit professional have very different vantage points.

The second C is Collaboration. When credit and sales share information about the customer, it is a win-win for the credit grantor. If open or extended terms are not suitable for a new account, the credit department may offer alternatives, such as guarantees, letters of credit, credit insurance or graduated terms. When credit and sales start to collaborate and find new ways to meet customer demands, both teams can be successful.
The credit professional can help leverage their time in front of customers by coming prepared with findings of a credit investigation with regards to risk assessment, customer credit history, personnel changes, financial results and refinancing activities, as well as their payment history with current suppliers. When a salesperson works in tandem with the credit department, they gain valuable information that will help them to maximize their chance of closing the sale.

Monthly credit/accounts receivable reviews that include members of both the sales and credit teams can be arranged to discuss:

- New accounts and potential sales volumes.
- Slow paying accounts.
- Material quality issues that have the potential to delay payments.
- Lost business.
- New target markets and accounts.
- Customers with favorable credit, where sales could be increased without increasing risk.
- Potential changes of payments terms, both extended or shortened.

**Real World Perspectives**

**COMMUNICATION, COLLABORATION, COOPERATION**

Almost 10 years ago, I was the chair of a small unsecured creditors’ committee of manufacturers, and the experience reinforced my belief that sales and credit can work well together. It also produced a surprise or two and some humor as well.

I was working for a large northeastern vision care company, with the divisional line of business sunglasses and fashion eyewear. Part of my assignment was administering credit and collection management to a network of domestic wholesale distributors, eyeglass vendors and big box retailers. One of the small retail optical chains in the southern U.S. had run into hard times and surprised us somewhat with a Chapter 11 filing. Allegedly, bad weather had affected sales and their bank had called in the financing package. Because our products were featured brands, our company was the largest creditor outside of the banks, so I was tasked with setting up the unsecured creditors’ committee and all the administrative duties that went with it.

The division of my employer that sold the product was in the process of being divested and sold to a new foreign parent—so all but absolutely essential travel related to the sale was highly restricted. The first 341 meeting of creditors was soon to take place in Texas, and I knew that it would be impossible to gain approval to go. Not a great way to start off as chair of the creditors’ committee.

Our VP of finance and I discussed the travel ban, and who in our company located in Texas might be able to attend the 341 meeting in my place. Our regional sales manager in that area turned out to be a highly educated, solidly logical “go to” sort of guy, who would have the meeting date free and had the reputation of handling special assignments well for our senior management.

I called the U.S. Bankruptcy Court trustee in the case, explained our travel ban dilemma and that we had a substitute that should serve us well, with preparation from me, and that I would take over afterward. The trustee was a bit reserved about it, but said that as long as our representative didn’t hold up the proceeding with improper questions or a lack of knowledge it should be okay.

So our regional sales manager and I spent several hours on the phone during the next two weeks holding a “commercial credit/Chapter 11” primer session. The first week, I gathered together various materials (including excerpts from NACM’s *Principals of Business Credit*) and overnighted the package to him, and we discussed the mechanics and concepts of the Chapter 11 bankruptcy process. The second week, I sent a similar FedEx that contained background documents on the specific customer that had filed for protection, and I familiarized the regional sales manager with the credit screening, payment turn stats, and sudden drop in regular payments that preceded the filing. Our sales manager absorbed all of this like water in a sponge, and I could tell he enjoyed the challenge. He told me he was “ready to go” and was anxious to experience this new task.

A few weeks later, I was in the middle of a hectic day—the kind that just rains down with one “I need it now” issue after another—and I received a call from the Texas bankruptcy trustee. I had been so busy that day I had even forgotten the 341
**Customer Visits**

A member of the credit team should make a point of traveling with the salespeople to visit both high risk customers as a “wellness check,” as well as larger accounts that have a solid credit history. This can build mutual trust and create a learning experience for the credit team regarding the sales territory and customer base.

The third C is **Cooperation**. Without cooperation between sales and credit, each function could result in a silo environment, concerned only about its individual goals and objectives, which may create an adversarial atmosphere.

Credit and sales should work together to maximize the success of the company as a whole and minimize internal conflict. Conflict may arise when one perceives the other is impeding that success. The credit team might view a sale as too risky resulting in a possible loss for the company. The sales team may see credit as too conservative and obstructing a revenue-producing sale. Balancing these two extremes is essential to insure a healthy accounts receivable portfolio. This relationship can be strengthened by presenting options other than declining the sale:

- Joint Check Agreement.
- UCC Filing.
- Mechanic’s Lien/Bond Claim.

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**RWP 4-1 continued...**

meeting had just taken place. I asked her how my “shill” had done, and expected that because she had placed a special call an apology was in order. When I told her that, she laughed and said that was definitely not the case.

She said that our fellow did extremely well, and that she was calling to thank me for what was an entertaining and new experience for a 341 meeting. There were the usual questions for the debtor, and she said our guy had been right in there, slicing down the essence of the banks’ secured financing, the alleged reasons for the decline in sales income and the usual dissection of the business crisis that caused the filing.

What had really made her laugh was what happened when the usual claim was made that "the sudden downturn in sales was due to conditions beyond the control of the debtor management." In this case, the product was sunglasses, and the principal was simply claiming that a stretch of bad, rainy weather in the region had caused his sales to tank. Our sales manager then stood up, gave a one-minute explanation that he had long ago started tracking the data points of sunglass sales versus umbrella sales as part of his career duties, and produced a chart for the time period in question showing the same as well as weather stats for the alleged poor weather period—entirely disproving what the debtor had said. Our guy then launched a series of questions from a sales standpoint and quickly exposed that the chain’s decline in sales was due to a cutback in marketing efforts, a series of bad decisions on pushing product, and diverting available cash to non-value added projects instead. The trustee said everyone except the debtor and his attorney was smiling by the time our sales manager finished.

From that point, our sales manager went back to his duties, with heartfelt thanks from our finance area and from me. The subsequent unsecured creditors’ committee meetings were held by telephone. Building on the details the sales manager had gathered in the 341 meeting and brought back, we exposed an imperfection in the debtor’s security agreement with their bank. We hired an attorney to represent the committee, and eventually by chasing that point we managed to gain a carve-out concession from the bank that resulted in a partial distribution to the unsecured creditors. Without the original assistance and attentiveness of our sales manager at the 341 meeting, that concession might never have happened.

I had always believed that in a manufacturing environment sales and credit are part of a team that needs to work together, with the mutual goal of finding customers that can purchase as much product or service as possible that they can pay for, and then keeping and maintaining that relationship. But even with that mindset, our sales manager surprised me—and taught me that the diversity of our backgrounds and purposes, when combined, is a tremendous strength when trying to reach the mutual goal that brings success to our employer.

The sunglass business that I worked for moved their headquarters elsewhere, after radically changing the existing business. I stayed in the area working for other employers, but now when a customer or client files for Chapter 11 protection, I always stop and wonder where I can find that national sales manager, and smile...

*Bob Steve*
Promoting the New or Potential Customer

A company’s customer base is always changing. Customers go out of business, merge or are acquired. Some companies grow very large or change their product line. Still others may choose to purchase from competitors.

One way to offset account attrition, as well as a means for increasing sales, is to generate new customers. Credit professionals may place prospective customers into two categories: well-known established businesses with credit and financial history of varying degrees or newly-established, unknown businesses with little track record and few credit references. Because both types are new, they will require investigative work by the credit department.

Investigating Potential Customers

By requesting that the credit department conduct a credit investigation on a prospect before making an initial contact, the sales staff is assured it is spending its time and effort in pursuing legitimate prospects. This is particularly helpful to the prospective customer that has not yet submitted an application or is simply being solicited for business by the sales team. Preliminary investigation ensures that the customers’ time is not wasted nor are they placed in the awkward position of being turned down for credit after having been solicited. However, not all companies prescreen prospects due to sales volumes or established company procedures. Some companies conduct these investigations on potential customers that may be out of their market area or in different industries. Still other firms may conduct information searches on only very large potential orders. Others may investigate only those companies that have a firm order pending.

The credit staff should receive complete and accurate prospect information from the sales department whenever a credit investigation is requested. Three pieces of information are helpful: the company’s legal name, the complete company address and the names of the corporate owners, officers and registered agents. This preliminary investigation is the first line of defense against fraudulent activity. If the prospect does not meet established credit parameters, having information on the organization’s owners, officers and agents will enable the credit department to investigate the possibility of extending credit with personal guarantees. As a result, what would otherwise have been a credit refusal can lead to an array of credit alternatives.

The sales department should include a realistic estimate of the prospect’s current and future credit requirements as part of the request for credit. The more the credit department knows about a prospect’s credit needs, the better it can determine if the company can meet them. Also, knowing the amount of credit that a prospect will need assists the credit department in determining the required depth of the credit investigation.

It may be more difficult for sales people to collect financial information, such as balance sheets, income statements, cash flow projections, lists of current guarantees, liens, pledges and leases. Most firms are cautious about releasing financial information in general and particularly wish to keep it out of the hands of their competitors. Both the credit and sales staff should be aware of these sensitive customer issues. Requests for such information should be treated with care and concern for the customer. The following suggestions may help the creditor obtain this information:

• Stressing the confidential nature of the information being requested. Credit information gathered should not be shared with any other department.
• Emphasizing that the information being requested is standard operating procedure and an acceptable industry practice.
• Asking for only necessary information and at the proper time. Potential customers shouldn’t be asked for confidential credit information before they are convinced about the product or a sale is imminent.

It is important to protect the confidentiality of information entrusted to the credit staff. At times, unusual circumstances can require additional diligence in overseeing this information. For instance, independent agents are sales professionals who are self-employed or are employed by firms that exist completely apart from the seller’s firm. In some industries, it is common to use independent sales agents, rather than company employees, to maintain all or part of the company’s sales effort. For example, in the candy and snack industry, manufacturers often use “brokers” (a form of independent sales agent) for sales to grocery chains.

Because agents are not company employees, it should be carefully decided how much information will be given to them or obtained through them from potential customers. Company policy should address the collection and safekeeping of information.

Sales and credit should work together to estimate the profit margin that could be expected from a prospect’s business. Generally, the greater the profit margin a company can make, the greater the risk it will assume. The seller is likely to give more latitude to a customer or potential customer that is a marginal credit risk when a high profit margin exists in a product line. Credit and sales should collaborate to convert the prospect into a customer while mitigating credit risk.

It should be noted that fraudulent buyers are often willing to enter into agreements or purchase merchandise regardless of price or terms, without negotiation, because they may ultimately have no intention of paying.

In addition to gathering information, the salesperson is well positioned to educate prospects and new customers about the seller’s terms of sale and other conditions that must be agreed to for the convenience and privilege of receiving open account, unsecured credit. It is a best practice to define and explain terms early in the negotiating process, as this may prevent collection problems later. There are a number of steps the sales team can take with prospects to ensure that a good foundation is laid at the commencement of the credit relationship. It is equally important that the credit department assist in establishing communication with new accounts to ensure the customer understands the consistent message of the creditor company. Here are some suggestions for such communications:

• Once the sale has been confirmed, meeting with the potential customer and discussing or defining payment terms, what they mean and how they work. This may be an opportunity for credit staff to become involved.
• Making sure the prospect understands all aspects of the credit relationship with the company.
• Communicating the benefits of prompt payments.

Some prospective customers will not qualify for open, unsecured credit even though they may receive credit from competitors; this can be a source of frustration to the sales team. Remembering that the credit department is not declining the sale but just declining open terms, the credit/sales team may be able to negotiate cash in advance, letter of credit or similar terms to complete the sale. Sound communication and open dialog from the credit and sales departments will help the customer fully understand any decision that has been made.

The Established Customer

It is important for both the sales and credit teams to realize that the financial status of a customer will change over time; for this reason, established customers require periodic credit reviews. The failure to recognize changes in an existing customer’s financial condition, buying patterns or payment habits with other suppliers could lead to credit risk and potential financial loss for the credit grantor. The same kinds of guidelines should be followed with established customers as with prospective customers relative to updating credit and financial information.
**Figure 4-2**

**New Business/New Customer Information Form**

<table>
<thead>
<tr>
<th>Sales Information Section</th>
<th>New Business Account Tracking Number:</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Customer Name</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Sales Person</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Sales Director</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Sales VP</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Business Unit</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Award Letter Received</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Designate Production, Service, Both or Prototype</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Customer Part Numbers</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Life of Program</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Tooling Required?</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Estimated Annual Sales Dollars</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Supplier Web Portal Information</strong></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Customer Information Section:</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sold To Name</strong></td>
</tr>
<tr>
<td><strong>Sold To City</strong></td>
</tr>
<tr>
<td><strong>Sold To Zip</strong></td>
</tr>
<tr>
<td><strong>Ship To Name</strong></td>
</tr>
<tr>
<td><strong>Ship To City</strong></td>
</tr>
<tr>
<td><strong>Ship To Zip</strong></td>
</tr>
<tr>
<td><strong>Bill To Name</strong></td>
</tr>
<tr>
<td><strong>Bill To City</strong></td>
</tr>
<tr>
<td><strong>Bill To Zip</strong></td>
</tr>
<tr>
<td><strong>Payer Name</strong></td>
</tr>
<tr>
<td><strong>Payer City</strong></td>
</tr>
<tr>
<td><strong>Payer Zip</strong></td>
</tr>
<tr>
<td><strong>Buyer/Contact Name</strong></td>
</tr>
<tr>
<td><strong>Buyer/Contact Phone</strong></td>
</tr>
<tr>
<td><strong>Customer Accounting Mgr</strong></td>
</tr>
<tr>
<td><strong>Customer Accounting Phone</strong></td>
</tr>
<tr>
<td><strong>Customer A/P Contact</strong></td>
</tr>
<tr>
<td><strong>Customer A/P Phone</strong></td>
</tr>
</tbody>
</table>

* Denotes Required Field
## Credit Management Section:

<table>
<thead>
<tr>
<th>Completed Credit Application (signed by customer)*</th>
<th>Country Customer Bank is in*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer bank account number*</td>
<td>Customer bank routing number*</td>
</tr>
<tr>
<td>Opening Order Value/Order Frequency*</td>
<td>Payment Terms*</td>
</tr>
<tr>
<td>Sales Tax Exemption Form (signed for domestic)*</td>
<td>Tooling Payment Terms*</td>
</tr>
</tbody>
</table>

## IT Information Section:

<table>
<thead>
<tr>
<th>EDI Customer*</th>
<th>Note if yes to EDI, select items needed</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>850 - Purchase Order</td>
</tr>
<tr>
<td></td>
<td>830 - Material Release</td>
</tr>
<tr>
<td></td>
<td>862 - JIT Schedule</td>
</tr>
<tr>
<td></td>
<td>866 - Advanced Ship Notice</td>
</tr>
<tr>
<td></td>
<td>824 - Application Advice</td>
</tr>
<tr>
<td></td>
<td>997 - Functional Acknowledgement</td>
</tr>
<tr>
<td></td>
<td>820 - Remittance Advice</td>
</tr>
<tr>
<td></td>
<td>866 - JIT Sequenced</td>
</tr>
<tr>
<td>Shipping Labels*</td>
<td>Production Labels*</td>
</tr>
<tr>
<td>Part Labels*</td>
<td>Mixed Labels*</td>
</tr>
<tr>
<td>Is shipping audit required?*</td>
<td>Master Labels*</td>
</tr>
<tr>
<td>Customer specs for EDI and Labels sent to IT</td>
<td></td>
</tr>
<tr>
<td>Customer IT Contact*</td>
<td></td>
</tr>
<tr>
<td>Phone Number*</td>
<td></td>
</tr>
<tr>
<td>Email*</td>
<td></td>
</tr>
<tr>
<td>Customer Business Contact*</td>
<td></td>
</tr>
<tr>
<td>Phone Number*</td>
<td></td>
</tr>
<tr>
<td>Email*</td>
<td></td>
</tr>
<tr>
<td>Committed date to customer*</td>
<td>IT Committed date</td>
</tr>
<tr>
<td>Delivered Date*</td>
<td>Account at Customer*</td>
</tr>
</tbody>
</table>

## Credit Management Section

<table>
<thead>
<tr>
<th>Bank Statement*</th>
<th>Does this payer relate to alternative payer?*</th>
<th>House Bank*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lockbox*</td>
<td>Previous Account Number*</td>
<td>Reconciliation Account*</td>
</tr>
<tr>
<td>Sort Key*</td>
<td>Tolerance Group*</td>
<td>ABCD Number*</td>
</tr>
<tr>
<td>Credit Representative*</td>
<td>MEMA Number*</td>
<td>Risk Category*</td>
</tr>
</tbody>
</table>
The Role of Sales with Established Customers

Companies should have a policy about the role of the sales department or individual salesperson if a payment problem arises. Some credit grantors want sales personnel involved in the collection process. Others follow a business philosophy that sales personnel are to limit involvement with the customer to selling only and do not encourage sales to inquire about an account payment. Still others empower the salesperson who originally sold the account to become involved. Regardless of company policy, the expectation is that sales will provide the credit department with any information that may affect credit risk.

When facing overdue invoices, sales may take one of the following roles:

- Having no collection responsibilities so they may focus on sales. In these companies, all collection efforts are handled by the credit and collection departments.
- Making the first attempt at collection. If that attempt is unsuccessful, the credit department assumes responsibility for collecting.
- Personally collecting past due balances. The rationale for this policy is that the sale is not complete until the bill is paid. Collecting cash is part of the sales cycle and, therefore, the salesperson’s responsibility.

The salesperson’s first action may be to contact the customer when there is a problem, such as a past due balance or a credit purchase that can’t be processed. However, in some companies, the credit department will be the only point of contact regarding credit accounts. It is important that the process and best practice be established early in order to ensure consistent treatment of customers. When a customer’s payment is late due to legitimate extenuating circumstances, the salesperson should facilitate good communication by advising the credit team as soon as possible. There are times when a late payment isn’t really a collection problem, but rather the sign of a problem that occurred somewhere in the sales and delivery cycle. The sales staff may learn of these situations first. Among the reasons customers might not pay on time are:

- An allowance claim is pending.
- Shipment hasn’t been received.
- Merchandise was received after the specified acceptable arrival date.
- Merchandise was misrouted.
- Customer received the wrong merchandise.
- Customer received only a partial shipment.
- Order was accidentally duplicated.
- Order was over-shipped.
- Some or all of the merchandise was damaged in transit or defectively manufactured.
- Merchandise was refused without being reviewed and then returned.
- Shipment was billed to the wrong company or department or the invoice contained the wrong prices, quantities, credit terms, etc.
- Missing documentation (missing purchase order).
- Service provided was incomplete or was unsatisfactory.
- Service provided was by an unauthorized purchaser.

When dealing with overdue balances, the sales and credit departments should work together to ensure that customers do not abuse the terms of sale: net payment dates, prompt-pay discounts, interest charges and special credit terms. This is another reason for strong communications between the departments. By closely monitoring payments, both departments can work together to resolve overdue payment situations quickly and without alienating the customer. The process can be a valuable

Comprehension Check

How can the sales department assist in the collection of past due accounts?
opportunity to educate the customer that slow payment and delinquency will not go unnoticed. It may also cause an otherwise slow-paying account to pay the creditor who is willing to follow through.

**Credit’s Role with Established Credit Customers**

Another positive, pro-sales technique is to stress the service that the credit department can offer the customer. Often, the customer is unaware of the potential benefits found in the credit function. Some of the services the credit department can offer are listed in Figure 4-3.

**Figure 4-3 Customer Assistance Credit Services**

The credit professional has an opportunity to provide information and resources to customers based on their experience and expertise. Care should be taken when giving advice to troubled customers. Refer them to their company accountant or legal counsel. The following is a list of a few of these services:

**Financial Analysis**
The credit department may have financial information and industry comparison data that they can share with the customer to assist them in understanding their financial position relative to their own industry and marketplace.

**Cash Flow Control**
The credit department can analyze a customer’s credit terms and help it identify ways to increase cash flow by using net due dates, discounts, saving interest or finance charges.

**Credit References**
The credit department can show a company how to develop a good credit reputation with suppliers and how to leverage that reputation in future business relationships.

**Loan Referrals**
The credit department may know of other companies or lending institutions that would be willing to extend credit or lend money to the buyer. As a courtesy these referrals can be made.

**The Credit Department’s Contribution to Sales**

There are many opportunities for the credit professional to enhance the credit and sales relationship, such as:

- Having a neutral, open-minded investigation of all prospective and current customers.
- Monitoring established customers for changes in financial stability.
- Recommending when potential credit problems may be prevented or avoided with cautious credit terms and conditions.
- Working with sales to develop a collection approach that collects cash, reduces risk and enhances customer relations.
- Taking immediate action on overdue invoices by:
  - Promptly identifying these invoices.
  - Collecting all past due accounts quickly.
  - Using tact and diplomacy in dealing with overdue accounts.
- Assisting customers by providing educational services.
- Keeping information on accounts up to date by:
  - Providing consistent and clear communication to all concerned.
  - Keeping salespeople posted on the credit status of prospects and customers.
  - Informing customers about their accounts and changes in their credit terms.
- Maintaining good communication with company management, escalating issues when appropriate.

- Having a pro-sales attitude by:
  - Keeping open communications among sales staff and management.
  - Providing information and decisions as quickly as possible.
  - Being focused on increasing overall company sales, profits and cash flow while managing credit risk.
  - Being objective and fair.
  - Understanding the balance between increased sales and acceptable loss levels.
  - Identifying flexible credit approaches that promote sales volume increases.
  - Maintaining a credit program that is consistent with the industry, region and the customer’s economic conditions.

Developing a strong and mutually supportive relationship between credit and sales is much easier if both departments focus on the core values and mission of the entire company. The common goal is to maximize company profits, strengthen cash flow and provide customer service.

**Figure 4-4** The Value That Credit Adds

<table>
<thead>
<tr>
<th>Maximize Revenue</th>
<th>Manage Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- Proactive policies and procedures
- Compliance with regulatory requirements

<table>
<thead>
<tr>
<th>Credit is a Product</th>
</tr>
</thead>
<tbody>
<tr>
<td>Access to credit</td>
</tr>
<tr>
<td>Domain expertise</td>
</tr>
<tr>
<td>Creative solutions</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Positive Change</th>
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</thead>
<tbody>
<tr>
<td>Process</td>
</tr>
<tr>
<td>Policies</td>
</tr>
<tr>
<td>Systems</td>
</tr>
</tbody>
</table>

**Comprehension Check**
Discuss what the sales department can reasonably expect from the credit department.

Discuss what the credit department can reasonably expect from the sales department.
Key Terms and Concepts

Customer visits, 4-5–4-6
Three Cs of credit and sales partnership, 4-6
Collaboration, 4-3–4-4
Communication, 4-3
Cooperation, 4-5–4-6

Comprehension Check

1. What are the Three Cs in the credit-sales relationship?
2. How can the sales department assist in the collection of past due accounts?
3. Discuss what the sales department can reasonably expect from the credit department.
4. Discuss what the credit department can reasonably expect from the sales department.

Summary

• The credit and sales relationship should be a symbiotic one in order to foster a successful organization.
• Business credit is the single largest source of business financing by volume, even exceeding bank loans. When used correctly, the use of credit becomes a sales tool. Some of its features include:
  – Generating sales
  – Improving profit margins
  – Meeting customer demand
• The credit manager must maximize the benefit of investing while minimizing risk.
• The Three Cs of the credit and sales partnership include:
  – Communication
  – Cooperation
  – Collaboration
• By using the Three Cs as a standard of the credit and sales relationship, the overall information available to both the credit and sales department is increased, and ultimately should result in increased sales with decreased risk. The sales department will waste less time on higher risk clients, and the credit department will spend less time with collections.
• Conflict between the credit and sales department may arise when one perceives to be impeding the success of the other. However, the relationship between the departments can be strengthened by presenting alternative options instead of declining the sale. This may take a variety of forms such as using credit insurance or a mechanic’s lien.
• With new or potential customers, the more information the sales department can obtain, the better the credit department can accommodate the terms for a sale, and the better the credit department can protect itself from fraudulent activity. The company’s legal name, the complete company address and the name of the corporate owners, officers, and registered agents are good first steps in the process.
• It may be hard for the sales department to gain some of the information needed, stressing its confidential nature, acknowledging that the request is standard operating procedure and asking at the proper time may make it easier to obtain the necessary information.

• Companies should have a policy regarding the role of the sales department or individual salespersons if payment problems arise. In many cases, the salesperson may be the first person to learn of any payment problems and should communicate with the credit department in such a case.

• Late payments may not be a collection problem and may arise because of circumstances such as: shipment hasn’t been received, merchandise was misrouted, or an order was accidentally duplicated.

• A credit department may also provide several services to their customers including:
  – Financial analysis
  – Cash flow control
  – Credit references
  – Loan referrals

• The credit department can make a large contribution to sales by monitoring established customer’s financial stability, by recommending credit terms and conditions to reduce a potential credit problem, assisting the collection process, as well as many others.

• The relationship between the sales and credit department can be facilitated and supported if both departments focus on the core values and mission of the entire company. The common goal being, strengthen cash flow and provide customer service.

References and Resources

Business Credit. Columbia, MD: National Association of Credit Management. (This 9 issues/year publication is a continuous source of relevant articles and information. Archived articles from Business Credit magazine are available through the web-based NACM Resource Library, which is a benefit of NACM membership.)


“Credit Risk Review.” NACM Graduate School of Credit and Financial Management project, 2016. Kathie Knudson, CCE; Lisa Ball, CCE; Stacy Parker, CCE; and Dawn Dickert, CCE.