

Business to Business Credit Approval Process

All of us are familiar with Business to Consumer (B2C) transactions because we are involved in them every day. By 2020, [Frost and Sullivan](#) predicts that this market reach \$3.2 trillion (USD). There is much less visibility and understanding of [Business to Business \(B2B\)](#) transactions. Yet the same Frost and Sullivan study predicts that B2B sales in 2020 will reach \$6.7 trillion (USD). While Covid-19 may make these estimates a little high, B2B commerce remains a large part of the world's economy.

One of the differences between B2C and B2B sales is that almost all B2B sales are made on terms, meaning [credit](#). Thus, if company A buys something from company B they don't pay for it at the time of purchase but rather wait for company B to send them an invoice. Company B's invoice specifies how much time company A has to pay the bill before incurring penalties. The payment expectation varies by region, a recent study of the Asia Pacific region indicates that the average in China is 37 days while in Japan its 47 days.

Credit is a continuing source of problems for most B2B companies. The friendlier the credit terms you offer your customers, the more sales you will generate. On the other hand, the more customer friendly your terms are, the longer it takes to collect your money which can cause you serious cash flow problems. The key metric companies use to monitor this balance is called [Days Sales Outstanding](#). It represents the number of days of average sales it would take to account for all of the currently unpaid invoices.

To manage this issue, companies have policies and procedures for establishing how much credit they will give each customer. When a customer is ready to order, they contact a customer service representative (CSR) who checks if the total of the order is less than the total available credit that customer has. If not, a credit analyst usually considers how much additional credit, if any, might be offered. Then someone in sales usually makes the decision if this new business is worth the risk of extending credit.

Your team's assignment is to look at how this process works for Precision Ball Bearings (PBB), a manufacturer of the [ball bearings](#) used in all types of motors, wheels and other equipment. Once you understand the process you will then identify the controls that PBB should put in place to ensure that PBB's assets are protected, their credit data is available and reliable, and that the people involved in the process respect the company's policies and the government's regulations.

Your team's assignment will be broken into four parts. You will be assigned a different part of the project on Days 4, 5, 6, and 7 and turn it all in, with your class presentation, on Day 8. This project will represent 20% of your final grade. The four parts are:

1. Understand the activities done in PBB's current process.
2. Understand the data used in PBB's current process.
3. Identify the business rules used in PBB's current process.
4. Recommend the control objectives and controls that PBB should use insure positive outcomes from the credit approval process.

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Team Exercise 1

The purpose of this exercise is to analyze PBB's current credit approval system, the process, the data it uses and the business rules it follows.

Current Systems

- Sales Order Entry (SOE) system- only CSR's have access
- Customer Credit System (CSS) – only credit analysts have access but CSR's get a nightly report of how much credit every customer can be offered
- Email
- Desktop productivity applications

Current process

1. Customer places an order and asks the CSR to put it on credit.
2. If this is a new customer, the CSR completes a Credit Request Form (CRF) and emails it to a credit analyst who looks at the customer's external credit rating, sets a preliminary credit limit and sends it to the sales manager for approval as required by company policy.
 - a. Once approved, the new credit limit is entered in the CSS and the order is either taken in the SOE on credit (if less than the credit limit) or the customer must pay cash.
3. If this is an existing customer and the order is less than the customer's existing credit limit, the CSR enters the order into the SOE using credit.
4. If this is an existing customer and the order is more than the customer's existing credit limit, then the customer must pay cash or ask for a credit extension.
5. The process for getting a credit extension is very similar to the process for setting up credit for a new customer.
 - a. The CSR completes A CRF and emails it to credit analyst. The credit analyst looks at how much is being requested, the customer's payment history, the customer's buying pattern, any external credit information that is available, and then makes recommendation to CSR:
 - i. If recommendation is to "grant" the extension (must be no more that 20% of the original credit limit), then the CSR contacts the salesperson via email for business approval.
 - ii. If recommendation is to "possibly grant" the extension (must be between 20% and 100% of the original credit limit), then the CSR contacts the sales manager via email for business approval.
 - iii. Finally, if recommendation is to "not grant" the extension, the CSR informs customer and then notifies both the salesperson and the sales manager via email of action taken as required by policy.
 - b. CSR documents, request, recommendation, approval/notification as required by policy. This is done by printing out and filing all of the credit request forms and emails and then filing them in a customer credit file.
6. The company monitors this process by watching its DSO and tracking the recommendations by each credit analyst and the approvals of each sales manager.

7. While lost paper work is occasionally a problem, the current system meets local regulations which require approvals by designated managers and credit decision documentation to be kept for 3 years.

Credit Request Form

Customer Information

Customer Name _____ Customer Number _____

Customer Service Representative (Userid) _____

Credit Analyst (Userid) _____

Sales Person (Userid) _____

Sales Manager (Userid) _____

Credit Request Information

Current Customer Credit Limit \$ _____ (For new customer enter \$0.00)

Current Customer Balance \$ _____ (For new customer enter \$0.00)

Pending Order Value \$ _____

Credit Requested \$ _____

Credit Request Chronology

Date customer made the request MM/DD/YYYY

Date CSR sent request to Credit MM/DD/YYYY

Date request returned to CSR MM/DD/YYYY Recommended Yes/Maybe/No

\$ _____

Date CSR sent request for approval MM/DD/YYYY Approved Yes/Maybe/No

\$ _____

Date approval returned to CSR MM/DD/YYYY

Date CSR informed customer MM/DD/YYYY