

Five Measures for Managing Credit

Customer credit risk is rising to levels not seen in many years. Companies face a myriad of challenges from an inflationary cost environment, rising interest rates which impact servicing debt, tight and expensive labor, to slowing growth and demand.

The following infographic presents five critical measures you can take to better manage credit risk today.

1

Review Current Credit Policy

Now is a great time to review your written credit policy to identify any weak points or gaps that could leave you exposed. Reassessing your corporate risk appetite and tolerance is key to this process to align them with changing conditions.

2

Assess Macroeconomic Factors

Economic factors such as GDP growth, inflation, and interest rates can significantly impact your customer's credit quality. When reviewing customer credit risk, it's important to consider how sensitive the customer is to changes in these factors.

3

Review Customer Fundamentals

There is no substitute for objective financial data to determine customer credit risk. Revenue, cash flow, margins, profit, debt and liquidity are the pillars of financial health and define financial distress or strength.

Examine these credit metrics to make the most informed credit decisions.

4

Recommendations

Business and credit decisions to either accept or deny a certain level of credit exposure should be made in line with your corporate risk appetite to maximize profit. Also getting a second opinion on a prudent level of credit to extend can be invaluable. PG can help with this.

Solution: Analyst Guideline

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5

Monitor Changes in Risk

Monitoring the risk levels of your customer portfolio is a best practice. You can't measure what you're not monitoring. Having a good program in place to review customer fundamentals at set intervals and the use of a monitoring service like PG offers can help avoid credit losses.

Solution: Active Credit Alert

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www.eprofitguard.com
Phone: 866-990-1099
email: sales@eprofitguard.com