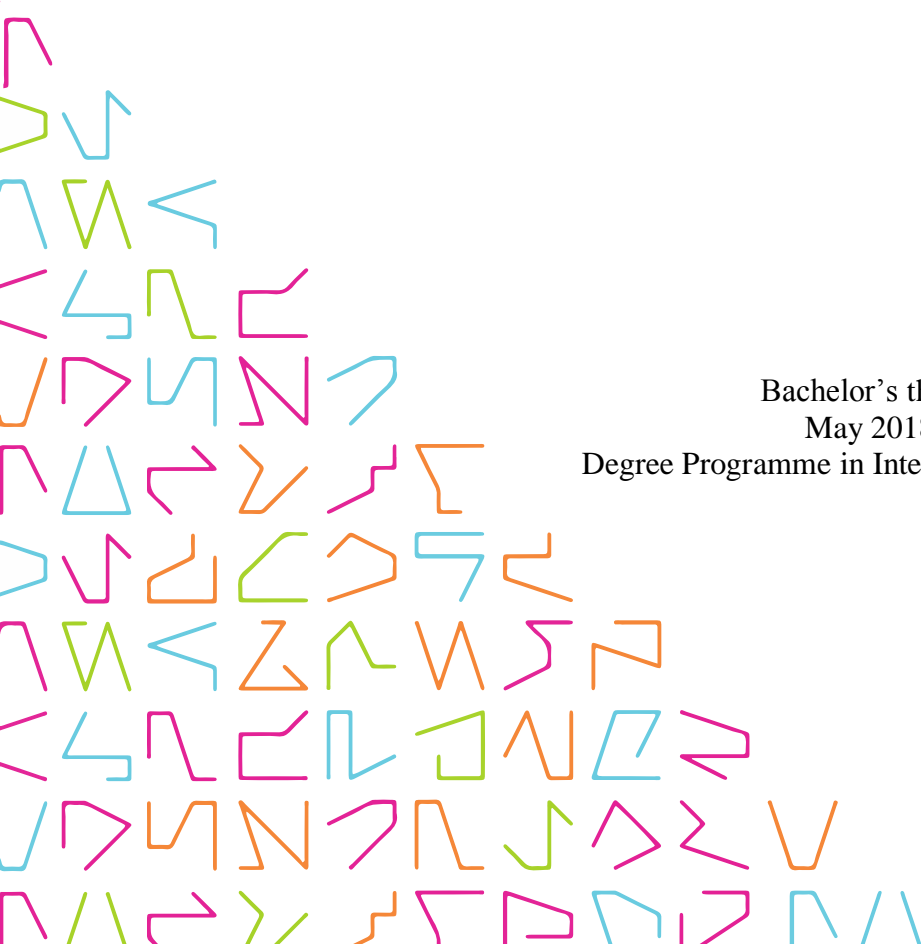


IMPROVEMENT OF BRONTO SKYLIFT'S ACCOUNTS RECEIVABLE POLICY

Aki-Jussi Suoniemi

Bachelor's thesis
May 2018
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ABSTRACT

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Improvement of Bronto Skylift's Accounts Receivable Policy

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This thesis was commissioned by Bronto Skylift Oy Ab seeking a formal credit policy, which would clarify their stance on credit related issues. The purpose of this study is to showcase the created credit policy, how it was formed, what the intended effects are for Bronto Skylift, as well as future recommendations.

Bronto Skylift did not have an official credit policy prior to the one created by the author, the policy was created with assistance from Bronto management.

The reason for the timing of creating the policy is the purchase of Bronto Skylift by Morita Holdings (Japan) from Federal Signal (USA). Morita wanted Bronto to come up with a formal credit policy and the timing worked perfectly with the author's internship.

The Policy itself was written during the two-month internship with help from Bronto staff, mainly the Director of Finance, Head of Sales and CEO. The aforementioned people were quite busy with other work, which made the process longer than anticipated.

The management at Bronto were happy with the end product, and are going to implement the Policy when it comes to future decision making.

The policy itself will be created into a PowerPoint presentation with the most vital information gathered into it, the complete policy will also be made available and stored within one of the networks Bronto uses. This will make it possible for people that have the rights to read the document to be able to access it easily.

The author will be present when the policy is unveiled to stakeholders. This will be done via physical meetings at the Tampere office, as well as Skype calls for stakeholders abroad and in different cities around Finland. The PowerPoint will be used in these training sessions, and the author as well as some management will be present to answer any questions that arise.

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ABBREVIATIONS AND TERMS

TAMK	Tampere University of Applied Sciences
cr	credit

A/R = Accounts Receivable

CCC = Cash Conversion Cycle

DSO = Days of Sales Outstanding

DPO = Days Payable Outstanding

Bronto/Bronto Skylift = Bronto Skylift Oy Ab

Morita = Morita Holdings Corporation

1 INTRODUCTION

Bronto Skylift Oy Ab is a Finnish manufacturer of truck mounted hydraulic platforms. In addition to sales of the platforms themselves, Bronto also provides spare parts and maintenance for its machines, as well as assists with selling pre-owned Bronto machinery.

Bronto was founded in 1972, the author's grandfather was one of the founders. The company was sold to a US-based company Federal Signal Corporation in 1995, which was the owner until the company was sold to Morita Holdings Corporation for 80 m EUR in 2016.

Bronto Skylift has its HQ in Tampere, Finland, where the production of all Bronto machines is finalized, this is also where the finance department, some of the sales team, as well as management resides. There are also offices in Germany, Sweden, Switzerland and the US.

As mentioned before, the final stages of production are done in Tampere, however the first stages are done at a plant in Pori. Component manufacturing and pre-assembly are in Pori. Tampere does final assembly and testing.

Bronto Skylift has systematically had a revenue of just above 100 m EUR, and an operating income between six and eight (6-8) percent in recent years. The most recent available information being from 2016 with a revenue of 102,4 m EUR, and a profit of 6 m EUR.

The author applied for an internship at Bronto to fulfill his last two months of mandatory internships. His job during these two months was to formulate a credit policy for Bronto. The management at Bronto understood that the author wanted to do something he could base his thesis off of, so he was assigned to the credit policy, which was something the new Japanese owners had requested to be done during the first quarter of 2018.

2 THEORETICAL FRAMEWORK

The following chapter lays out the relevant theories used in the composition of the credit policy, and this thesis.

2.1. Credit policy

“Credit Policy” can be defined as “a set of principles that a financial organization or business uses in deciding who it will loan money to or give credit (= the ability to pay for goods at a later time)

A clear credit policy is very important for companies on a wider scale, especially in fields such as heavy industries, in which products are often produced to order, without receiving full payment up front.

As mentioned, Bronto was missing a credit policy before, and creating, as well as implementing this document will make credit decisions easier in the future.

(<https://dictionary.cambridge.org/dictionary/english/credit-policy>)

2.2. Cash Conversion Cycle (CCC)

The cash conversion cycle (CCC) is used to detail the time (in days) it takes a company to convert resource input into cash flow. The main focus of the cash conversion cycle is to measure the time that resources are tied up in the production and sales process before it is converted into cash through selling goods or services to customers. The cash conversion cycle takes into consideration the time needed to sell inventory, the amount of time the company can pay its bills without penalties, as well as the time needed to collect receivables.

(<https://www.investopedia.com/terms/c/cashconversioncycle.asp>)

The ultimate goal of the credit policy is to better the cash conversion cycle and working capital. This is done through making better decisions when it comes to giving credit.

Other factors that impact are how much money is gotten up front, in addition the percentage of receivables overdue as well as period overdue before collection is a key

point in making the CCC better.

2.2.1 The importance of a good Cash Conversion Cycle

The cash conversion cycle is an important metric because it is important for companies to get returns for their investments, the faster a company can turn its investments into products and sell those products the better.

In Bronto's case, nearly all machines are made to order with the specific details the customer wants. This essentially means the cash conversion cycle is highly dependent on how fast Bronto can get working on the machine – and finish it.

The faster this cycle is and the faster the invested cash is freed up the better it is for the company, since you are able to invest that cash into other projects instead of needing outside funding for things such as materials etc.

Cutting days off a company's CCC can help said company reduce the amount of interest they pay, and when a company such as Bronto, which has quite a substantial revenue at 100m+ EUR, the savings could be very noticeable.

(<http://advancedcfo.com/the-importance-of-understanding-cash-conversion-cycle/>)

(<https://strategiccfo.com/reducing-cash-conversion-cycle/>)

2.2.2 DSO

Days sales outstanding (DSO) is a measure of the average number of days that it takes a company to collect payment after a sale has been made. DSO is often determined on a monthly, quarterly or annual basis, and can be calculated by dividing the amount of accounts receivable during a given period by the total value of credit sales during the same period, and multiplying the result by the number of days in the period measured.

The formula for calculating Days Sales Outstanding can be represented with the following formula:

$$= \frac{\text{Accounts Receivable}}{\text{Total Credit Sales}} \times \text{Number of Days}$$

OR

$$= \left[\frac{\text{Accounts Receivable}}{\left(\frac{\text{Total Credit Sales}}{\text{Number of Days}} \right)} \right]$$

FIGURE 1. Days Sales Outstanding

(<https://i.investopedia.com/inv/dictionary/terms/DSO.gif>)

(<https://www.investopedia.com/terms/d/dso.asp>)

2.2.3 DPO

Days payable outstanding (DPO) refers to the amount of time it takes a company to pay its invoices from creditors, such as suppliers. The formula for DPO is as follows:

$$\text{DPO} = \frac{\text{Ending Accounts Payable}}{\frac{\text{Cost of Sales}}{\text{Number of Days}}}$$

FIGURE 2. Days Payable Outstanding

(<https://i.investopedia.com/image/png/1511382523983/dayspayableoutstanding.png>)

(<https://www.investopedia.com/terms/d/dpo.asp>)

3 INTRODUCTION OF THE NEW CREDIT POLICY

3.1. Definitions

The credit policy defines the core principles of Bronto Skylift's credit management. This segment will detail all the sections discussed in the credit policy.

- **Organisation and responsibilities**

Organisation and responsibility of overseeing the use of the policy, states it is finance that has this responsibility. The credit management organisation consists of: Director of Finance, credit controller, project management (this is a new position which will begin during the second quarter of 2018), export coordinators and sales and service.

- **New Customer approval**

New customer approval is defined as a process which must be taken into consideration when making a sales agreement with a new customer, as well as when making a new sale with an existing customer in case one or more of the following are applicable:

- Past due balance;
- Problems with previous payments;
- New agreement extends their credit substantially;
- The customer or country is internationally black listed.

- **Credit investigation**

A credit investigation is the process which defines the creditworthiness of a customer. This is not done in case the use of a Letter of Credit, full advance or if the payment is fully secured by a trustworthy third party.

In case the agreement allows payment terms with open credit, a long payment period, or financing is needed from Bronto by the customer, the customer has to be investigated in detail.

- **Credit limits**

Credit limits define the maximum level of open balance for a particular customer.

- **Credit hold**

Credit hold is the practice of blocking new sales and service from customers which have past due items.

- **Collection/Dunning**

Collection is a process which starts from invoicing and ends when the payment has been received. Dunning refers to the process which starts if past due invoices are detected.

Dunning is handled by the Tampere Finance for all companies except the Swiss subsidiary (BAG).

The dunning and collection process can be found in the credit policy document Appendix 3 (Dunning and collection process)

- **Bad debt and write off**

Definitions which are used in the context of bad debt and write off are as follows:

- Past due: customer has not paid by due date.
- Uncertain: it is possible that the customer does not pay.
 - Bad debt provision is made.
 - Not yet booked to sales ledger.
- Impaired: It is certain that the customer will not pay. These cases have to be individually determined.

The procedure for making provisions for doubtful accounts at Bronto Skylift can be found in the Credit Policy document.

3.2. Objectives

The core objective of the credit policy is to define good credit management, minimize risk as well as clarify authorities and responsibilities. Having an official credit policy makes certain situations easier and swifter, due to clear instructions.

Creating a clear process for taking on new customers, as well as setting credit limits for both new, and existing customers.

Understanding the risk associated with specific customers, and taking needed measures to assure payment.

Creating an efficient debt collection process in which responsibilities are clear, as well as clearly documented, and well understood. Making collection as efficient as possible is key to the Accounts Receivable process. It is also vital to ensure all amounts due are collected according to the agreed payment terms.

There needs to be a defined process for collection of overdue receivables concerning cases in which the default collection methods have failed. In addition, the rules for bad debt provision and write-offs need to be defined.

Systematization of credit checks, as well as accounts receivable related processes and meetings. Including, but not limited to; monthly accounts receivable meetings, as well as up to date online documentation.

3.3. Authorities

The authority levels define the limits in technical specifications, commercial terms, offer/contract size, discount percentage and sales margin which can be accepted by sales personnel in different roles.

Authority levels are set in order to reduce risk and increase awareness within the company in case an agreement has special arrangements. The authority levels can be found in the Credit Policy document Appendix 2 (Authority levels).

3.4. Responsibilities

The credit policy document outlines the responsibilities for stakeholders. The responsibilities for the finance department are divided between the Director of Finance and finance as a whole.

Appendix 1 (Process ownership) of the credit policy gives some insight into the responsibilities of different entities.

3.5. Cyclical reporting and follow-up

It was decided, that a monthly meeting with stakeholders on the topic of overdue accounts receivable is going to have to be put into effect as soon as possible. These meetings are designed to keep the right people in the loop on the subject. It is important for the heads of sales and service, as well as the right people in finance to know what the situation is with each overdue receivable. This dialogue between sales people, head of sales and service and finance, in addition to some people from service is a key factor in making sure correct actions are taken, and nothing can go un-noticed.

4 ROLL-OUT OF THE NEW POLICY

4.1 Introduction into the new credit policy

This Credit Policy was created by the author for Bronto. It was made in association with the Head of Sales, Head of Finance, as well as the CEO. The process behind creating this document was through weekly meeting in which the discussion revolved around what the policy should look like.

The reason this Policy was created was to have Bronto procedures down on paper, in addition to creating new procedure which was lacking before, such as steps to be taken in the dunning process etc.

The resources other than meetings which were used to create this document were basically nonexistent, since Bronto had very little on paper before. The structure of this document were created by brainstorming in meetings and the actual document was created through trials and tribulations and fine tuning after receiving feedback from sales, finance and the CEO.

4.2 Credit Policy



Bronto Skylift Group Credit Policy

Author	Version	Approved	Date	Changes
A-J Suoniemi	00		28.3.2018	First version for Morita's review

General principles

The purpose of this Credit Policy is to define good credit management procedures and the division of responsibilities and credit management authority.

Credit management is defined as the management of risks and costs associated with the payment terms in customer contracts and other commercial transactions such as parts orders that are not bound by specific contracts. The use of the word credit in the context of this Policy relates to the supply of goods or services for payment at a later date. Payment periods offered may vary between different markets and businesses (Lift sales vs Service sales).

The Policy encompasses the following objectives:

- To define processes and authorities related to approval of new customers or new credit to current customers.
- To identify the risk level of customers and to take necessary actions to safeguard the payments.
- To administer an efficient debt collection process that is organised so that responsibilities are clearly defined and processes well understood and documented.
- To ensure that all amounts due are collected according to the agreed payment terms.
- To define the process if collection fails.
- To define rules for bad debt provision and write-offs.
- To ensure that the cost related to the above issues are kept to the minimum.

Organisation and responsibilities

Finance oversees that the operations are in compliance with this Policy, updates this Policy and produces comprehensive accounts receivable information for working capital analysis and management reports.

The credit management organisation consists of the Director of Finance, credit controller, project management, export coordinators and sales and service.

Responsibilities

Director of Finance/Finance

The Director of Finance is responsible for limiting the risk of credit exposure and to establish and maintain Bronto's credit management.

- Follow-up of the use of Credit Policy.
- Development of Credit Policy.
- Reporting credit management and overseeing credit management.
- Monitoring the credit situation.
- Setting up sufficient control systems to ensure the proper management of bad debts.
- Setting up monthly reviews on receivables.
- Distributing monthly reports concerning overdue receivables.

The Managing Director of the company is responsible for organising the operations in such a manner that the principles of this Credit Policy can be executed and that the responsibilities are clear in the organisation. The Managing Director is also responsible for monitoring the receivables situation and making sure that action plans will be made to ensure the collection of overdue receivables.

The Director of Finance controls and executes credit management activities in accordance with the principles and rules set by this Policy. He/she will arrange the follow-up of receivables so that they can be monitored together with the Managing Director.

New customer approval

Definition, objective and principles

New customer approval is a process which must be taken into consideration when making a sales agreement with a new customer. Also current customers may need to be investigated when making a new sales agreement because of:

- Past due balance.
- Problems with the previous payments.
- The new agreement extends their credit substantially.
- The customer or the country of the customer is internationally black listed (OFAC and EU sanction lists must be checked before accepting a new customer from a politically challenging country. Ask finance for guidance).

New customer approval consists of different parts: using a third party's risk assessment to check the third party/distributor, as well as the CEO/CFO etc. A third party is also used to check major shareholders. This is done whenever a new customer/distributor is on boarded, and is kept up to date with quarterly checks.

For sales which are more in the project type business (customized projects) new customer approval can be considered also as a new project approval. Individual deals may be very large and therefore require credit check even though Bronto have been dealing with the customer in the past. In the following text both project approval and customer approval are referred to as new customer approval.

Objectives of a new customer approval process are:

- Avoiding or reducing the credit risk when selling to new customers.
- Increasing the awareness of the risks related to customers' financial situation.
- Supporting the decisions of customer finance related issues.
- Defining limits for what kind of customers can be accepted.
- Avoiding unnecessary payment delays.
- Make sure all compliance aspects are taken into consideration.

The responsibility of vetting new customers is with sales, and the approval of new customers is made by Director of Finance. Salesmen are responsible for reporting the need for credit investigation based on their knowledge of the customer and the contents of the sales agreement. Finance / shipping and customer finance will make the credit analysis and inform sales personnel of the results to support their decision making. The final decision will be based on both the salesman's knowledge of the customer and the credit and compliance analysis.

Credit investigation

Credit investigation for a new customer must be done when certain payment terms and/or methods are involved. If the payment terms state the use of a Letter of Credit (L/C), full advance payment, or if the payments are fully secured by some other arrangements by a trustworthy third party, thorough credit investigation is not needed. But if the agreement allows payment terms with open credit, a long period for payment or the customer needs financing arrangement from Bronto Skylift, the customer has to be investigated in detail.

Credit investigation for new customers' needs to be done before signing a sales agreement. It is not necessary to do it in earlier stages unless the payment terms have already been discussed and may have an effect on the outcome of the offering process.

Credit analysis

Credit analysis together with the salesman's knowledge of the customer forms the credit investigation process. Finance is responsible for the analysis.

Main material and principles of the credit analysis:

- Financial statements from the past three years (especially if the amount is large and the payment schedule is longer than one year).
 - This can be received directly from the customer or from an external information source.
 - It is good to check how the customers' profitability and the balance sheet (e.g. equity ratio) have been developing over the years.
- Some information suppliers also provide the customers recent payment history (country-dependent) which gives indication if they have had problems with their liquidity recently.

Authority levels

Authority levels define the limits in technical specifications, commercial terms, offer/contract size, discount percentage and sales margin which can be accepted by sales personnel in different roles. The objective of using authority levels is to reduce the financial and commercial risks and to increase the awareness of agreements with special arrangements. Defined authority levels can be found from Appendix 2 (Authority Levels) of this Policy.

Credit limits

Credit limits define the maximum level of open balance of a customer. The objective of setting limits per customer is to reduce the amount of risk tied to one single customer in the event of financial failure and to monitor the receivables situation at customer level.

Credit limits have to be defined jointly by sales and finance personnel in their respective markets.

Credit hold

Credit hold means the blocking of new sales and services from customers which have past due items. Credit hold is decided and communicated properly to sales and service by the Director of Finance. Credit hold will then be binding all subsidiaries until the decision of unblocking. Credit hold can be set when there are no technical problems or other reasons caused by Bronto Skylift and the proper dunning procedure has been carried out (see the next chapter). Credit hold can also be caused by changes in customer's paying capacity and credit worthiness.

Unblocking is possible after past due items have been cleared in full. The Director of Finance is authorized to unblock credit holds and responsible for communicating this internally.

Collection / Dunning

Collection is a process that starts from invoicing and ends when the payment has been received. Dunning refers to the process which starts if past due invoices are detected.

Reasons for past due invoices may be financial, technical or commercial. Payment schedule may also be delayed because of the customer. The reason has to be investigated internally before starting the necessary actions. When the reason is financial, the dunning procedure is always carried out. If the reason is caused by Bronto Skylift, e.g. due to technical or commercial reasons, the dunning of the invoice should be blocked until the situation is handled, because the item is not past due until the customer has the obligation to pay (cost provision has to be done!).

Dunning is handled by Tampere Finance for all other companies except the Swiss subsidiary (BAG).

Dunning is performed for customers' past due items which create a debit balance. If the payment has not been received after the dunning letters, the Director of Finance decides on the credit hold. The dunning and collection process is described in Appendix 3.

Receivables shall be reviewed and changes updated at least on a monthly basis. Please note that these are the guidelines for the collection process. Always check the requirements of the country-specific legislation locally.

Dispute resolution

Legal action will have to be considered after all other methods of contact have been exhausted. The decision to take legal actions is decided by Morita legal counsel.

For debts considered uneconomical to refer legal action, the use of collection agents will have to be considered prior to any decision to write off the debt.

Bad debt and write off

Definitions which are used in the context of bad debt and write offs are the following:

- **Past due:** customer has not paid by due date
- **Uncertain:** it is possible that the customer does not pay
 - Bad debt provision is made (=allowance account is used)
 - Not yet booked to Sales Ledger
- **Impaired:** It is certain that the customer will not pay (e.g. in the case of bankruptcy). These cases have to be individually determined.

The following procedure is used for making provisions for doubtful accounts at Bronto Skylift.

- a) Generally when making a decision about provisions for bad debt and when considering write offs we follow the Prudence Principle. It is an accounting principle and it means that assets and income shall not be overstated and liabilities and charges shall not be understated. In practise appropriate provisions are made once a credit risk is signalled.
- b) For a receivable that is past due for more than 180 days a provision is made in the allowance account for 20 % unless the responsible business management is able to provide sufficient tangible evidence that collection is possible.
- c) For a receivable that is past due for more than one year a provision is made in the allowance account in full (100%) unless the responsible business management is able to provide sufficient tangible evidence that collection is possible.
- d) No provisions are made on inter-company receivables (in group reporting)
- e) When it becomes certain that the receivable is impaired a write off will be done in the sales ledger. This decision has to be approved by the Managing Director of the company, with prior notice from Morita Finance.

Provisions for bad debts shall be reviewed and updated on a monthly basis.

The allowance accounts and write-offs are followed additionally with the separate report forms by finance, at least quarterly.

Report keeping and disclosure

The objectives of reporting are to:

- Ensure compliance with this Policy.
- Control credit related risks.
- Monitor performance in relation to defined targets.
- Keep the company's management and its Board of Directors informed about credit management and its development.
- Keep sufficient documentation for applicable authorities and/or auditors.

Bronto is required to keep record of the following items:

- Write-offs, credit notes and the reasons for them.
 - These all have to have necessary documentation with required authorisations.
- Collection records.
 - Sent reminders.
 - Cases with external collection companies.
- Reports of due receivables (needed by group at least for the year end closings).
 - Divided by days of past due:
 - 0-90 days
 - 91-120 days
 - 121-150 days
 - >150 days

In addition to these reports mentioned in this Policy, all parties are responsible for reporting other required information about their financial operations on demand and according to more detailed specifications in financial manuals. The organization is obliged to meet on a monthly basis to review past due receivables and decide on collection process. Finance shall be responsible for organizing these meetings.

Reporting to authorities and external reporting

Bronto Skylift companies are responsible for the financial reporting of credit management related issues to the local authorities, as necessary.

Finance is responsible for gathering the necessary information from the companies for external reporting purposes.

Appendix 1 Process ownership

Process step	Managing Director	Finance Director	Salesman	Morita
Organizing Credit management in Local company	•	•		
Arranging meetings to analyse receivables		•		
Information for the need of credit investigation		•	•	
Performing credit analysis		•		
Setting of credit limits		•		
Setting of credit holds		•		
Collection and dunning		•		
Decision making of legal actions	•	•		•
Bad debt provisions		•		•
Write-off	•			•
Local reporting		•		
Reporting to Group		•		
Compliance		•		

FIGURE 3. Bronto Process ownership

Appendix 2 Authority levels

Table of Authorities	Shareholders Meeting	Board Meeting	Managing Director	Morita HD (prior consent) HD	Morita HD (prior notice) HD
Filing of lawsuits and countersuits of important legal disputes		•			
Lawsuits, countersuits and other matters relating to legal actions			•		• (Legal GM)
Conclusion, termination, changes and other matters of important contracts (except for sales contract of product)			•		• (Legal GM)
Management of accounts receivable			•		
Debt forgiveness, disposal of uncollectible accounts and provision of allowance for doubtful accounts			•		• (Accounting GM)
Outsourcing orders placed for new suppliers			• ≥ €50,000		
Orders placed for continuing clients of projects that have not yet been determined for allocation (Demo products)			• ≥ € All		
Opening or closure of agencies in Japan and abroad			•		

<p>Quotations and Orders for products received</p>			<p>Sales commitments > €1,000,000</p> <p>Commission to agents > 10 %</p> <p>Sales Margin \leq 30%</p> <p>Payment conditions differ from preapproved</p> <p>Conditions differ from preapproved</p>	
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FIGURE 4. Bronto Authority Levels

Appendix 3 Dunning and collection process

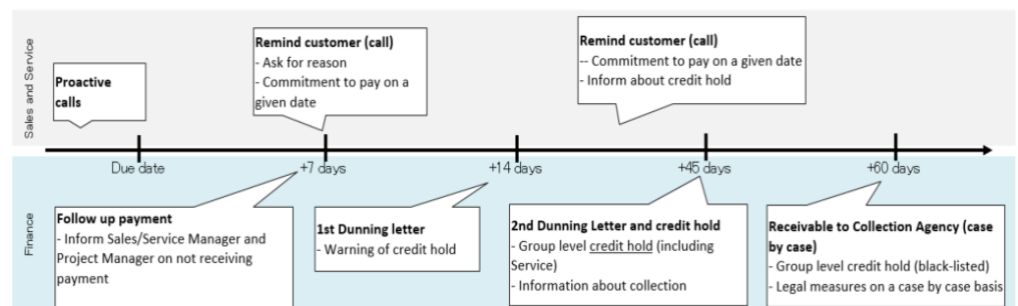


FIGURE 5. Bronto Dunning and collection process

For additional information please refer to the BSOY Accounts Receivable process.

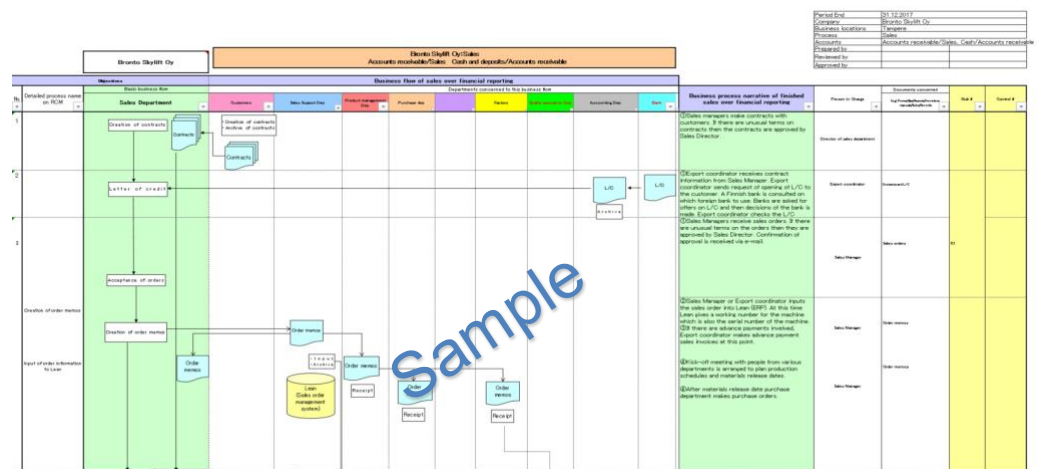


FIGURE 6. A/R process sample

Task	Responsible ⁽¹⁾	Approved	Date	Comments
Credit history				
Compliance				
Credit limit(s) ²				

Appendix 4 New customer approval form

FIGURE 7. New customer approval form

(1) Denotes responsible person(s) in charge of retrieving necessary information.

(2) Credit limit(s) shall be established on a case by cases basis for lift and service sales.

This form shall be used in the following circumstances:

1. First lift sale to a new distributor.
2. First lift sale to a new customer to which Bronto Skylift sells directly (except in the case of Western European municipalities).
3. Parts sales to customers that are new to Service (e.g. customers who buy used lifts), when the total sales value exceeds 5,000 EUR.

Name	
Address	
CEO's name	
CFO's name	
D-U-N-S number	

Customer
information:

FIGURE 8. Customer information

Date:

Authorized:

Finance Director

Sales Director

Service Director

Appendix 5 Standard payment terms

Standard payment terms for distributors are as shown in the table below.

For direct sales to Western European municipalities, Bronto Skylift will accept payment terms in the corresponding tenders, without any specific payment guarantee requirements.

For direct sales to other customers, Bronto's standard payment terms are as follows:

1. 15% of the contract value as a down payment.
2. 85% of the contract value prior to shipment, to be secured by a confirmed letter of credit depending on the business defaulting risk of the customer's country, as defined by COFACE

(<http://www.coface.com/content/download/160144/2632924/file/Map%20ENG%20with%20text%20Jan%202018.pdf>). Specifically, letters of credit are a requirement for business defaulting risks A4 and worse.

Any deviation from these payment terms requires authorization in accordance with the rules laid out in this Policy.

The original policy document has a chart with the detailed information of the standard payment terms of over 20 customers/distributors. This was deemed confidential and thus left out.

Appendix 6 Standard Letter of Credit format

Instructions for opening of a Documentary Credit

Payment shall be put into effect by an Irrevocable Confirmed Documentary Credit issued by Buyer's bank in a form acceptable to the Seller **directly to Danske Bank Plc, Helsinki, Finland** (without using any intermediate bank), **SWIFT: DABAFIHH**, not later than _____ (dd,mm,yy).

The Credit to be subject to the current Uniform Customs and Practice for Documentary Credits and shall be issued by SWIFT MT700 in accordance with the following terms and conditions:

40A: Form of Documentary credit: Irrevocable

40E: Applicable rules: UCP 600

31D: Date and place of expiry: _____ (dd,mm,yy) in Finland

50: Applicant: _____ (name and address of the buyer)

59: Beneficiary: Bronto Skylift Oy Ab, Teerivuorenkatu 28, 33300 Tampere, Finland

32B: Amount: _____ (currency code and amount)

41A: Credit available: With **Danske Bank, Helsinki** by payment at sight

43P: Partial shipments: Allowed

43T: Transshipment: Allowed

44: Shipment from: _____ (port of loading/place of dispatch)

44: Shipment to: _____ (port of discharge/place of destination, note: port of destination should be such that shipment by RO-RO vessel is possible)

44C: Latest date of shipment: _____ (dd,mm,yy)

45A: Description of goods: _____ Brief description of goods/services covered by the credit

Terms of delivery: _____ (Incoterms 2010)

46A: Documents required: List of documents against which payment will be effected

71B: Bank charges: Bank charges in Finland for account of Beneficiary, Bank charges outside Finland, including possible reimbursement charges, for account of Applicant. Extension charges due to a late issuance of the credit or amendment charges due to an unacceptable form of the credit will be payable by the Applicant.

48: Period for presentation: Within 21 days after date of shipment

49: Confirmation: Credit to be confirmed by **Danske Bank, Helsinki**

(53A: Reimbursement bank: (Name of the reimbursing bank)

SWIFT claims to be allowed. Negotiating bank to be allowed to claim reimbursement value 2 banking days after the date of its advice of negotiation to the issuing bank (MT754).

According to the International Standard Banking Practice (ISBP), L/C should not have any document(s) which require Applicant's signature.

Appendix 7 Past due receivables report format

Series ID	Invoice No	Customer ID	Name	Country	Currency Code	Invoice Amount	Overdue Amount	Over 90 less than 120days	Over 120 less than 150 days	Over 150 days
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FIGURE 9. Past due receivables excel

4.3 Internal training with policy document

The main points of the Credit Policy will be made into a PowerPoint by the author with the help of Head of Sales. This PowerPoint will be used to train stakeholders in the Tampere office as well as via skype, these will be held separately for lift sales and service. The skype calls will be held in two sessions in order to account for multiple time zones. The document itself will be available as a whole within Bronto's computer systems where it can be accessed by those that may need it.

5 INTRODUCTION OF KPI'S REVOLVING AROUND CREDIT POLICY

5.1 DSO (Days of Sales Outstanding) – Target <30 Days

The 2016 average was 31 days, it has since then raised quite drastically, and the goal is to get back to the level of 2016, and better on that slightly. Below a chart showing the trend.

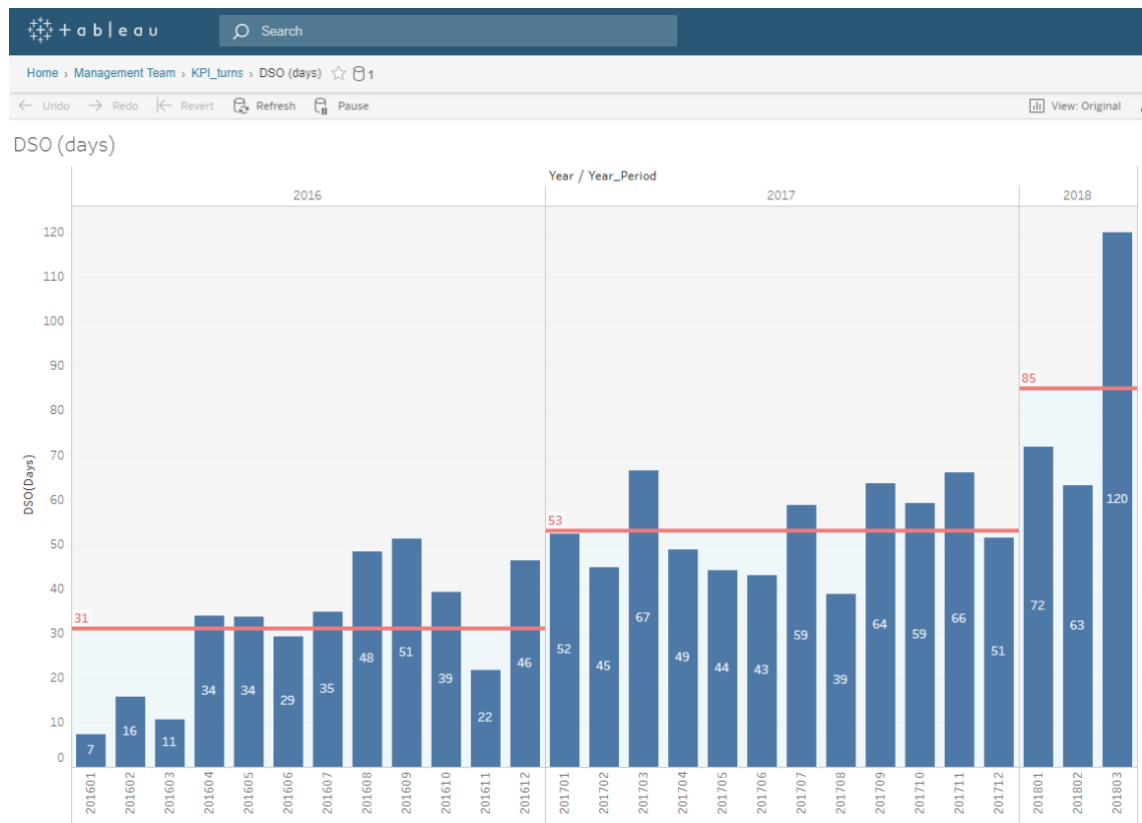


FIGURE 10. Bronto Days of Sales Outstanding

As can be seen from the chart in figure 11, 2017 saw an average raise from 31 to 53 days, and the year 2018 has started with even higher numbers, with an average of 85 days and March topping out at 120 days, when comparing the first and last figure we can see the overwhelming change that has happened in the past 26 months.

5.2 Overdue A/R as % of Total A/R – Target 0 %

Of course the aim is to have no overdue A/R, even though this is not very likely to be hit, the aim is to go as low as possible.

5.3 DPO (Days Payable Outstanding)

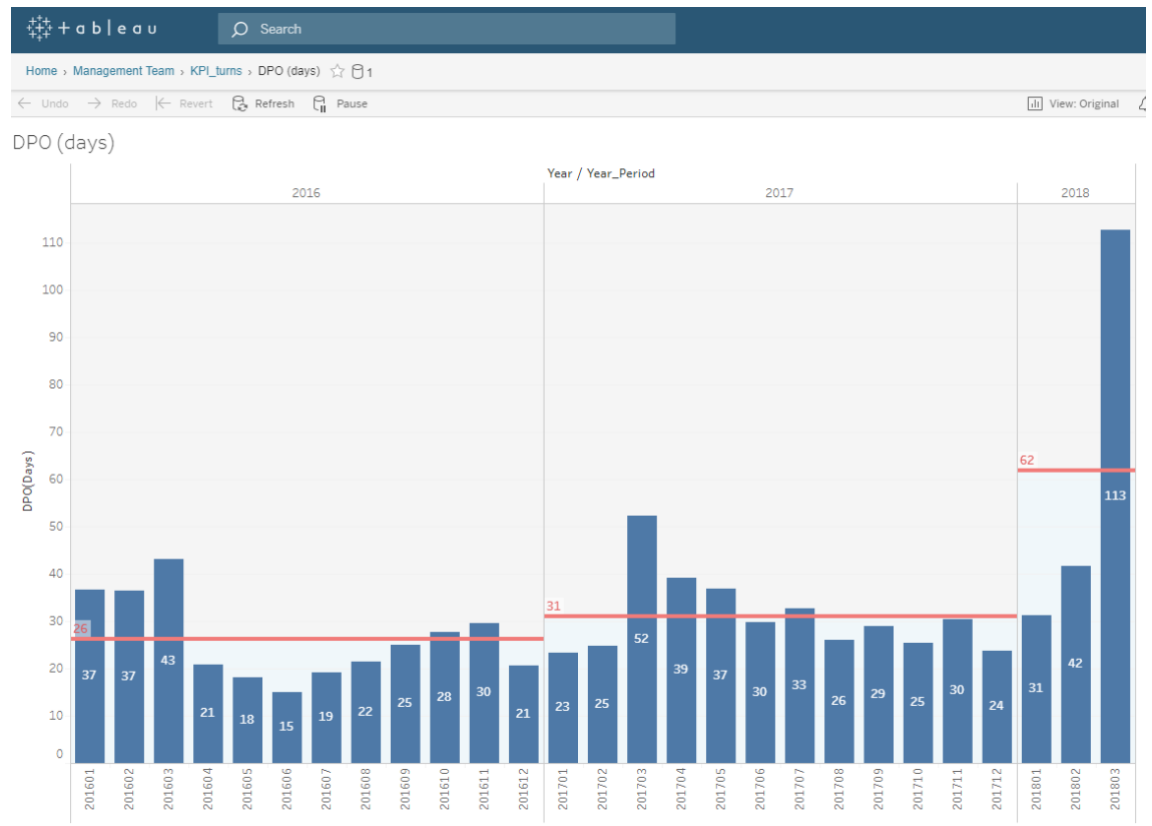


FIGURE 11. Days Payable Outstanding

As shown in figure 11, once again the level of 2016 was quite a bit better than the level at which Bronto is at the moment, and the goal is to get to a sub-25 level. The levels in 16-17 were quite similar with only a slight hike in 2017. However, the start of 2018 has seen a sizeable raise, which is something that will be focused on in order to get these numbers lower.

6 FURTHER RECOMMENDATIONS

There are some things that could limit the risk at Bronto. One thing that comes to mind is creating a system in which there can be separate credit limits for both lift sales as well as parts and maintenance. This would make it impossible for a company to have outstanding debts on the parts and maintenance side and this go unnoticed when putting in an order for a new machine. At the moment there could be better communication between these two departments in credit situations, and the debts on the maintenance side of things could be better monitored.

The stricter use of standard payment terms could and would limit the liabilities and risk taken on in some cases. There is a set of standard payment terms at the moment but they are basically never used as they are. In addition to limiting risk, this would often also mean more cash up front.

7 DISCUSSION

I found the process of creating the Credit Policy, as well as writing this thesis quite easy, although frustrating at times. The frustration came from things I myself couldn't control. These things were such as the immense workload the people in charge at Bronto were facing, which led to me having quite some time which could have been better spent as I was waiting on comments on my work which at times took a few days due to more pressing matters. This is in no way anyone's fault, but nevertheless was a tad frustrating.

The work itself I found somewhat interesting, and I'm glad I could work on something that actually makes a difference and helps out a company to which I have some personal ties to.

I found we tackled the CCC very well in the policy, the changes which will be implemented will make Bronto's Cash Conversion Cycle smoother, and thus make greater profits possible.

A positive aspect for Bronto was that when an outsider with next to no information on how things work comes in and questions and asks "stupid questions" they came up with some things they could be doing different that they just didn't think of themselves due to knowing so much and being so close to the business itself.

The goal set for me by Bronto was to create the Policy and see what I can do once that is done, as it turns out I just about got the Policy done before my time at Bronto was over and thus couldn't tackle anything else. This being said the goals were attained and the quality of my work was very good.

The people at Bronto found my work to be good (or at least that's what they told me) and this was very nice to hear, since I did spend quite a bit of time in the office working on the Credit Policy.

All in all, I found the task to be a nice experience to have behind me, although the thesis in itself was not as intimidating as I had thought beforehand.

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