9 Best Practices: How Sales Teams Can Support Corporate Goals for Credit and Collections

By: Frank Buck, Director of Product, Carixa

Originally published in the Credit Research Foundation's publication, Perspective by CRF (Q2 2024)

Managing accounts receivable effectively is crucial for maintaining a healthy cash flow in any company, and sales teams should play a "partner" role by assisting Finance with credit, collections, and customer payment deductions.

There is often tension between Sales and Credit & Collection teams. The two teams frequently point fingers at each other for problems related to credit and accounts receivable but both share the responsibility for the financial viability of the customer. Several of the recommendations below require sales to play a supporting role while AR drives much of the execution – so while it may seem like a lot on sales, in actuality it is the minimum needed for securing the relationship.

Sales and Credit & Collection teams interact with clients throughout the order-to-collection process, making coordinated efforts essential for optimal results. Sales is responsible for securing orders, but their job isn't complete until revenue is collected, requiring support from the Credit and Collection teams. Credit and Collection monitors aging receivables and should alert Sales when issues arise, and leverage Sales' client relationships to expedite payments or gather feedback.

Actions by one team can impact the other; for instance, aggressive collection tactics can harm client relations, while promises made by Sales can exacerbate overdue balances. Therefore, alignment between the two teams is crucial, ideally through shared objectives and rewards for meeting collection and revenue targets.

Here are nine best practices for the sales force to help ensure accounts receivable remain current and delinquencies are minimized, thus maximizing credit lines for new sales.

1. Onboard New Customers Thoroughly

Comprehensive Onboarding: It all begins with the proper onboarding of a new customer at the beginning of a relationship. This includes properly filling out a credit application and providing detailed information for billing. Sharing and explaining the seller's policies and rules concerning credit, collections, and deductions is essential. It's good practice to have the buyer sign your policy documents to ensure understanding and agreement. This link provides a sample Deduction Policy Statement to present to the customer. Other policy statements are available by contacting us.

2. Leverage Automated Credit Application Systems

Automate the Credit Approval: Start with an automated credit application system to streamline the credit data gathering and approval process and speed approvals. Utilize automated credit scoring tools to quickly assess a customer's creditworthiness based on predefined criteria, reducing the time and effort needed for manual evaluations. With a good system, you can achieve a less than 24-hour turnaround for credit approvals.

Integrate Credit Applications with CRM: Ensure the credit application system is integrated with the company's CRM. This integration allows sales representatives to initiate credit applications, access real-time credit status updates and helps them make informed decisions about customer orders.

3. Sales' Proactive Involvement in Credit Management

Monitor Credit Limits: Salespeople should regularly monitor their customers' credit limits. If a customer's purchasing activity approaches their limit, the salesperson should proactively discuss this with the customer and with Finance to find solutions that facilitate continued sales. Conversely, accounts with high credit scores and underutilized on credit limits need special attention for possible upsell.

Flag Potential Risks: Ensure Sales teams are trained to identify early warning signs of credit issues, such as changes in facilities, key employees, ownership, purchasing patterns or delays in payment. They should promptly report these to Finance for further action.

4. Assistance with Accounts Receivable Collections

Early Engagement: Salespeople should engage with customers early in the collection process. A friendly reminder from a trusted sales representative can often prompt quicker payment without straining the customer relationship. There are a number of (correctable) reasons for late payments, which the salesperson should be on the alert for, including:

- The vendor master account was set up with the wrong terms, discounts or FOB.
- Issues with supplier order processing, compliance and billing procedures.
- Occasional overlooked invoices.
- Financial problems.
- Ingrained or intentional late payment habits.

Regular Check-Ins: Establish regular check-ins with customers to discuss account statuses. These conversations can help identify any potential issues before they become serious problems and demonstrate the company's commitment to partnership. Building effective relationship score cards is one of many ways to track the partnership with the customer.

Payment Plans: If a customer is experiencing temporary cash flow issues, salespeople can work with Finance to establish mutually agreeable payment plans. This approach maintains the relationship while ensuring eventual payment and can avoid hours of collections work on the back end to no avail.

5. Help in Resolving Customer Payment Deductions

Identify and Resolve Deductions: Sales teams should be vigilant about customer deductions, ensuring they are valid and promptly addressing any discrepancies. This can involve coordinating with the customer to understand the reason for the deduction, getting appropriate backup, and working with Finance to resolve it. In some cases, only the salesperson can resolve the issue.

- Misunderstanding of trade discount deals
- Contract misalignment
- Purchase Order terms conflict
- Pricing disagreement
- Process errors or compliance related fails
- Excessive ordering (or returns)

Educate Customers: Educate your customers on the proper procedures and allowed timelines for deductions to minimize errors and misunderstandings. Clear communication with supporting data can prevent future deductions and streamline the accounts receivable process, especially if it is proactively delivered through automation

6. Internal Communication and Collaboration

Regular Updates with Finance: Sales and Finance teams should hold regular meetings to discuss outstanding receivables, credit issues, and any concerns regarding customer payments. This collaboration ensures everyone is aligned and working towards the same goals. Creating a portfolio strategy for sales using dashboards is a healthy process for any sales organization, including key actions based on the account statuses.

Shared Objectives: Align sales targets with financial health metrics. Salespeople should understand that keeping accounts current is in their best interest, as it allows for continued sales and demonstrates their value as problem-solving partners to their customers.

Leverage Direct Relationships: Salespeople, unlike credit associates, have direct relationships with the buyers, which can help resolve many issues more quickly by acting in partnership with their counterparts, especially when getting customers to complete credit applications. Additionally, salespeople are generally involved in the customer contract and ordering process, placing them in a prime position to influence the accuracy and efficiency of the process.

7. Analyze Customer Account Profitability

Review True Account Profitability - Customer P&L Idea: Here is an idea that elevates a salesperson to that of a true business partner. Just as the corporation has a P&L, Finance can prepare a "Customer P&L," which could include the impact of late payments, as well as the cost of returns and deductions that reduce the net margins and consequently the value of the relationship from the seller's standpoint. Here is a very simple concept to support your position.

Simple Example

ABC Retail Chain	Gross Sales	Returns	Damage	Compliance	OTIF	Other	Shortages	Total
Plan $	$3,500,000	$105,000	$35,000	$17,500	$35,000	$17,500	$35,000	$245,000
Plan %	100%	3.0%	1.0%	0.5%	1.0%	0.50%	1.0%	7.0%
Actual %	100%	5.5%	2.0%	1.3%	1.3%	2%	2.0%	14.1%
Actual $		$192,500	$70,000	$45,500	$43,750	$70,000	$70,000	$491,750
Deductions Variance		**$297,500**	**$105,000**	**$63,000**	**$78,750**	**$87,500**	**$105,000**	**$246,750**
	% of Sales				**Late Payments**			
Budgeted GP	**28.0%**	$980,000			AR Balance	$475,000		
Excess Valid Deductions		($246,750)			1-30 Day balance would be	$291,667		
Carrying costs for credit in excess of 30 days		($14,667)			Excess A/R	$183,333		
Actual GP	**20.5%**	$718,583			Excess Carrying Cost at 8%	$14,667		

This analysis helps to identify problems that are eroding margins due to excessive deductions and late payments.

8. Customer Update or Problem-Solving Meetings

Periodic Meetings: Let the customer know that you would like to meet to identify and work out any issues in processes and the relationship, so you both can take proactive measures to keep the partnership soundly based. Let them know this will include an evaluation of billing and receivables issues, and that you would also want to hear of any issues from their side.

Review Accounts Receivable Statements: Before calling on a customer, salespeople should access or request a copy of the accounts receivable statement, discuss it with the credit manager, and be prepared to discuss some details with the customer. This consultative approach will impress the customer, who will see the salesperson as a professional partner in the business relationship.

Review the Customer's Supplier Ratings: Before meeting a large customer, the salesperson should review the customer's supplier ratings for the vendor, which are generally published on the customer's Supplier Portal. Rather than be blindsided by negative comments, the salesperson can be prepared with proactive actions ahead of time. In addition, go prepared with a list of any issues that you need to present to improve the relationship.

Customer P&L Review. Review and present your evaluation of the relationship based on the P&L idea presented in #7 above, if your analysis shows that some corrective action is necessary.

9. Training and Incentives

Training Programs: Provide training for sales teams on the importance of credit management, collections, and handling deductions. Equip them with the necessary skills and knowledge to address these issues effectively.

Incentive Programs: Implement incentive programs that reward sales representatives for maintaining low levels of delinquency, profitability and effectively managing their accounts receivable. This approach encourages proactive behavior and underscores the importance of financial health.

Conclusion

While discussing business problems, late payments and deductions with a customer may not be a favorite task for salespeople, it is essential for maintaining a healthy cash flow, as well as productive customer relationships. By adopting these best practices, sales teams can significantly support Finance in managing credit and collections, ensuring accounts remain current and providing more room in the credit line for new sales. This proactive approach not only secures the company's financial stability but also strengthens the partnership with customers, fostering long-term business success for both parties.

About the Author

Frank is responsible for Carixa Cloud Suite product management with deep experience in invoice-to-cash automation. Previously, he served in senior product management roles with Avalara, a tax compliance software company, Billtrust, an invoice-to-payments company, and SunGard Availability Services. He has early-career experience with FedEx Ground and Amazon fulfillment. Frank has a B.A. Sociology from Bloomsburg University of Pennsylvania.