

CREDIT POLICY MANUAL A BUSINESS REQUIREMENT

Does your company have a written credit policy? Despite the fact that most marketers extend six-figure credit lines, many do not have a policy manual. If your company has been operating without a credit policy manual, it's time to formalize your credit process. Here's why:

1. A manual protects the company. Without the manual, if only the credit manager knows how credit decisions are made, and then due to death, illness, retirement, or termination that manager is no longer on the job, the company is at risk.

2. The act of writing the policy manual clarifies your credit process. You will have a systematic procedure to follow rather than just a credit manager's gut instincts.

3. A written credit policy also provides clarity in customer communication. The customer can be told exactly what would be needed on their financial statement to be granted a larger line of credit.

4. The manual clarifies the credit process for your sales force. The largest benefit of your written document may be elimination of the animosity typical between

the credit and sales departments. With a written policy, sales staff can clearly read and understand how and why credit decisions are made, which allows them to prioritize their prospects by credit-worthiness, spending valuable prospecting time on only viable accounts.

If you are convinced you need a manual, the next thing is getting it done! As with any documentation, it's easier said than done, especially when there are numerous pressing problems to be solved daily. Start by pulling together a team knowledgeable in customers and credits. In other words, this is not a project to simply thrust onto your credit manager without guidance and input from other departments.

The credit policy manual team should consist of:

- Owner(s)
- Credit manager (and staff)
- Sales department representative
- Customer service department rep

Step One—The team's charge will be to first create a flowchart of the existing credit system. Once the flowchart is created, they should identify what is working smoothly in the

process as well as snags and problems. For instance, look at items such as when credit is initially checked, how and when credit limits are established, the effectiveness of the current credit hold situation, ongoing credit maintenance, etc. Don't get discouraged if your system isn't working well. You'll get a chance to improve or fix it in the next step.

Step Two—Now create a flowchart for your ideal credit system. For instance, if credit ends up not getting

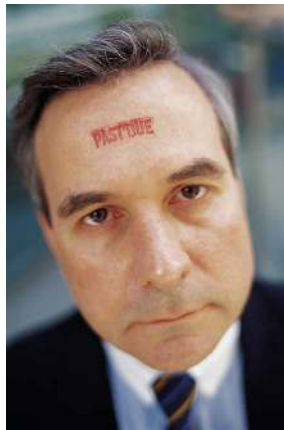


checked until the last minute on a new customer, you may want to initiate a system of pre-sales call credit checks. (Note this is only legal on corporate entities, not on personal individual credit. After designing your ideal system, always check with your attorney to be sure your process conforms to national, state and local laws.)

“Your credit policy will be a unique reflection of your company and customer trends”

Although your credit policy will be a unique reflection of your company and customer trends, consider the following:

- Credit dollar ranges (such as less than \$1,000, \$1,000 to \$9,999, \$10,000 to \$24,999, \$25,000 to \$50,000, and finally greater than \$50,000—these ranges will be used to specify what is needed to evaluate and monitor the credit. For instance, you may wish to require three years of financial statements on any credit request of more than \$25,000.



- Industry or class-of-trade specific requirements—for instance, if you know your company has had past difficulty with single-unit truckers, you may decide to require personal guarantees from this class of trade.
- Credit application and application processing procedures—the idea here is to have a user-friendly document that provides all the information necessary to make a good credit decision. One of the most valuable aspects of our [Focus on Credit](#) Workshop is the exchange of credit applications. It’s

amazing to see the variety of applications!

- Credit limit guidelines—there should be some written guidelines about how much credit to grant based upon certain financial criteria of your customers. These guidelines will be largely dictated by your credit manager’s knowledge and experience. It is not unusual for credit managers to have difficulty expressing their systems in absolute concretes. It is imperative, however, that you nail down their thought processes into a non-subjective grid type of decision system.
- Collection procedures—again, you may want different procedures for different dollar amounts of credit or different classes of trade. These should be spelled out in your manual.
- Credit monitoring of existing accounts with different monitoring frequencies and depths of information and analysis based on the dollar limit and type of account.

Before getting the team together, it’s also a good idea to gather some background data on your bad debts and slow-pay accounts. Try to detect similarities (particularly in classes of trade) of your problem accounts. One excellent way to keep track of this is by using SIC (Standard Industrial Classification) numbers in the customer screen. Check with your GL vendor about how to use and sort customers by SIC code.

Once the team has met and hashed out the details of the policy, you may wish to hand

off the typing chore to a clerical person for expediency. Once typed, the entire manual team should check the policy for clarity, editing and a final blessing.

Ideally, this inclusive team approach to your credit manual will provide you with all the benefits you were looking for at the onset of this project: a clear written document that can be read, understood and followed by all of your staff.



If you are serious about credit management, consider attending Meridian’s [Focus on Credit](#) one day workshop. Visit www.askmeridian.com for details and dates. The techniques in this workshop have helped over 100 petroleum companies reduce collection time, avoid future bad debts and bring technological efficiency to their credit processes.