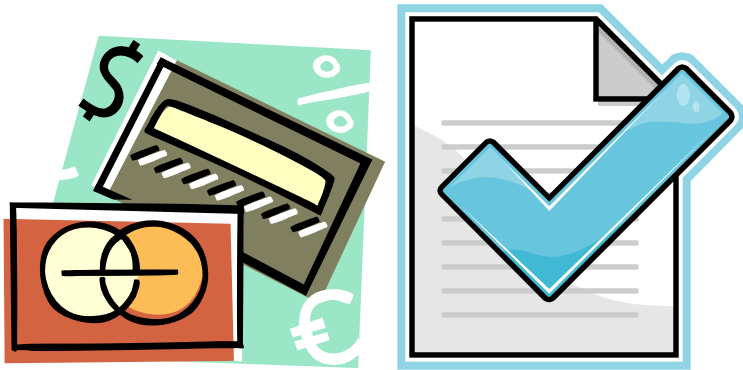


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**Best Practice
eXensys – Credit Management**

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Introduction

Large volume or value of outstanding receivables or debts has a significant impact on the cash-to-cash cycle and the overall business performance. The severity of impact differs from one organization to another based on the socio-geographic stability and policies. One of the best methods of confronting with the credit risk is to define a credit policy and a credit limit to the customers.

eXensys facilitates enterprises to define customer credit limit and configure automatic credit checks at sales order, delivery or invoice. The credit policy can be set as allow with a message or deny. As soon as the order processing is initiated, the user gets an automatic alert about the credit situation of the customer, based on the policy definition. Further, eXensys supports processing of sales orders or delivery notes or invoices, where the customer credit limit is exceeded, for credit representatives' approvals through conditional workflows. eXensys also facilitates configuration of notifications to one or more users when the credit limit is exceeded.

This white paper presents a detailed demonstration of the intricacies of credit management and the benefits of using eXensys best practices for customer credit management. 

Overview

eXensys facilitates simultaneous execution of sales cycle and credit management. eXensys supports distributed, centralized or hybrid credit management. In distributed credit management, the credit limit is defined specific to each customer. While in centralized credit management, the credit limit can be defined at a controlling entity such as a sales region or customer type or customer group. Credit limit is defined in any user-defined currency. eXensys controls credit limit defined at the sales region, customer type or group by ensuring that it is not exceeded at any point of time. In hybrid credit management scenario, a combination of customer credit limit with sales region, customer type or customer group can be used for effective credit management. eXensys credit management thus helps the organizations to synchronize customer processes and hierarchies with the organization structure.

eXensys verifies the credit balance against a customer, sales region, customer type or customer group based on the following transactions.

- Open Receivables (Unadjusted invoices, debit\credit notes, advances\ receipts, customer payments, rebates etc)
- Open Sales Orders (Undelivered Orders)
- Open Deliveries (Un-invoiced Deliveries)
- Returns (Unadjusted Returns)

For sales region, customer type and customer group the credit balance is calculated based on the above open transactions for all the customers mapped to them respectively. Credit limit

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is defined for effective dates (credit periods) and is defined in any currency, irrespective of the base\customer\transaction currencies. While calculating the credit balance all the values are converted into base currency and verified against the credit limit currency. Credit periods can be extended for future dates and credit limits can be revised or de-activated. A tolerance (variance %) can be defined to the credit limit as required. Credit limits can be revised through continuous monitoring of the customer performance and credit worthiness.

Credit check can be configured at sales order, delivery note or invoice. Further, the credit policy can be configured separately at each one of these transactions. Thus, in sales order a credit policy can be set as allow with a message, while at delivery, it can be configured as deny. If allow with a message is configured, then eXensys outputs a warning message, but does not prevent the user from saving the sales order. If deny is configured, then an error message is popped up, preventing the completion of delivery note transaction.

Allow and allow with message can be opted with approvals from the credit representatives or the sales managers. The approval process is facilitated through eXensys Workflow. Different workflow routes can be mapped to different conditions based on the credit limit.

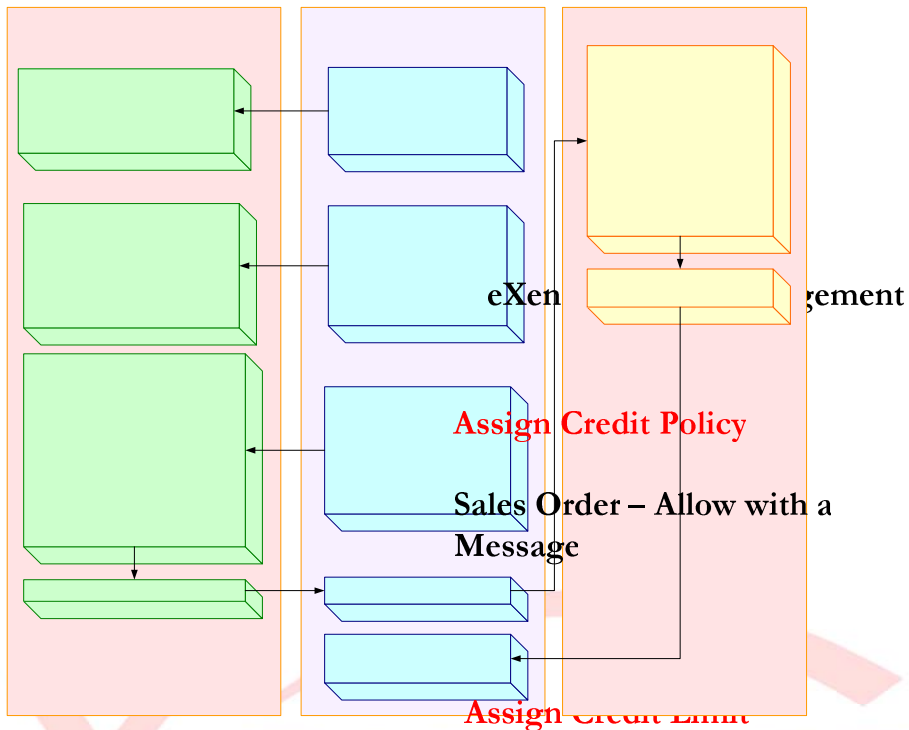
1. Distributed Credit Management

In eXensys distributed credit management, the credit limit is directly assigned to a customer. By default, the credit limit is set to the organization's base currency, but credit limit can be defined in any currency. To assign a credit limit to a customer, the customer is first defined and assigned to an organization. Then, the credit limit is assigned to the customer with effective (validity) dates, and variances.

If the customer currency is different from the organization's base currency and the sales order is done in the customer currency, then eXensys converts the transaction total to the base currency and checks for the credit limit in the credit limit currency. If a customer is defined, but no credit data is assigned, then eXensys will not perform any credit control for such customers.

Distributed credit management can be implemented when the control is required at individual customers. Credit limit in this case is set specific to customer based on their history on receivables, credit worthiness and risk factors. eXensys distributed credit management is most effective in risky market conditions.

eXensys distributed credit management controls individual customers, but will not have any control on the overall enterprise units. Since the credit limit is set for individual customer, and there is no limit on overall enterprise units, there is no control over the outstanding value of the receivables. Thus, there will be no control over the cash-to-cash cycle.



eXensys Distributed
eXensys Sales

Define Org

Org: 1001
Org Currency

Define Cu

Org: 1001
Customer:
Currency:

2. Centralized Credit Management

In eXensys centralized credit management, the credit limit is assigned to a customer type or group or sales region, instead of directly assigning to a customer. Each customer is mapped to a sales region, customer type and customer group. The credit limit is checked at sales order, delivery note or invoice for a sales region, customer type or customer group based on the customer definition.

To assign credit limit to a sales region, customer type or customer group; sales region, customer type or customer group are first defined and assigned to an organization. Then, the credit limit is assigned to sales region, customer type or customer group with effective dates and variances.

Credit check and credit policy will work similar to the distributed credit management. However, in eXensys centralized credit management, the credit check is done for the entire sales region, customer types or customer groups, and not for individual customers. Similar to eXensys distributed credit management, the credit limit can be set in any currency. And if the sales order, delivery note or invoice is done in a different currency, the transaction totals are converted to base currency and checked for the credit limit currency.

eXensys centralized credit management can be implemented when the control is required for processes or organization units, but not required at individual customers. Credit limit in this case is set to a specific sales region, customer type or customer group based on the past

Customer: 10001

INR 1,00,000

Tolerance: 1%

Customer: 10001

Receivables: INR 15,000

Open Orders: INR 20,000

Open Deliveries: INR 35,000

Total on Credit: INR 70,000

Credit Balance: INR 30,000

Credit Check Failed

Book Sales

Sales Order:

Customer:

USD: 1000

INR: 40,000

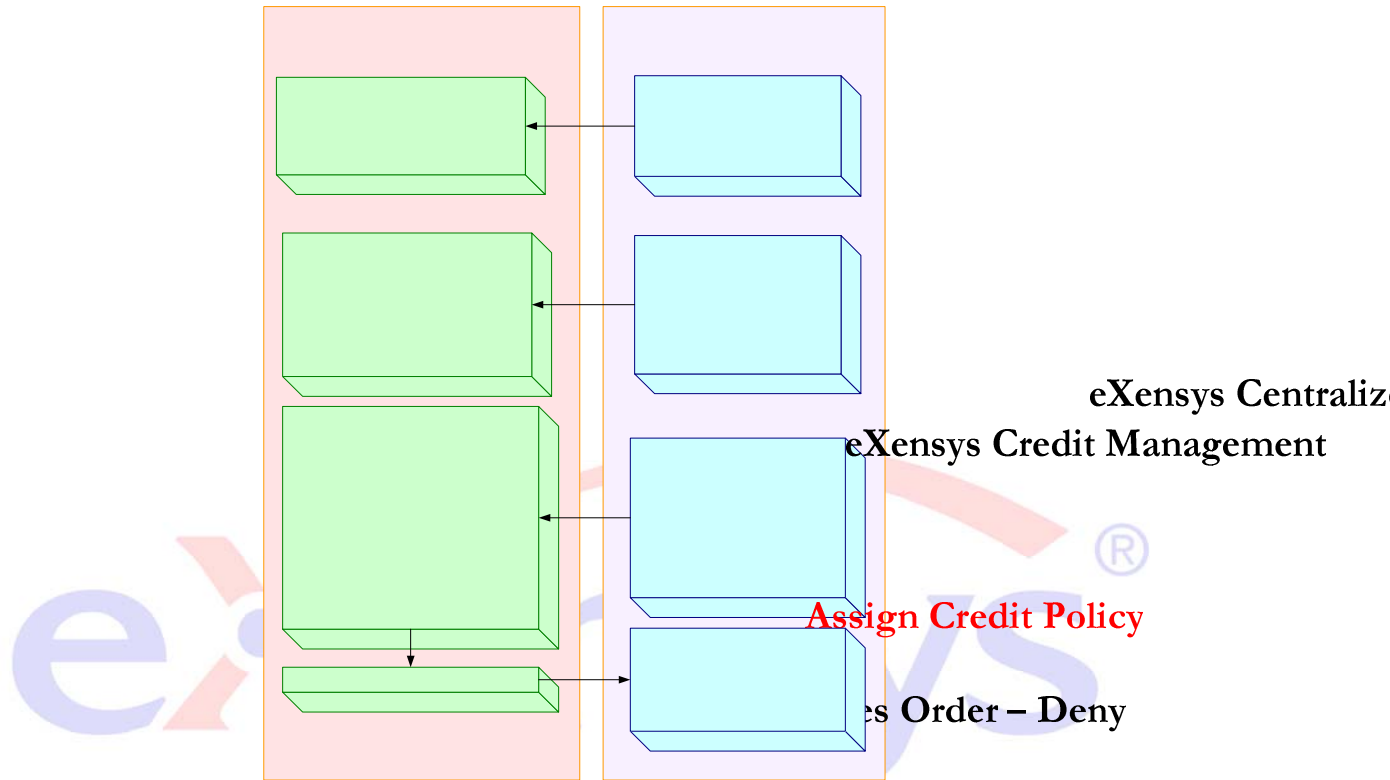
War

Order:

Del

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performance of the receivables cycle. eXensys centralized credit management is effective for low risk market conditions.



eXensys centralized credit management controls overall enterprise units and processes, but there will not be any control on the individual customers. Since, there is no control over individual customers, only few customers may avail major chunk of the credit balance on the sales region, customer type or customer group, in spite of poor history on receivables or credit worthiness. Further, some of the customers with good credit history and low risk may be turned down due to insufficient credit balance on the sales region, customer type or customer group. This may lead to good control of cash-to-cash cycle, but poor customer management and customer dissatisfaction.

Assign Credit Limit
Sales Region: 3001
INR 10,00,000
Tolerance: 1%

3. Hybrid Credit Management

eXensys hybrid credit management is a combination of both centralized and distributed credit management, where the credit limit is assigned to a sales region, customer type or customer group and also assigned to individual customers. The credit limit is checked at sales order, delivery note or invoice for individual customer and also for a sales region, customer type or customer group. Necessary actions are performed based on the credit

Credit Check
Sales Region: 3001
Receivables: INR 1,50,000
Open Orders: INR 2,00,000
Open Deliveries: INR 3,50,000
Total on Credit: INR 7,00,000
Credit Balance: INR 3,00,000

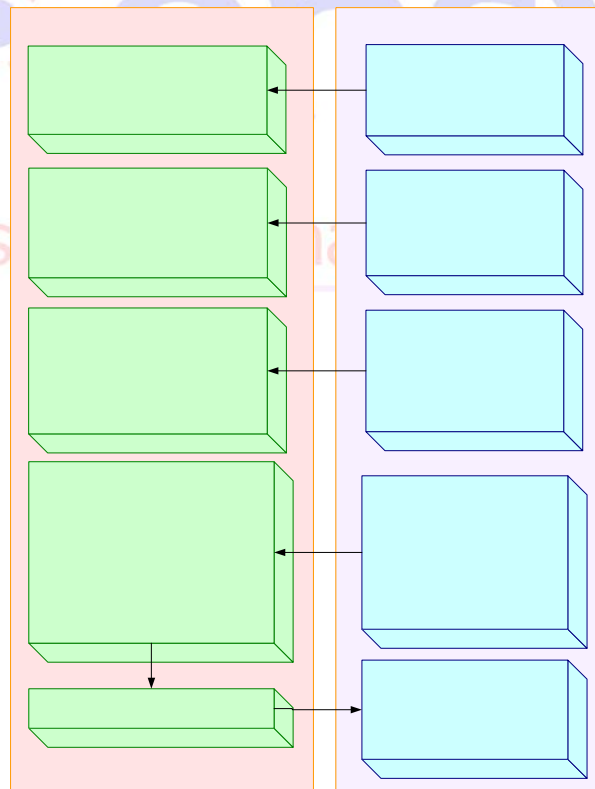
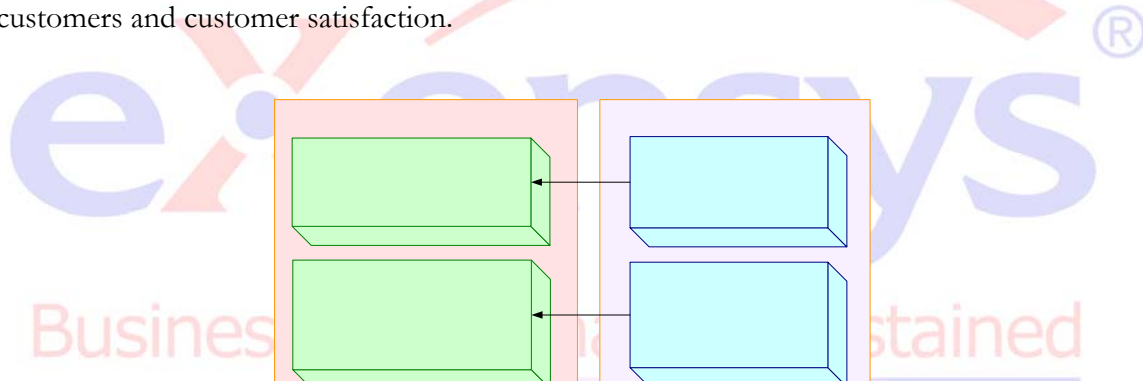
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policy if either of the checks fails viz., customer, sales region or customer type or customer group.

Credit check and credit policy will work similar to centralized\distributed credit management. However, in eXensys hybrid credit management, credit check is done for individual customer and sales region, customer types or customer groups.

eXensys hybrid credit management can be implemented for effective control at individual customers and processes. Credit limit in this case is set to a specific sales region, customer type or customer group based on the past performance of the receivables and this credit limit is further split among the individual customers based on their credit worthiness. eXensys hybrid credit management is most effective in medium to high risk market conditions.

eXensys hybrid credit management controls individual customers as well as the business units and processes. It balances and synchronizes the organization structure with the credit structure. It avoids all the disadvantages of distributed and centralized credit management by implementing effective controls on individual customers and organization units. This is the best option, for enterprises which are looking out for good control of cash-to-cash cycle, customers and customer satisfaction.



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Benefits

1. Minimize risk\bad debts through effective management of receivables.
2. Improvement of cash flows\days sales outstanding and cash-to-cash.
3. Improve overall business performance.
4. Have control over the customers and improve customer relationships.
5. Efficient utilization of capital.
6. Improved returns on investment and profitability.

Conclusion

- eXensys facilitates high levels of flexibility where an enterprise can have only centralized credit management or distributed credit management or a mix of both.
- eXensys facilitates enterprises to take all the advantages of centralized and distributed credit management viz., customer control, improved cash flows, reduced cash-to-cash cycle etc
- eXensys aligns credit policy with the enterprise structure. It ensures that the amount of credit extended and the period for which it is extended is consistent with the organization policy.
- eXensys offers flexibility to monitor customer credit performance, rank customers on credit worthiness and revise the credit limits based on them.
- eXensys helps in effective management of cash flows.
- eXensys helps in negotiating, assigning and monitoring customer credit.

Business Performance Sustained