



THE CREDIT DEPARTMENT, INC.
SMART BUSINESS. STRATEGIC VALUE.

June 2006

“Improving cash flow and earnings through strategic credit management.”

“When in Doubt, Ship it Out!”

What?? You may think this sounds more like the Sales Department philosophy than a Credit philosophy. However, even from a credit viewpoint, we believe “when in doubt, ship it out.” The philosophy stems from the (mostly) redundant process within Credit Departments of reviewing orders for credit release. The true intent of the order hold process is to *manage risk*. Instead, orders come through Credit for customers of *all risk classes*. There should only be two reasons to review order holds: if the customer has a significant risk of default OR you have no idea of their creditworthiness (new customers). In either of these cases there should be “no doubt” and the order should be held until the proper analysis is performed. Otherwise, “ship it out.”

A typical Credit Department spends 20 percent of their day reviewing orders. Most of these orders then get released immediately or very soon after review. No wonder Sales gets so frustrated with us! If orders are quickly released, these reviews were a waste of time. Meanwhile, the process delays sales and can threaten customer relationships.

Generally, it's not the Credit Department's fault that orders end up in the credit queue; it's an inefficient process that causes the needless reviews. Although there are a few credit people out there who enjoy the “power” or “control” in holding up customer shipments, most find it irritating to constantly disrupt their day to release orders they shouldn't be seeing in the first place.

Why then have an order hold process at all? Companies need to have controls in place to minimize exposures to high-risk customers. The intent of the control process makes sense: if the customer is in too deep and can't pay their existing debt OR you have no idea of their creditworthiness, then by all means have the orders referred to the Credit Department. If these were the only orders going to the Credit

The Credit Department, Inc. can help you manage your credit needs through professional credit management outsourcing and consulting. For more information, contact us at 800.451.0164, email info@TCD.com or visit our web site at www.TCD.com.

Department for review, there would be few complaints and even less inefficiencies. Unfortunately, however, this isn't what happens. VERY few of the orders referred to the Credit Department actually get held for delinquency or new customer credit applications.

The reality of most order hold processes is that Credit reviews every order for customers either a) *over their credit limit* or b) *past due*. Many systems are designed so poorly around this process that they literally send every order to Credit. This may sound logical, but here's what happens:

- 1) Customer A with a minimal risk of default goes \$1 *past due*; all orders get unnecessarily delayed through the Credit Department. Credit Department wastes time looking at the order, reviewing the account, and releasing it.
- 2) Customer B with a minimal risk of default goes \$1 *over their credit limit*; all orders get unnecessarily delayed through the Credit Department. Credit Department wastes time looking at the order, reviewing the account, and releasing it.

What's the solution? Order hold exceptions shouldn't be driven by delinquency or by customers over their credit limit. They should be driven by **RISK**. For example, high-risk customers should have orders referred to Credit when they're past due or over their limit. Medium risk customers should have thresholds related to dollar amounts past due to prevent small orders from ending up in the queue. Low risk customers should NEVER have orders referred to Credit. Ever.

Why aren't solutions implemented? First of all, Credit doesn't usually have the ability or the budget to prompt internal technology changes to make reasonable bypasses to the order review process. Secondly, many don't have proper risk ratings to even understand which customers should have orders referred. Thirdly, the process doesn't appear to be "broken" by anybody except Sales, so nothing ever gets changed. Frustration continues, friction grows between Credit and Sales, and Credit people continue to waste time and resources. Credit Managers complain they don't have enough people to do the work. In reality they usually have the resources to analyze risk and collect money, but redundant processes like releasing orders takes up too much time.

How to start making changes:

- Step #1 Systemize your credit analysis and assign risk codes to every credit account.
- Step #2 Measure the cost of the current process. In a study we performed recently, the order review process wasted nearly \$250,000 per year in one department.
- Step #3 Present the cost to management and tell them things need to change. Step #4 Get Sales involved; they don't want you wasting time holding up customer orders either.
- Step #5 Deliver the new, efficient process over to IT to make some changes to your current order review system.

The Credit Department, Inc. can help you manage your credit needs through professional credit management outsourcing and consulting. For more information, contact us at 800.451.0164, email info@TCD.com or visit our web site at www.TCD.com.

Streamlining the order review process helps you focus on the real purpose of order holds: minimizing risk to the receivables asset. Credit needs to better concentrate its resources on processes that *create value*, not processes that waste our time. Improved resource allocation will lend new credibility to the order review process, therefore aligning Sales and Credit in a consistent effort to review only those orders needing review. Then, we can all live by: ***When in doubt, ship it out!!!***

For more information on creating efficiencies in your order referral system e-mail us at info@tcd.com or phone us at 800-451-0164.

The Credit Department, Inc. can help you manage your credit needs through professional credit management outsourcing and consulting. For more information, contact us at 800.451.0164, email info@TCD.com or visit our web site at www.TCD.com.
