From isolated to Integrated Credit management strategy
14/10/2015
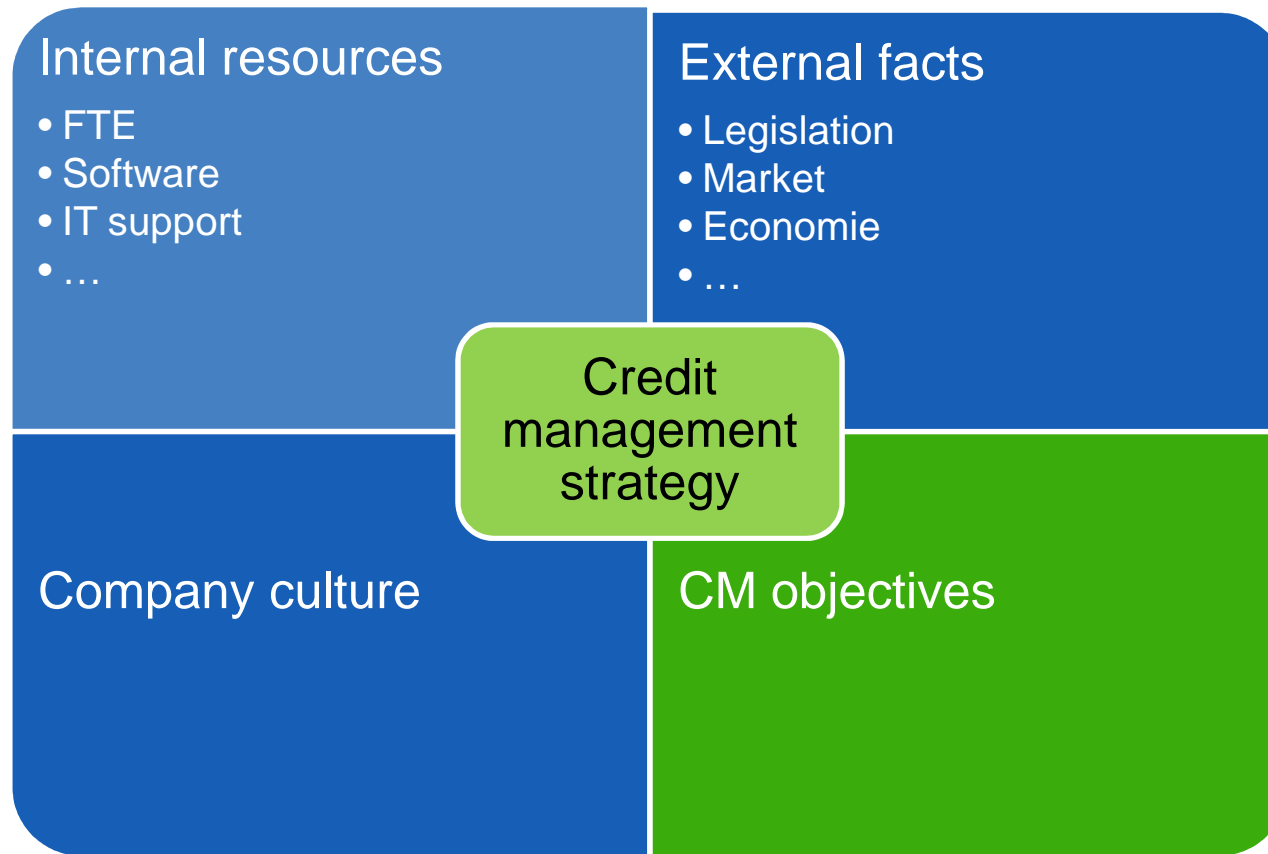
Rosmén Herrera

Close to you and your products.

1. Grandmother's recipe for CM strategy

New packaging,
same commitment.

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Ingredients list:

Internal resources
- FTE
- Software
- IT support
- …

External facts
- Legislation
- Market
- Economie
- …

Credit management strategy

**Company culture**

CM objectives

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Credit managment objective

- **Classic definition or interpretation of the CM:**
  - **" The main objective of credit management is to optimize the generated revenue by decreasing the dso and bad debts with the use of proactive and curative CM processes and strategies"**

Credit management

Decease in bad debts and DSO

Revenue optimization

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Major KPI's
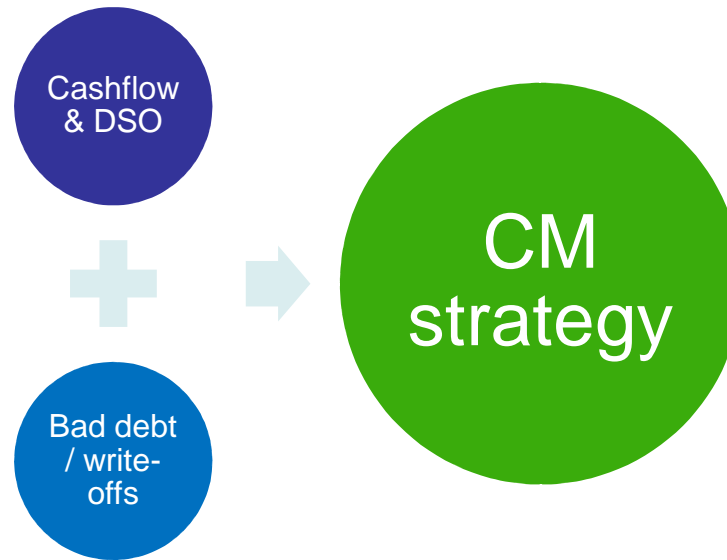
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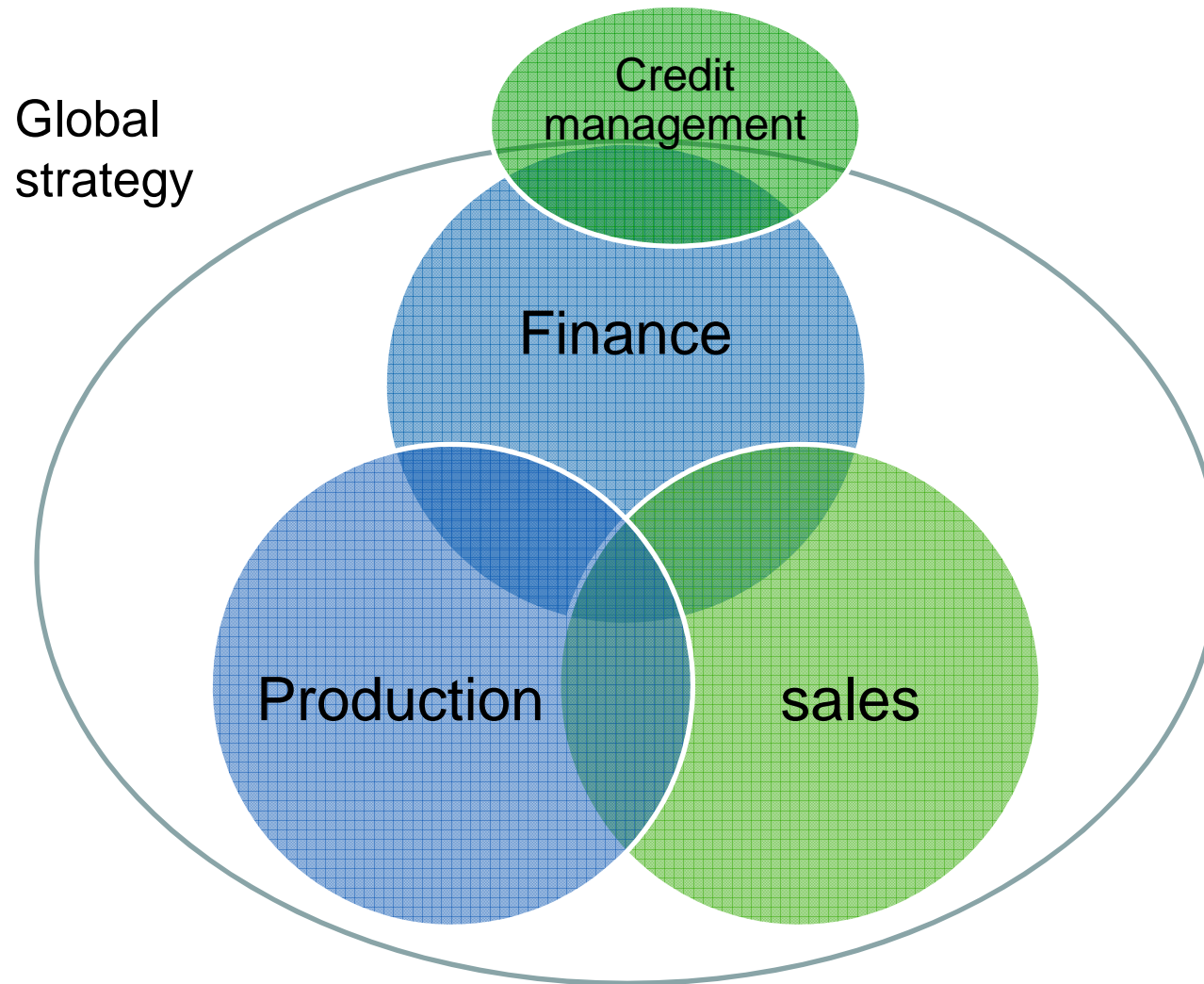

- **Objectives VPK 2012:**
    - **Group DSO: 60 days or less**
    - **Aging balance: < 2% olders than 30 days due**
    - **Bad debts write-off % : < 0,7%**
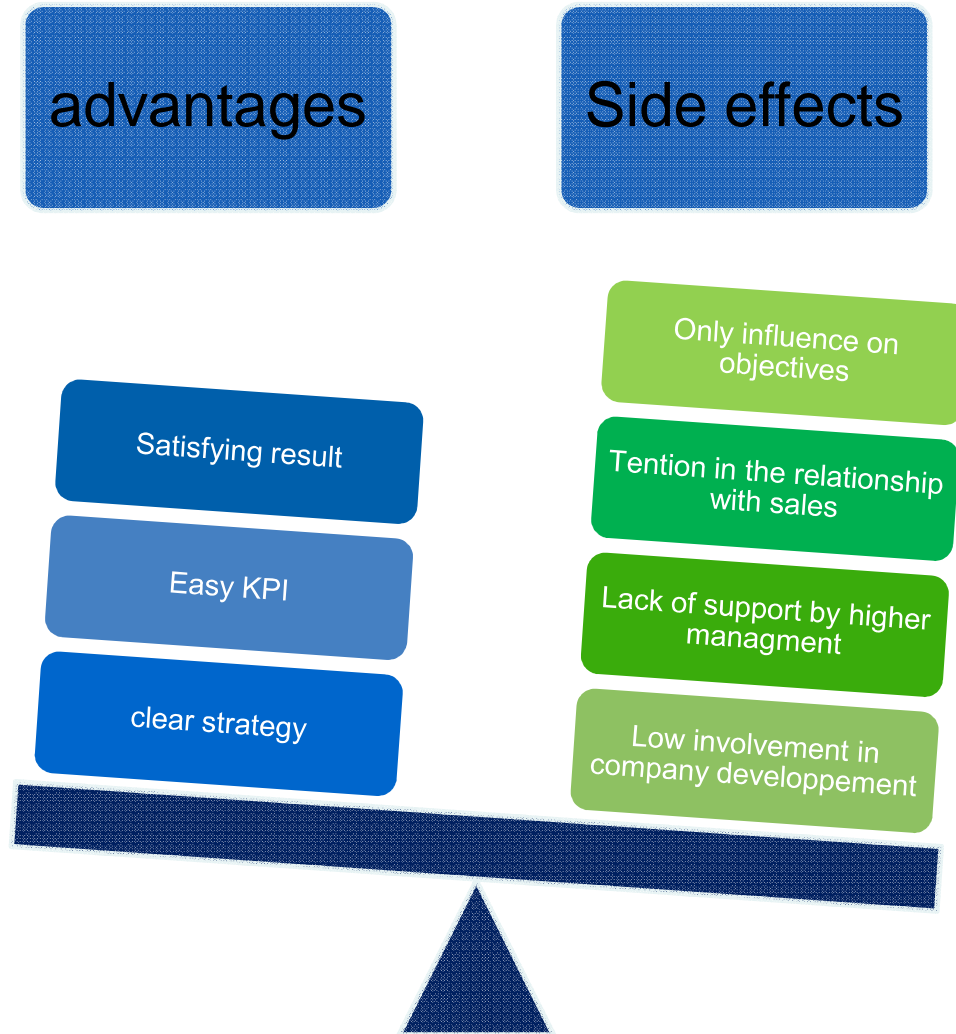
Sales/ credit control relationship in 2012

Main reason reason of the tentions:
isolation from the global strategie and sales objectives

Result of the isolated (opposite) targets

- **Tentions in the relationship with sales**

- **Lack of support of higher management**
    - **Overruling**
    - **Lack of information**

- **No involvement in business development**

- **…**
- ➢ **Result:**
    - **Frustrations**
    - **demotivation**
    - **Inefficienty**

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Analysis of the approach:

advantages	Side effects

Advantages (left side):
- Satisfying result
- Easy KPI
- clear strategy

Side effects (right side):
- Only influence on objectives
- Tention in the relationship with sales
- Lack of support by higher managment
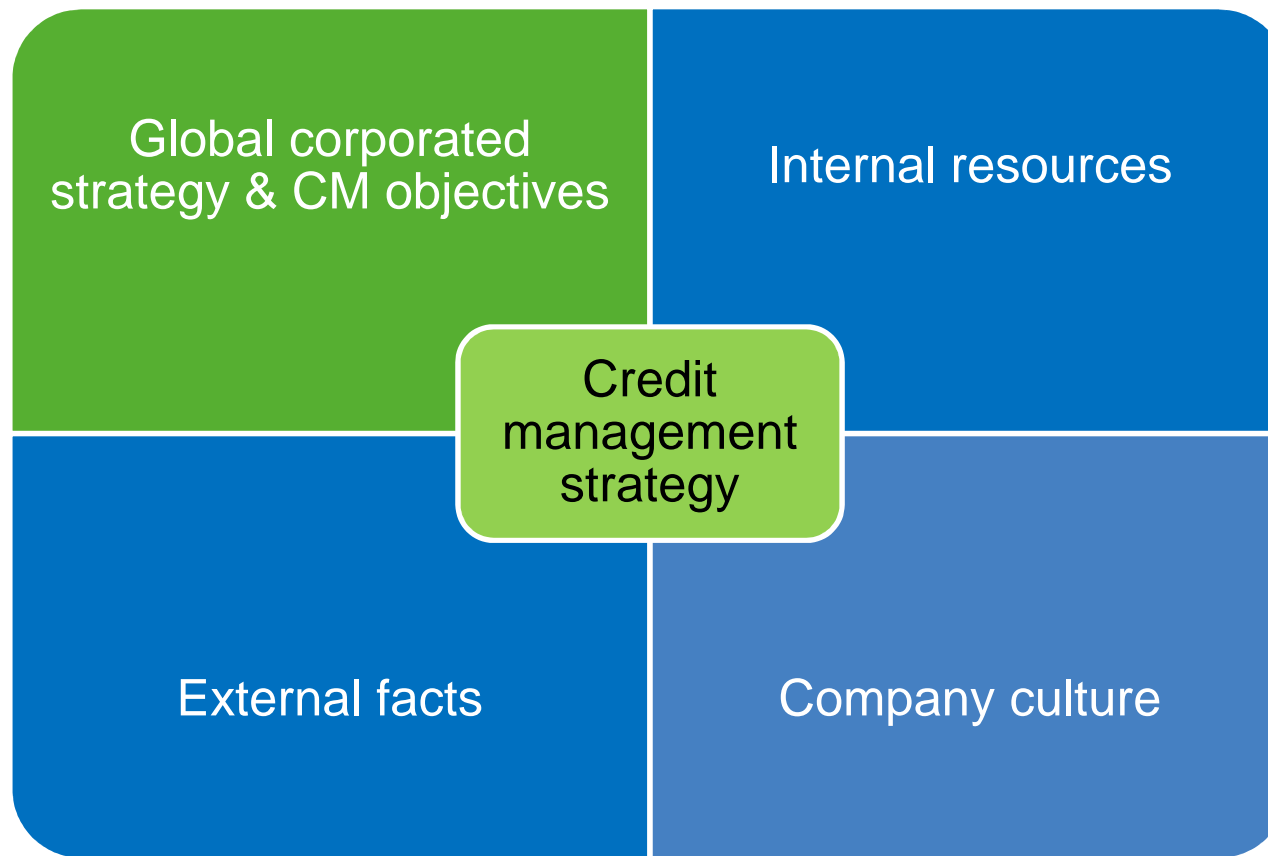- Low involvement in company developpement

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2. Changing the approach by including the corporated strategy and sales objectives in the CM strategy

New packaging,
same commitment.

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Spiced up recipe for the CM strategy

Global corporated strategy & CM objectives	**Internal resources**
External facts	**Company culture**

Credit management strategy

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Credit managment objective

- **Classic definition or interpretation of the CM:**
  - **" The main objective of credit management is to support the global corporated strategy by optimizing the generated revenue by accompanying the sales department to their targets through substainable growth within the bounderies off the deemed cm targets"**

Credit management

Decease in bad debts and DSO

Revenue optimization

Conflicting priorities within CM strategy

Major changes in KPI's

- **DSO targets based on sales weighted average payment terms of the country**

- **New: Risk coverage of portefollio**
    - **Insurance**
    - **Collateral**

- **Provitions for "overtrade" (real calculated risk)**

- **Objectives VPK 2015:**
    - **Group DSO: 56 days or less**
        - **Different DSO targets depending country**
    - **Aging balance: < 1% olders than 30 days due**
    - **Bed debts % : < 0,12%**
    - **Risk coverage: 80% or higher**
    - **…**

Changing the approach of the CM objectives & strategy

✓ **Check to global corporated strategy**

✓ **Check to local company strategy**

✓ **Check to sales strategy**

➢ **Define the credit management objectives**

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Strategic conflicts in CM
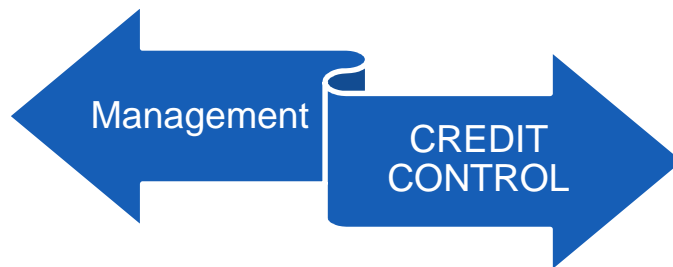

SALES ← → **CREDIT CONTROL**
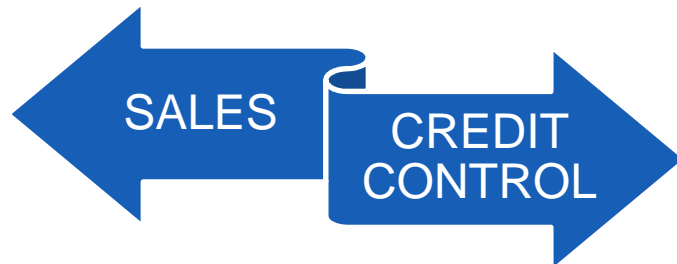
1st conflict (sales)
Poor acceptation criteria in advantage of sales
vs.
minimal depreciation and investments in debt collection by strict acceptance criteria

Management ← → **CREDIT CONTROL**

2nd conflict (management)
strong financial results and financial service
vs.
departmental costs & potential slow down of growth

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Credit control within the global Strategy VPK Group

Situation:
- **VPK Group target is a consolidated TO of 1.000.000.000 within 3 years in a Saturated market**
  - ➢ **Growth mainly by**
    - **Acquisitions (market share and in Turnover)**
    - **increase of efficiency (cash flow /profit margins)**

Management:
- ➢ **Strong emphasis in Cash conversion cycle and Cash flow**
  - ➢ **Strong interest in Credit control management**

Strong positioning from CM toward Sales
More defensive strategy

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Credit control within the Sales Strategy VPK

Strategic target Sales:
- **Penetretion of a specific market in the Netherlands**
  - ➤ **A very closed market**
    - ▪ **Sales through Traders (low creditworthiness)**
   - ▪ **Very high orders with low margins**

Credit Management:
- ➤ **Classic way of CM not possible**
  - ➤ **Support through guarantee**
    - ➤ **Personal guarantee, extended retention of title,…**
  - ➤ **Support by provitioning the excess of sales (reporting to steering comitee: know the risk)**

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From isolation to integration:
CM strategy supports the sales and the corporated Targets

Global strategy
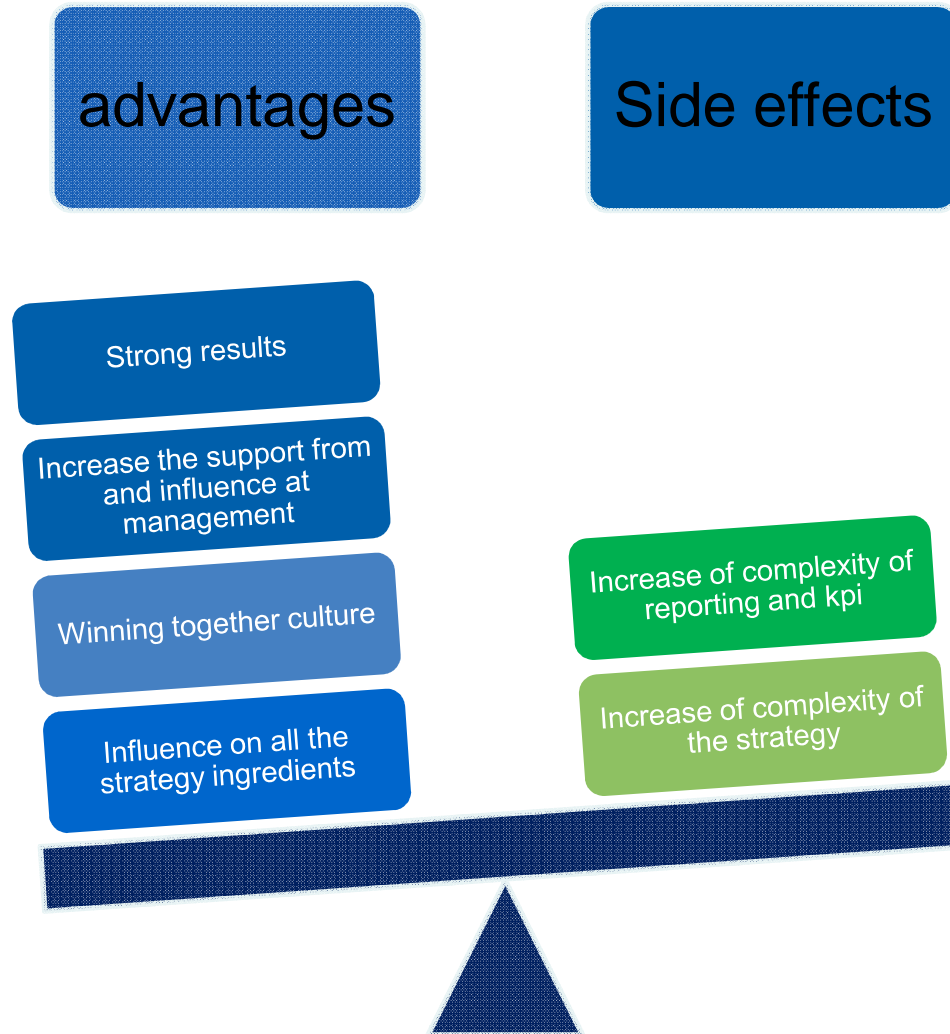
Finance

Credit management

Production

sales

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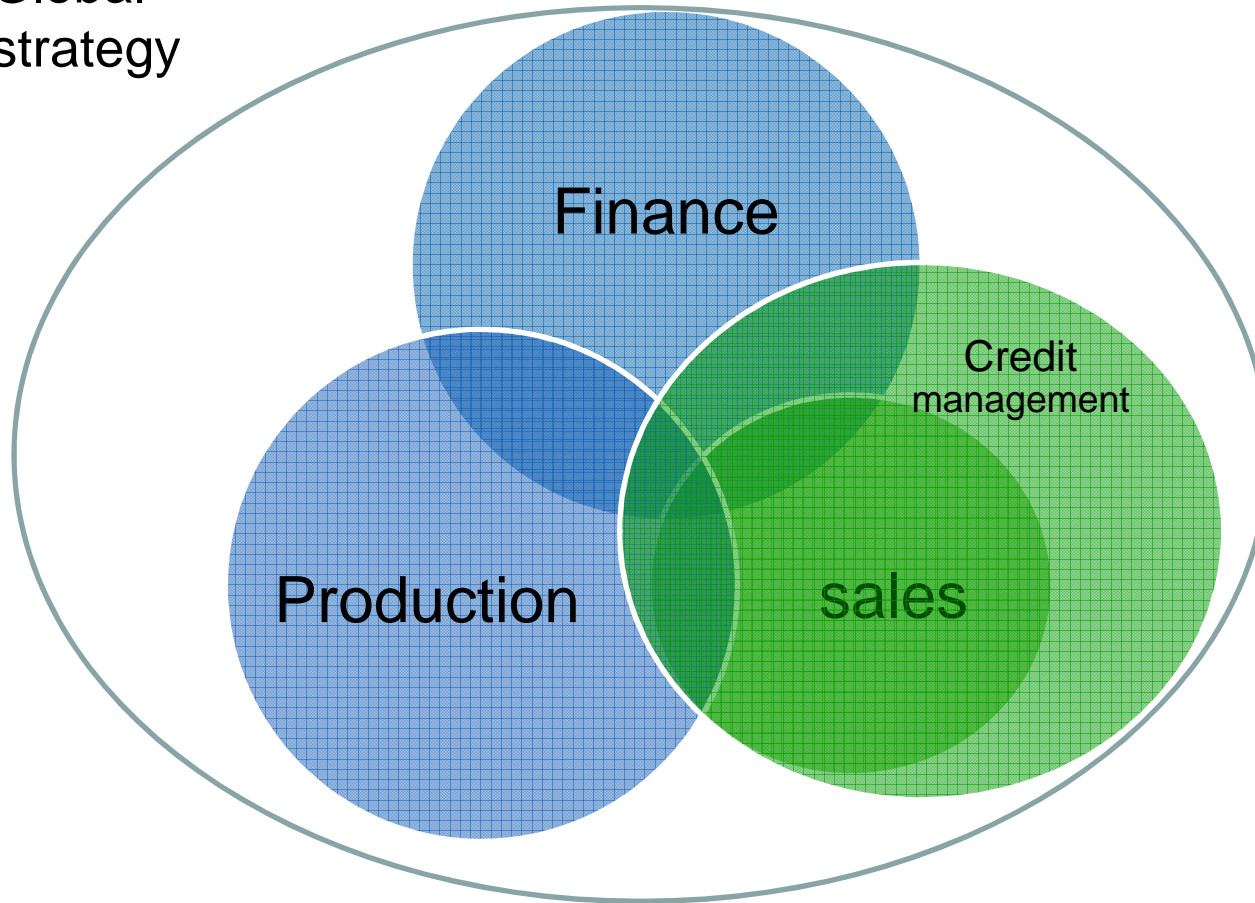
Impact of new approach on Global Corporated Strategy objectives

- **A winning together mentality between Sales and CM**

- **Increase of the influence and creditbility of credit managment with the board of directors**

- **More involvement in business developments**

- **…**

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Analysis of the approach:

advantages

Side effects

Strong results

Increase the support from and influence at management

Winning together culture

Increase of complexity of reporting and kpi

Influence on all the strategy ingredients

Increase of complexity of the strategy

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3. Questions?

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