

Adhering to Credit Policy - A Business Requirement

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More and more petroleum companies have written credit policies. That's the good news. The bad news is that most do not have compliance with those policies. Let's evaluate where the disconnects occur in following an established credit policy and what can be done about them.

Violation #1 - Ignore customer's credit limit. This is the most frequently occurring problem and essentially means that your company goes ahead and delivers a load of fuel to a customer when that load puts the customer over their credit limit. When this happens, either someone knew the circumstances and chose to go ahead with the delivery, or no one discovered the over-credit problem until after the delivery was made. Let's start with the latter since it's easier to solve.

If no one in your company finds out the customer is over his credit limit until after a delivery, you simply have a timing problem in your software that can be easily solved by your GL vendor. It means that the customer's credit limit is not checked within your system until the customer is billed, after the fact, after the delivery. To solve this problem, your GL system should be changed so that the credit limit is checked at the time the order is entered into the computer, before dispatch.

Now, on the other hand, if someone knows that the customer is over limit, and decides to go ahead with the order anyway, you need to find out why they took that action. Here are the three most common reasons given and their solutions:

1) Person thought this particular customer's credit limit was too low and customer needed fuel right away.

This shows a communication problem. Why didn't this person call the credit manager? Is it because they thought the credit department wouldn't act fast enough or at all? Or was it at a time of day when the credit manager wasn't working? Get at the root of the problem and mutually work out solutions.

2) Person doesn't pay attention to any credit limit.

This means that there is no respect for the current credit system which could be warranted, or not, depending upon the situation. Credit limits should be updated and documented and then education about the process must occur. All staff need to know how credit limits are set, why they must be adhered to, and what the consequence is for manually overriding a credit limit.

3) Person doesn't think amount owing is correct, therefore ignores credit limit.

This takes place when payment posting does not happen in a timely manner. It frequently occurs in branch offices where the payment goes to headquarters and that staff is behind in their posting work. The solution, of course, is to work on the paperwork flow so that payments are posted immediately upon receipt.

Violation #2 - Delivering a load to a new account before credit is set and approved. You know the situation. A salesman is calling on a great account. The prospect finally decides to order and needs the load right now. The salesman doesn't want to lose the order, so he circumvents the credit department and gets the dispatcher to go ahead and deliver. The solution here is to have key prospects pre-qualified by the credit department.

A key prospect is usually a corporate entity where a credit bureau report can be pulled legally based upon your intent to do business with them. With this credit report in hand, and the salesman's input about expected volumes, a temporary account and credit limit can be set up before all the paperwork is in. Once the full paperwork is submitted, the credit limit can be revised if necessary.

Violation #3 - Load is delivered to a past-due, credit hold account. The first question here is whether the account is truly past due. This could again be a posting timing problem where staff believes the payment has been made but not posted. Procedures need to be in place to alert posting personnel of any on hold accounts so that those payments can be posted right away and credit holds released in a timely fashion.

If the account is truly past due, and the credit department is timely about the placement and release of credit holds, violating a credit hold should be considered a serious offense and incur serious consequences, including employment termination if an employee can not adhere to reasonable, appropriate company policy. If an employee thinks they are above your rules, you likely don't want them on staff.

Violation #4 - Owner overrides the credit policy for a good friend. Where is it written that the company's credit policy is good for everyone except the owner? If you want your staff to take your credit policy seriously, then you need to adhere to it. It can save you some bad debt, as well as putting the decision-making point in your company where it belongs —with your credit professional. That's what you hired them for so let them do their job! Your friends will actually respect you for supporting your employees' decisions and it will create credibility with other staff.

In summary, violations of credit policy are a sign that something in your internal system is not working smoothly. It could be a problem with the policy itself, inefficiency within the credit system, or just a particular accounting procedure that is not timely or efficient. Use any policy violation as a trigger to discover the root cause of the problem, then fix it. Once fixed, establish consequences for violation of policy. The whole reason to have and enforce a credit policy is that your company's cash flow and profits depend upon it. Your ability to fully collect all accounts receivable in a timely manner is critical to future success.