Success Story

Business Advisory

Designing a Credit Control Mechanism

Storyline…

The client is a leading Indian precision components manufacturing company. The company primarily manufactures automotive components and caters to domestic as well as global markets. It also provides manufacturing services in automotive as well as non-automotive sectors. The company in FY 2017-18 had annual revenues of more than US$ 150 mn, 40 different profit centres, and more than 3,000 employees.

MaGC was engaged by the Client to design a Credit Control Mechanism (CCM) for managing its accounts receivables.

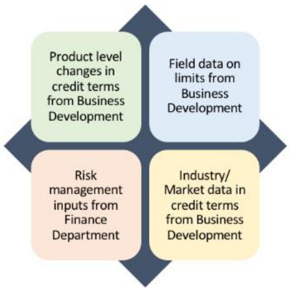
Once upon a time…

The Client's business had grown rapidly in the past decade and the momentum was expected to continue into the future as well. There was no established mechanism for assessing risk before extending credit to customers or for monitoring receivables regularly. The Client Management identified sound credit control as critical to long-term business performance. it engaged MaGC to design a Credit Control Mechanism. The objective was to implement the CCM in an Oracle Financials environment in the long run.

Moving on…

MaGC had earlier worked for the Client in developing a comprehensive cost accounting system and in streamlining its finance function organization structure. Past association gave the MaGC team a strong understanding of the complexities of the business. Designing an effective CCM posed multiple challenges such as the customer base ranging from a few top-notch automobile companies to small manufacturers and distributors with low credit ranking and established lines of business and new ventures with different business needs working under the same umbrella

The MaGC team held extensive consultations with the Finance and Sales team apart from the Senior Management. The focus was to identify the critical factors that generated credit risk for the Client and strategies to address the risks. The CCM was designed around two main tools: (a) credit limit at an account level, and (b) the credit terms at the individual order level. Policies were written for addressing these two elements. Implementation guidance in the form of process flowcharts, detailed procedures, and document formats was also provided. Reporting formats and responsibilities for monitoring the performance of the CCM were laid out.



The Credit Control Mechanism Guidelines document underwent iterations over multiple rounds of discussion with the Client Management and stakeholders from the Finance and Sales teams. As a value-add, MaGC provided a spreadsheet based tool for piloting the CCM before implementing it fully on the Oracle Financials platform.

Finally…

Credit management and control, which was earlier subjective, became data and process driven after CCM implementation. It helped bring about standardisation in credit extension, monitoring, and collection processes and resulted in better coordination between the Finance and Sales teams. The CCM reporting system improved decision-making at all levels. Overall, the CCM was effective in meeting the larger objective of better quality of receivables and their faster realisation.

Management & Governance Consulting
www.magc.in

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Contact
enquiries@magc.in