Business to Business Credit Approval Process

 All of us are familiar with Business to Consumer (B2C) transactions because we engage in them every day. As of 2023, the B2C market is projected to reach approximately $6.7 trillion (USD). In contrast, Business to Business (B2B) transactions, which are often less visible, are also substantial; the B2B market is expected to exceed $10 trillion (USD) in 2023. While the impact of COVID-19 may have influenced these estimates, B2B commerce continues to play a vital role in the global economy. A key difference between B2C and B2B sales is that almost all B2B transactions occur on credit terms. This means that when Company A purchases from Company B, payment is not made at the time of purchase but rather upon receipt of an invoice, which outlines the payment terms and any penalties for late payment. Payment expectations vary by region; a recent study of the Asia-Pacific region indicates that the average payment period is around 37 days in China and approximately 45 days in Japan.

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 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 Sleepy Tea Corporation (STC). Sleepy Tea Corporation is a wholesale tea manufacturer which supplies loose leaf tea, tea satchels, tea supplies, and tea cakes to tea houses in Asia (China, Japan, and Singapore). Once you understand the process you will then identify the controls that STC should put in place to ensure that STC'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. This will all be seen by Jenny Xiu, the Chief Privacy Risk Officer, and Steven Yu, the Chief Accounting Officer. Your team's assignment will be broken into four parts.

You will be assigned a different part of the project on Days 2,3, and 4 and turn it all in, with your class presentation, on Day 5. This project will represent 25% of your final grade. The four parts for in-class are:

1. Understand the activities done in STC's current process.
2. Understand the data used in STC's current process.

3. Identify the business rules used in STC's current process.

4. Recommend the control objectives and controls that STC should use insure positive outcomes from the credit approval process.

Additional Deliverables for your class presentation:

1. A swim-lane diagram of the current process
2. An ERD of the data involved in the process
3. A swim-lane diagram for the proposed solution
4. An ERD of the data involved in the proposed solution
5. A list of business rules for the process
6. A list of the control objectives for the process and what controls you recommend for each objective
7. A presentation of your findings (no more than 8 slides)