Credit Management as a Marketing Function

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Although the concept of functional integration has been widely adopted in both general management and marketing management, the employment of credit for the accomplishment of marketing objectives has not progressed as far as it might. There are several reasons for this, all of which stem from a limited concept of the role of credit in business.

Credit and Credit Service

For one thing, the essential nature of credit continues to be misunderstood. The idea persists that sellers “give credit.” More accurately it should be said that they perform a credit service.

In selling on credit, sellers provide a service which must be regarded like any other service they perform. It is offered for the satisfaction of the market; for the differentiation of their market offering; and for additional income, either indirectly through the increased sale of products or directly through a charge made for the credit service.

Credit service must be marketed like any other service or product. The character of market demand for it must be ascertained. Operating costs are incurred in the performance, and these must be taken into consideration in setting price or in estimating profit.

The market for credit service arises from the utility which buyers attribute to it. Both sellers and buyers, however, have erred in their interpretation of credit, and this view has obscured the role of credit both in business and in the economy.

Sellers sometimes believe that in meeting credit competition they are forced to provide a “free” service. Thus, they may fail to allocate to this function all costs involved and neglect to program their credit service as part of their total product-service offering.

Buyers at times believe that they “get nothing” for the credit service charge or that they are charged more for the goods bought because of credit. As a result, they form attitudes antagonistic to those who provide credit service, tending to regard creditors as extortioners and themselves as defenseless customers.

Many legislators and public critics of credit also overlook the service inherent in credit operations, and tend to equate all credit business with the simple lending of money.

Credit and Possession Utility

Many of these misconceptions are traceable to conditions which antedated the present prominence of credit in business.
Prior to about 1920, in the effort to give theoretical justification to marketing activity, use was made of the economists' concept of "utilities." In marketing literature at that time it was claimed that marketing activity created time, place, and possession utilities. By the latter was meant a value supposedly created in the transaction itself. Embracing a number of factors, possession utility never really received explicit definition but appeared to result from such activities as selling and merchandising. It was not related specifically to credit business.

So long as markets were essentially cash markets, that explanation sufficed; but with growth of the credit economy a new explanation of credit was needed. This is offered in the following interpretation of credit service as creating possession utility.

When a cash transaction is contemplated, buyers estimate the value or utility of a product to them at that time, and sellers calculate the cost and price of providing it then. If buyers must defer purchasing until cash is accumulated at a future time, immediate evaluation of the product's usefulness now may in the mind of the buyer exceed his appraisal of it if no delay in use were imminent. Thus, if through credit service he may acquire the product at once, the sum of utilities gained may include both that of the product and that of using the product prior to the time when it could otherwise be obtained through cash purchase.

Credit service, therefore, creates an identifiable value which might be called "possession utility." Such utility is not limited to the field of consumer buying, but is also involved in mercantile transactions and in lending.

**Little Interest in Credit Work**

The notions that "sellers give credit," that credit service is not distinct from the commodities to which it is applied, that credit service has no value, and that the offering of credit service is primarily a finance function—these are fallacies which have hindered the development of credit theory and practice.

For many years credit was regarded as an unproductive business activity, and the position of credit manager was at a much lower level than other marketing roles. Generally credit management has been assigned to the finance and bookkeeping departments and has been concerned mainly with allocation and utilization of working capital, turnover of receivables, sources of long-term and short-term funds for carrying receivables, credit loss ratios, cash discount tactics, economic indicators of the quality of receivables, and the like.

Although business use of credit was one of the functional fields of business first studied, the conceptual framework of credit management has remained essentially the same since the 1920s. A study of the location of the credit function in general organization structure was made by the National Association of Credit Management following World War II; but little progress has been made either among credit practitioners or among marketing theoreticians in developing a unified theory of the relation of credit to marketing. Only in recent years has credit management been regarded somewhat as a sales function, or more recently as a marketing function.

As a consequence of this narrow view, credit courses in business schools have specifically borne the adverse criticism made of specialization in the business curriculum. Furthermore, although employment in credit work is today at an all-time high, and although the importance of marketing has increased, relatively little interest in credit management is shown by college men preparing for business careers.

**Marketing Perspective of Credit**

In proper perspective, credit has very broad marketing significance. A credit operation is not merely the financing of an asset. It is the financing of markets—both ultimate and intermediate markets. It is the financing not merely of an asset held by the seller but of an inventory sold and in possession of buyers. It is the financing of the distribution channel, and of the processes involved in moving goods through channels. It is the providing of an auxiliary service essential to the marketing of goods and one which may also be income-bearing. It is a means whereby mere buying desires may be converted into effectual demands.

Credit service is a means of reaching new segments of a heterogeneous market. Credit terms increase market potentials by creating a new form of purchasing power. Credit classifications of customers serve as a basis for selective distribution policies.

Moreover, through the offering of credit service the following marketing objectives also may be achieved:

- Creation of a service "image" for the organization
- Addition of a marketable line of service

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- Increase of revenue directly through the sale of credit service or indirectly through the increased credit sale of the commodities
- Profitable employment of available working capital
- Meeting of competition through terms of sale
- Extension of markets so as to utilize production capacity
- Counteaction of seasonal and cyclical trends through manipulation of credit sale terms

Organization for Credit Management

From the decisions implicit in the marketing objectives toward which credit policy may be directed, it is evident that credit management is not solely the function of the position traditionally designated as "credit manager." Rather, the credit function is involved in marketing management; and as a means for accomplishing broad corporate objectives credit management is a function for which top management should be responsible.

Recognition of this marketing character of credit operation has not always been evident in credit organization structure or in job specifications. As a rule, credit organizations have taken form in line, staff, and functional relationships. Usually line relationships have been established within the credit department itself, or among credit personnel, for the allocating of responsibility and duties. Within the broader organization structure of the firm, however, the credit group usually have occupied staff and functional positions. In staff capacity they have served to advise general management; and in functional roles they have worked collaterally with the sales organization, which has always performed as a line function.

This concept of credit organization has been altered somewhat in recent years, as the direct marketing contribution of credit work has been acknowledged. This has been evident even in the terminology by which credit management has been designated: at first, Credit Manager; and later, as Credit Sales Department and Manager of Credit Sales.

Not semantics but a new concept of credit is involved. Insofar as credit management initiates marketing policies and plans, participates in the formulation of overall corporate objectives and programs involving credit service, and works directly with customers (particularly in providing income-bearing credit service)—to this extent the credit organization presents the characteristics long regarded as line organization. Authority and responsibility commensurate with this concept are implied.

The division of credit responsibility among credit management, sales management, and top management is not a question of usurpation of rights or of subordination of operational activity. Rather, it is a division of responsibility for achievement of objectives for which different levels of management are responsible with respect to the offering of credit service.

Shifts in the Credit Function

As a means to the achievement of corporate, marketing, and credit operational objectives, the credit operation should be regarded only as a means.

Thus, the performance of this function must be appraised economically like any other function. In the absence of adequate data on the cost of performing credit service, such appraisal has not always been made. Consequently, credit policy often has been determined on the basis of custom, belief, and personal preference; but today credit performance increasingly is regarded as the offering of a service—a marketable service.

This means that business management has to consider and decide how in their particular circumstances they can best perform the three basic functions inherent in credit operation; investment of capital in receivables, bearing of credit risk, and performance of the routine of the credit operation.

In other areas of marketing, such considerations have at times resulted in shifting functions to specialists for the most effective, efficient performance. Advertising agencies, manufacturers' and selling agents, brokers, warehouses, and common carriers are a few examples of functional specialists engaged by business. In credit operations, functions have not been so commonly shifted, although the opportunities to do so are increasing.

The use of factors by manufacturers' and selling agents is one example of the shifting of all of the credit functions; and economy and efficiency are presumed to result. Similarly, credit insurance companies and financing organizations accept part of the credit functions when circumstances warrant using them.

Also in the field of consumer credit such shifting of functions to specialists is occurring, with the rise of credit-card companies and of charge-account banks and companies.

Thus, as a marketing function the credit operation may be managed as a marketable service creating valuable utility in the market. It is a function for which several echelons of management are responsible. And it is a function which may be performed either by the business firm itself or shifted elsewhere, depending on business conditions.