



**Internship Report on Credit Management Policy and Its
Effectiveness of the *Meghna Group of Industries***





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Letter of Transmittal

25th June, 2014

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Subject: Submission of Internship Report on Credit Management Policy and Its Effectiveness of the *Meghna Group of Industries*.

Dear Sir,

I would like to submit my report titled “Credit Management Policy and Its Effectiveness of the *Meghna Group of Industries*” prepared as a part of the requirement for BBA program of BRAC Business School.

I have successfully completed my internship program in The *Meghna Group of Industries* and I worked there as an intern for three months. Working on this report was a great learning experience for me as I got to learn the differences between practical and theoretical work. I have really enjoyed working on this project and I hope that my work would meet the level of your expectation.

I would like to take this opportunity to thank you for all the support and guidelines that you have provided, which I hope to continue getting in the future.

Sincerely Yours:

Md. Mohiuddin Rhidoy

ID: 10304083

BRAC Business School

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Acknowledgements

First I want to pay my gratitude to almighty Allah for enabling me to prepare the report successfully. Then I would like to express my sincere gratitude and cordial thanks to some specific persons who helped me to organize this report and for their kind opinion, suggestions, instructions, support and appropriate guidelines for this.

First of all, I would like to thank my Internship Supervisor Saif Hossain, Lecturer, BRAC Business School, BRAC University for his continuous guidance and assistance in preparing the report on Credit Management Policy and Its Effectiveness of the *Meghna Group of Industries*. His valuable advice has helped me a lot in writing this report. I am immensely thankful to him for the supports he has provided during my Internship period.

Next, I would also like to express heartfelt gratitude to my organizational supervisor at Meghna Group of Industries, Mr. Kamol Kumar, Deputy Manager, Management Information system, Meghna Group of Industries. He directed me towards the right information and regularly reviewed my progress in preparation of this report. He has provided the information about the organization and the information about FMCG firm as well to help me with the report.

Next, I would also like to express heartfelt gratitude to another supervisor at Meghna Group of Industries, Mr. Chowdhury Sajjad Hossain Siddique, Senior Manager, Accounts Department, Meghna Group of Industries. He gave me all accounting and credit control related information of the company and helped me a lot to prepare this report. This report could not be completed without his contribution.

Finally, this report would not have been possible without the dedication and contribution of all my colleagues who has helped me by teaching all the works. I express my sincere gratitude to all of them. Their valuable contribution is what made this report possible.

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Executive Summery

In order to provide a student with job experience and an opportunity of the transition of theoretical knowledge into real life experiences, internship is a must. A well balanced theory and practice can be gained through this program. The report is a combination of three months internship program with the *Meghna Group of Industries*. I acknowledged different fast moving consumer product (FMCG) functions and day to day company operations on my way to complete internship.

The objective of this study is to acquire the knowledge about the credit management policy and its effectiveness of *the Meghna Group of Industries*. To prepare this report both primary and secondary sources of data have been used.

The first section of this report consists of an introductory part which has been developed for the proper execution of the entire report. Part one narrates the company profile including the *Meghna group of industries'* history, their vision, mission and strategy, products and services, and operational network organogram. Second part has explained the working experience of my internship period at different division of FMCG division of the *Meghna Group of Industries*. Part three focus on the credit management policy of *the Meghna Group of Industries*. This is the main part of the project. It includes foundation of credit management policy, factor affecting credit management policy and credit collection procedure of the company. Findings and analysis of the information are in Part four of the report. It includes effectiveness of the credit management policy of the *Meghna Group of Industries*. The remaining part consisted of recommendations and conclusion. Finally, I observed that the *Meghna Group of Industries* will ensure the better services to the people of Bangladesh and they will be more contribution on development of economy of Bangladesh.

CHAPTER- 01: THE ORGANIZATION

1.1 Introduction

Fast Moving Consumer Goods (FMCG) is one of the largest and fastest growing sectors in the economy of Bangladesh. Fast Moving Consumer Goods are defined as low involvement products which are among convenient everyday goods. Products like salt, flour, edible oil, sugar etc. fall under this category.

1.2 Company's Overview

The *Meghna Group of Industries* (MGI) is one of the biggest & leading conglomerates of Bangladesh. With a turnover of USD 2 billion & asset of USD 1 billion, MGI is currently operating in 32 companies, 30 Industries with more than 15000 employees, 3000 distributors and 1000 suppliers under its umbrella as a whole.

In regards of the background of the *Meghna Group of Industries* that dates back to 1976 when its predecessor Kamal Trading Company came into existence. Fortunately, the Group's humble debut occurred with the inception of Meghna Vegetable Oil Industries Ltd in 1989 on a small chunk of land at Meghna Ghat in Narayanganj. Now, the group is running 30 Industrial units on over 350 acres of land. The *Meghna Group of Industries* has been marketing various Fast Moving Consumer Goods (FMCG), Cement, Commodities, Chemical, Seed Crushing, Fish and Poultry Feed, Power Plant, other bulk and industrial products under the brand name of 'Fresh', 'No.1' and 'Pure'. Moreover, the group has Ship Building Dockyard, Shipping, Securities, General Insurance, Media, Aviation and many other businesses.

The Group has more than 35 years of national & global experience. In Bangladesh, one in every three households uses MGI brands and products. MGI has started to spread its footprints outside Bangladesh, especially in the Middle East, Southeast Asia, Europe, North and South America through exporting its various products.

The Meghna Group's ambitious business expansion is designed and driven by a visionary, yet very humble person Mr. Mostafa Kamal. He is not only a far sighted entrepreneur but also he is known for his patriotism, contribution towards development of industrial, health, education, sports, social welfare and various other sectors. His philanthropy, honesty, sincerity and dedication fetched the group to today's lofty achievements.

Most importantly, the Meghna Group has already invested USD 1 Billion for setting up new lines of business and great expansion programs such as chemical complex, power, salt, seed crushing, cement and media. This is undoubtedly a glaring example of passionate initiative and a pioneering leadership role by a private sector investor in country's economic and industrial development.

1.2.1 Meghna Group at a glance

Industries	30 & more to come
Yearly Turnover	US \$2 billion
Business Partners	3,000+
Suppliers	1,000+
Employees	15,000 Permanent (Professional, Skilled, Semi- skilled) & Casual Labors
Brands	Fresh, Super Fresh, Pure, No. 1
Products	Consumer goods, Cement, Chemical, Power, Fiber, Pulp & Paper, Feeds, Steel, Real Estate, Insurance, Securities, Aviation and Media
Export Market	India, Bhutan, Nepal, UAE, Kuwait, Singapore, Malaysia, UK, Hong Kong, Sri Lanka, Vietnam

1.2.2 Vision

“We are passionately creating sustainable economic value for our country and stakeholders by contributing to the industrial development of the nation and fundamental requirements of our consumers.”

1.2.3 Mission

“We would like to enhance our capability in a competitive and globalizing environment delivering superior and sustainable value within next 5 years.”

1.2.4 Values

The values of this Group of Industries are as such:

Openness: Diversity is a source of wealth and change, a constant opportunity.

Curiosity: Characterizing an attitude of awareness and looking ahead, of being attuned to others, refusing to accept preconceived ideas and models and imagination.

Agility: Synonymous with vitality, energy, speed, flexibility and adaptability.

Enthusiasm: There are no limit only obstacles to overcome.

Boldness: As opposed to bureaucratic security, it symbolized the desire and capacity to take risks and explore now, unorthodox paths. It also implies the ability to endure and overcome failure.

Passion: Synonymous with conviction, a drive to convince and lead the pleasure of work, the ability to surpass oneself and achieve excellence.

Appetite for challenge: Characterized by the optimistic, enthusiastic and almost physical desire to grow and take the lead.

Humanism: The attention paid to the individuals, whether they be consumers, distributors, employees or citizens, is at the heart of all our decisions.

Sharing: An approach that emphasizes dialogue, transparency and teamwork

Responsibility: MGI pays attention to the safety of people and products, acts pro-socially and is environmentally friendly

Respect of the other: MGI is sensitive to cultural differences, treats social and commercial partners with respect and facilitates the development of its partners

Proximity: Know how to stay close to each person in the world: consumers, distributors, suppliers, stakeholders and society become a part of their everyday lives.

1.3 Company Organogram

The *Meghna Group of Industries* is structured in the following manner:

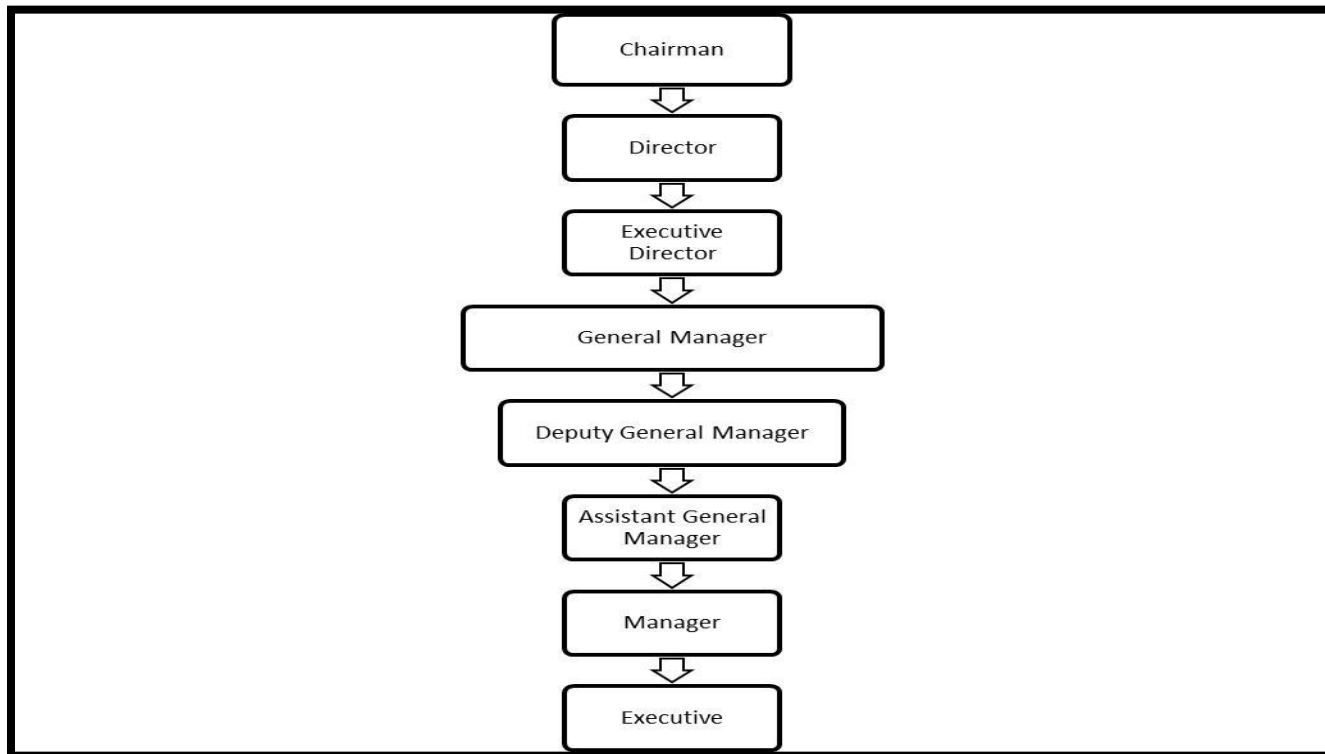


Figure 1: Organogram of the *Meghna Group of Industries* (FMCG Division)

1.4 Brands & Products

The *Meghna Group of Industries* is a consumer focused company and has set a new standard since its emergence. The Group follows multi-branding strategy like some of the biggest companies of the world for a more successful outcome.

The brand name FRESH under which most of the MGI's products are available in the market. In actual fact, FRESH symbolizes Purity, Quality, Trust and Freshness and is committed to quality compliance and serving distributors at an affordable price at all times. The *Meghna Group of Industries* has also other brands in its portfolio- Pure, Super Pure, Golap & No.1.

1.4.1 Product Line

All products of FMCG division are divided into four specific product lines. Those are PL A, PL B, PL C & PL D. Products of those product lines are given bellow:

PL A	PL B	PL C	PL D
<ul style="list-style-type: none"> • Fresh Milk Powder • Super Pure Milk Powder • Fresh Sugar • Fresh Premium Tea • Fresh Danadar Tea • Super Fresh Drinking Water 	<ul style="list-style-type: none"> • Super Fresh Soybean Oil • Super Pure Veg. Oil • Fresh Atta • Fresh Maida • Fresh Suji • Fresh Actifit Atta 	<ul style="list-style-type: none"> • No.1 Condense Milk • No.1 Drinking Water • No. 1 Refined Sugar • No. 1 Leaf Tea • No. 1 Strong Tea • Fresh Dust Tea • Fresh Semai 	<ul style="list-style-type: none"> • Fresh Mustard Oil • Fresh Premium Salt • Fresh Super Premium Salt • No.1 Premium Salt • Fresh Turmeric Powder • Fresh Chili Powder • Fresh Coriander • Chicken Masala • Meat Masala • Fish Masala • Vegetable Masala • Deshi Masur Dal • Bideshi Masur Dal • Ancor Dal

1.5 Division, Region & Territory

FMCG division of the *Meghna Group of Industries* divides the whole country into 10 divisions, 31 regions and 111 territories for their delivery and accounts receivable collection purpose.

CHAPTER- 02: JOB RESPONSIBILITIES AND OBSERVATION

2.1 Nature of the Job

I was assigned at Uttara (FMCG Division) Branch of the *Meghna Group of Industries* to perform my internship program. During the three months of my internship program, I enjoyed the work at the company but most importantly I have learned how to work under pressure with great responsibilities. Throughout this time, I have got the opportunity to work with different departments of the company. There are different departments in FMCG Division and among them I worked on two departments respectively. Those were:

- Management Information System (MIS);
- Accounts and Finance Department.

Credit management is one of the most important functions of Accounts and Finance Department. However, my main concentration was to learn about Credit Management policy and its effectiveness of the *Meghna Group of industries* and thereby, I had allocated maximum time to work at Accounts and Finance Department.

2.2 Specific Responsibilities of the Job

At first, I worked on MIS department for one month and my job responsibilities of that department were, namely:

- ✓ Updating daily secondary sales of the distributors;
- ✓ Updating all retail shop of the company;
- ✓ Updating distributor list; and
- ✓ Updating distributor target versus achievement report.

I have learned a lot of formula and very important thing of Microsoft excel and Microsoft word during the working period of MIS department. I believe that this point of learning will help me very much in rest of my life.

From my second month of my internship, I joined accounts and finance department and my job responsibilities of that department were:

- ✓ Updating receivable aging report;

- ✓ Updating daily transection; and
- ✓ Verification of new distributors' information with bank statement, national ID, trade license and application.

Accounts and finance department is a very confidential department, I did some very entry level job from that department and I learned a lot of things from this department.

2.3 Different Aspects of Job Performance

Every day my supervisor gave me some particular jobs for that day and I had to do that job within the specific time period. When I could finish my defined work, I submitted to my supervisor and then he assigned me for a new job. Every day I had to inform my daily activities at the time of leaving office. Again, I had to report my supervisor about what I did in the entire month and finally I had to give all information about what I did in my entire internship period.

2.4 Critical Observations and Recommendations

The management of the company is very much conscious about the job performance of the employee of the company. They always think about quantity of job not quality. They do not bother about employee satisfaction and relation. Most of the time employees do not get public holiday and it is very difficult to get any vacation for emergency purpose. As a result, all employees become dissatisfied, though they have to do their precise job. Whenever any employee gets any better opportunities, he left the company. For this reason, the company loses the potential and experience employees and ultimately company suffer in the long run. The company updates all secondary sales from SMS of their distributor and it is very huge job to update the all information of all distributors every day.

The company should think about the employee relation and they should provide some extra benefit to the employee. The company should provide overtime for public holiday and doing job for extra hour. The company should use software for updating secondary sales where the distributor can update the information about their sales.

CHAPTER- 03: CREDIT MANAGEMENT POLICY OF *MEGHNA GROUP OF INDUSTRIES*

3.1 Description of the Project

The description of the present project is explained in the following accordingly:-

3.1.1 Objectives

The main and primary objectives of the report are:

- To have an idea about credit management policy of *the Meghna Group of Industries*;
- To know how to control credit management policy;
- To know the effectiveness of credit management policy of *the Meghna Group of Industries*;
- To know how to collect account receivable of the Meghna Group of Industries; and
- To identify the factors which affecting the credit management policy.

The secondary objectives of the report are:

- To have an idea about the background of *Meghna Group of Industries*;
- To know all amounts due which are collected according to the agreed payment terms;
- To know monthly cash collection targets those are achieved;
- To know how credit management policy affect sales and profitability of the company;
- To get an idea about cash collection procedure of the company;
- To get an idea of how the company a high quality of Accounts Receivable is maintained;
- To know the accurate and responsible database of distributors that is operated and maintained;
- To be acquainted with how to deal with distributors while collecting Accounts Receivable; and
- To relate the theoretical learning with the real life situation.

3.1.2 Scope

Generally, the Credit Management policy of a 'Fast Moving Consumer Product' (FMCG) company is very important and vast thing. It always needs to update in a regular basis. Also, all FMCG firms try to keep this information secret in this competitive market. For this reason, the study aims to identify the Credit Control procedure followed by the *Meghna Group of Industries* in FMCG Division and to get a brief notion about what are the factors concerned with this procedure as a whole as well as its effectiveness in the competitive market.

3.1.3 Methodology

In this present report, methodology includes direct interview of Mr. Chowdhary Sajjad Hosaain Siddique, Senior Manager, Accounts and Finance Department and Mr. Kamol Kumar, Deputy Manager, Management Information System (MIS). These two persons gave me all information of Credit Management Policy and the whole organization. I also took some information about credit management policy and the *Meghna Group of Industries* by searching through internet, discussion with company executive, and practical work. In preparing the report, both primary and secondary sources of information have been used as well.

For collecting primary data, I had to make:-

- Direct conversation with the Employee.
- Discussions with the officials of Accounting and Finance department.
- Working Practical Deskwork.

The secondary sources are:-

- Brochure of the *Meghna Group of Industries*.
- Searching web-sites.

Data collection techniques are:-

- Some of the primary data were collected by observing others doing their jobs.
- Much of the primary data were collected by the informal interviewing of the company officials.
- Most of the secondary data were collected by the review and study of relevant reports and documents from different website.

3.1.4 Limitations of the Study

First of all, observing as well as analyzing a company at the same time is very difficult, particularly in such a short duration like ours i.e. only three months. Although I received cooperation from the concerned officials, they were not always able to give me much time as they were busy with their works in fact. Therefore, observation and learning all the functions of Credit management policy

within three months was really challenging to me. Besides, as it is a private limited company, they do not publish their financial report and other information of the company. Even management does not share all information with their existing employees. Again, there is very less information available about the *Meghna Group of Industries* in internet. Moreover they did not provide me any data of credit management policy. Hence, because of insufficiency of information, it was much needed to make some assumptions by myself those may cause few errors in this report. Above and beyond, all the comments made, conclusions reached and suggestions for possible improvement provided are purely based on my level of understanding, knowledge and my way of interpreting a particular statement. In spite of all of these limitations, I have tried to put the best effort as far as it was possible.

3.2 Introduction

This has become very general that most of the companies blame unpaid debt on business distributors who are reluctant to pay. The reality is often that their own credit management policies (or, lack of adequate policies) are usually at fault. While there will always be the odd distributor who goes bankrupt, refuses to pay or simply needs a great deal of prodding before they will pay, developing and maintaining a credit management policy will reduce the number of late payments and bad debts in company experiences.

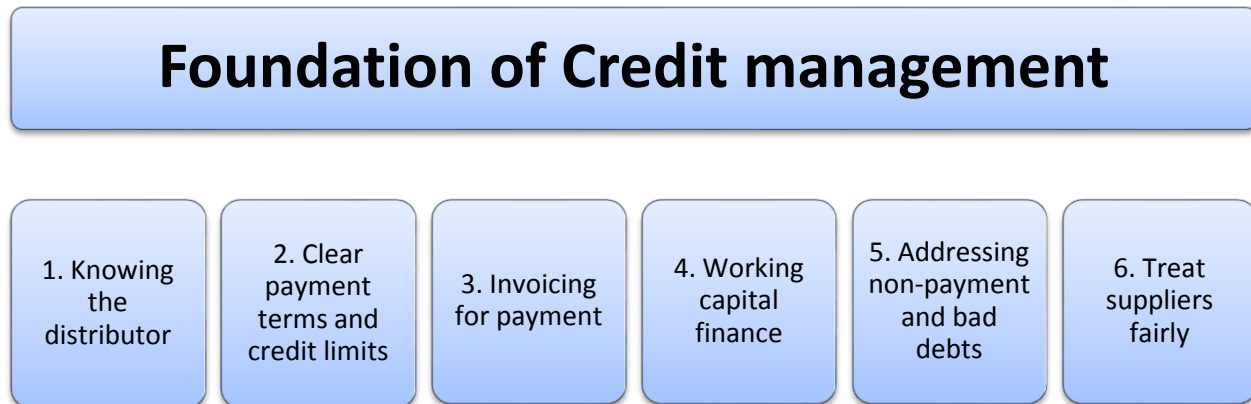
Credit management starts with the sale and does not stop until the full and final payment has been received. It is an important part of the deal as closing the sale. In fact, a sale is technically not a sale until the money has been collected.

Credit management is the process for controlling and collecting payments from distributors. Altogether, a good Credit Management policy will help to reduce the amount of capital tied up with debtors and minimize the exposure to bad debts. It is needless to say that good credit management is vital to cash flow.

Nevertheless, much of the focus in terms of business cash flow is on getting paid by distributors and dealing with late payments or non-payment. To minimize their exposure to potential credit losses, businesses should have clear credit management policies in place, with the necessary systems and documentation, and put them into practice. Furthermore, the Credit Department should be judged not on how it controls credit, but on how successfully it manages credit for the company. Therefore, the title 'Credit Management' sets the correct basis on which the department can develop as a vital team member within the organization, working closely with Sales, Production, Marketing, and Distributor Services etc.

3.3 Foundation of Credit Management

A good Credit Management policy has six foundations, namely:



3.3.1 Knowing the Distributor

Before making a business or providing credit by any creditor, the person who is dealing with the matter needs to know not only to assess the risk of providing credit but also to ensure that it has the information necessary to resort to legal action for seeking payment.

A business should seek as much relevant information as possible about a potential distributor before trading begins, namely:

- Exact name of the business which is to be invoiced and full contact details e.g. address, telephone, email, fax, etc.
- Legal status – in a sole trader or partnership, the owner or partners are personally liable for debts, type of entity sole trader, partnership or limited company.
- Names and roles of individual who are authorized to place orders and make payments.
- The type of business, how long it has been in business and information on any major distributor.
- At least two trade references i.e. choosing the referees where possible; and bank reference.

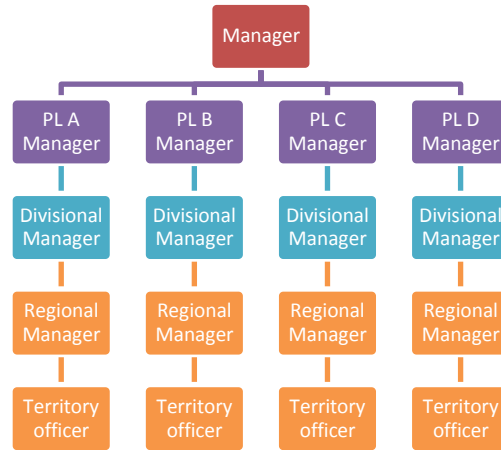
- Information on any judgments registered.
- The value of credit and terms requested.
- Details of involvement by the owners or directors in the business of another business for the past 5 years.
- Obtaining headed paper or other documentation that verify the business's real name, its registered business name where applicable and contact details.

3.3.1.1 Assessment of the distributor

The information collected should be checked and verified and the terms of any credit to be granted should be assessed and negotiated:

- Checking any references provided.
- Considering investing in information from a credit reference agency, the Companies Registration Office, where applicable, and other sources to gather information on the company, the authorized person(s), guarantor(s) and each director.
- Carrying out search of judgments registered.
- Checking if the information collected supports the credit and terms requested.
- Being prepared to negotiate with the distributor to ensure that, where possible, the credit should provide to distributors is offset by credit received from suppliers.
- Checking the information given by or collected about the distributor against the details on order forms or other documents from the distributor.

The *Meghna Group of Industries* (FMCG Division) follows a good and secure Credit Management policy. In every territory they have territory officer, in every region they have regional officer and every division they have divisional Manager. Moreover, they have four line managers for four product line and one manager for all product line.



Organizational Flow Chart

If anyone is interested to take the distributorship of the *Meghna Group of Industries*, he must fulfill all the criteria of the checklist brought up in bellow.

Product Line – A / B / C / D

Name of Distributor:.....

Location:.....

SL	Particulars	Attached Papers		Remarks
1	Application			
2	Photo			
3	Cheque	MICR	Non MICR	
4	Bank Solvency Certificate			
5	Bank Transaction			
6	Trade License			
7	TIN			
8	National ID			
9	ROI			
10	Deed Signature	Photo Copy	Original	

Manager (Legal)

AGM (Sales)

GM (A/C)

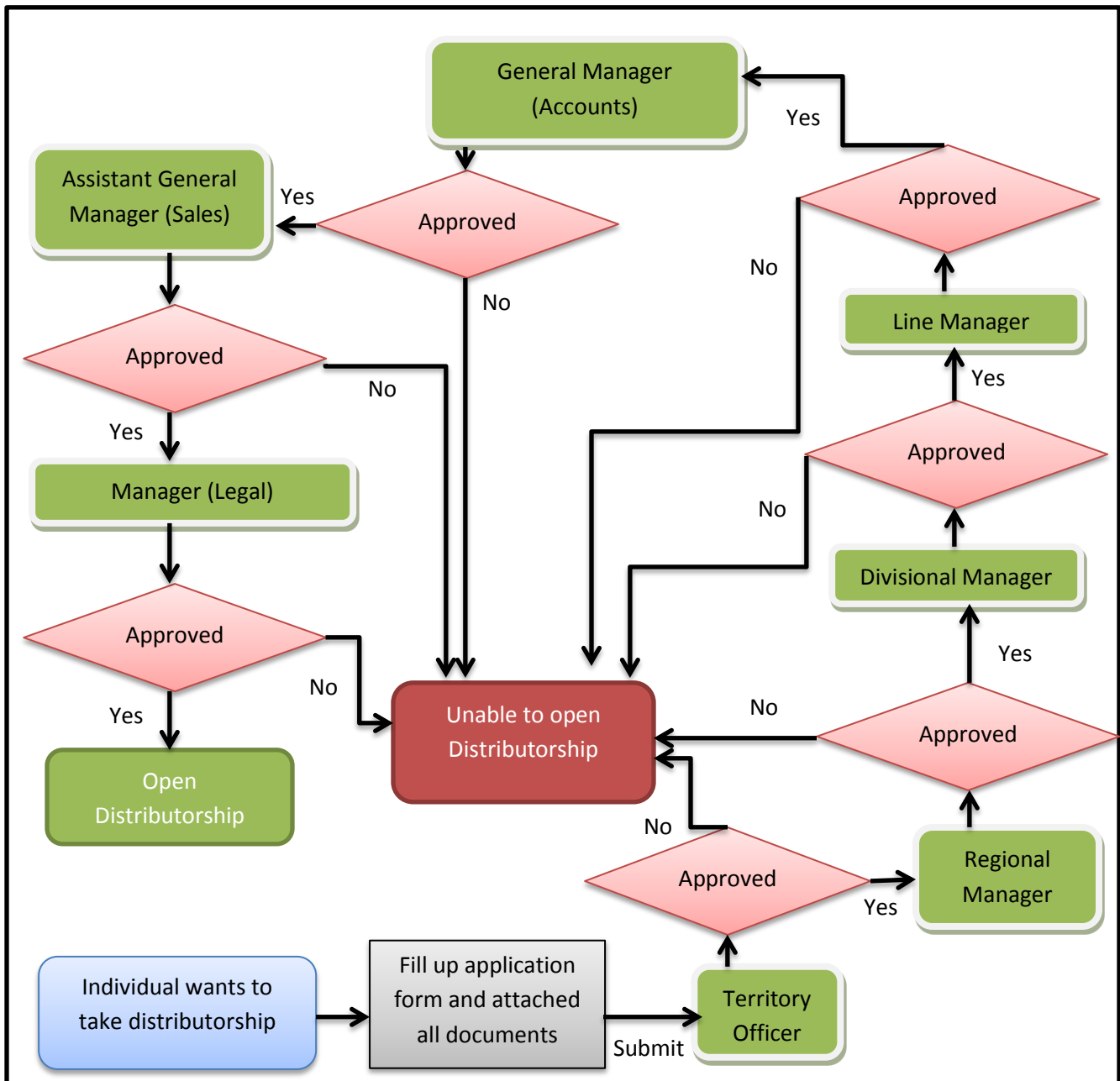
Line Manager

Divisional Manager

Regional Manager

In the above application form, the distributor provides full details about himself and his business such as name, present and permanent address, business name and its type, references etc. After attaching all documents, he has to submit those to his territory officer. Territory officer submits all documents to the Regional Manager and Regional Manager sends those to the Divisional Manager. Then it goes to Line Manager and subsequently, the Line Manager sends those documents to the General Manager of Accounts Department for Bank solvency, Transaction & ROI verification.

The entire procedures are shown in the following flow chart:-



After completing all the verifications, those documents are sent to the Assistant General Manager of sales and he checks all the procedures and approves the document. Finally, it is sent to the Manager of Legal Department, if he thinks that the person can take the risk and can do his business properly, only then he approves the person for distributorship not otherwise.

3.3.2 Clear Payment Terms and Credit Limits

Once payment terms for a distributor have been decided, those terms should be discussed and agreed with the distributor. These should be confirmed in writing to and signed by the distributor before trading begins and any orders are accepted.

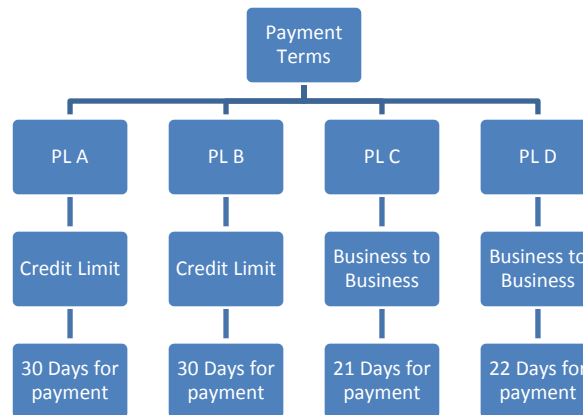
The payment terms and conditions should also be clearly communicated to relevant employees to ensure that they stick to the terms when dealing with the distributor. It should also be recorded in any accounting software systems.

Also, a business should have standard payment terms that should be reviewed by a solicitor, which can only be changed by an authorized person and clear guidelines for staff, if a distributor asks for more time to pay. These standard terms should be reviewed on a regular basis as should any specific terms agreed with a distributor.

Any contract with a new distributor should also be outlined how the parties should deal with disputes and non-payment.

The *Meghna Group of Industries* (FMCG Division) follows two types of payment methods for their distributors. Those are respectively credit limit and business to business. Credit limit means distributor can take product up-to their own credit limit and business to business means distributors have to pay the previous due to take new product. For this purpose, PL A & PL B offer credit limit and PL C & PL D offer business to business terms. For the first month, all the distributors have to pay in cash for the product. On the basis of sales and performance of the first month, credit limit will be decided for the distributors. For payment of credit the limitation is 30 days for PL A & PL B, but it is 21 days for PL C and 22 days for PL D. Distributors can pay their dues through Bank check, Bank Overdraft, DD, Online Payment etc.

The payment method is focused in the chart of below:-



3.3.3 Invoicing for Payment

Basically, asking distributors for payment is a crucial step in credit management. Businesses should avoid delays or problems in getting paid by following some key steps in invoicing such as:

- Invoicing Immediately: A business should issue an invoice as soon as the ordered goods or services are supplied. The sooner the invoice, the sooner getting paid.
- Invoicing Accurately: Disputing delay payment can harm distributor relations so it is important to get the details right first time.
- Invoicing with the Details: It is important to include all the details that the distributor needs. These should be agreed before the goods or services are ordered and include the purchase order number, how and when delivery took place, the details of the goods or services supplied the amount due and VAT details, as well as the payment terms and methods available.

In order to manage invoice and distributor management effectively, a business should have accounting systems in place as well as a clear process for handling disputes and delays.

It is also important to keep the distributor informed. Issuing monthly statements with all transactions with the distributor recorded accurately, including invoices, payments and credit notes, and making clear any outstanding amounts due to be paid.

The *Meghna Group of Industries* (FMCG Division) use Enterprise resource planning (ERP) software for invoicing purpose. This software automatically updated database of every distributor. They open unique ERP Id for their each and every distributor. After login with the unique Id, every

distributor can know detail information of their order like which product they have ordered and when it would take place, at what time they will get the product, when they will have to pay the dues, total purchase of the month, total due and last date of payment of all dues. This software also provides notification before last date of payment to the distributor and the responsible authority for the past dues. At the same time, they also issue invoice for their payment when they get order from their distributor and all product line manager always keep updated for their all distributor so that they can monitor all distributor and sometimes they give pressure to the distributor for the collection of past dues as early as possible.

The invoice includes the following information, namely:

- ✓ Distributor name and address;
- ✓ Description of goods or services sold to the distributor;
- ✓ Delivery date;
- ✓ Payment terms and due date;
- ✓ Date the invoice was prepared;
- ✓ Price and total amount payable;
- ✓ To whom payable;
- ✓ Distributor order number or payment authorization; and
- ✓ Company details, including address, contact numbers and emails, company registration and VAT reference.

They send the invoice to their distributor most of the time through Email and sometime they use courier service for this purpose.

3.3.4 Working Capital Finance

To offer credit to its distributors for a business, it must have affordable access to finance for that credit. A business may also need working capital finance to deal with fluctuations in cash flow and delays or disputes in distributor payments.

Many businesses rely on their overdraft to finance their day to day needs but other options to finance working capital include invoice discounting and factoring.

3.3.4.1 Invoice Discounting

The main aim of invoice discounting is to free up the cash tied up in the business's debtors. A bank providing invoice discounting may agree to immediately advance up to 80% of the value of approved outstanding invoices.

3.3.4.2 Factoring

While factoring also aims to free up cash tied up in debtors, factoring is mainly aimed at businesses with that are unhappy with their internal credit management and administration systems. It enables them to sell off up to 80% of their debtors, at a discount, to a factoring company or financial institution in return for a one-off payment. The factoring company is then more directly involved in collecting outstanding debts than with invoice discounting.

The *Meghna Group of Industries* sometimes needs working capital finance to deal with fluctuations in cash flow and delays or disputes in distributor payments. In such situation the company chose both invoice discounting and factoring options to finance working capital depends on the circumstances.

When they think that they need more money within a short period, then they follow invoice discounting. Though it reduces their profit, the management can get the money immediately in a discounted amount from bank. It helps handle critical situation in a very easy way.

The company use factoring when management need money and think that their distributor will pay their past dues within short period of time if they get any discount. Management uses this option for the time being to collect past dues within a short time period. On the other hand, distributors also become happy that they can give their dues with a discounted amount.

3.3.5 Addressing Non-Payment and Bad Debts

If a distributor has not made payment on the due date, it is holding onto money that is rightfully the business. Each business needs a clear process for dealing with payment delays or non-payment.

Businesses should have systems in place to flag distributor payment issues. This is where good accounting and Credit Management policies are particularly valuable. Businesses should also

review their distributors regularly to spot repeated late payers. These distributors will usually have their terms of payment reviewed and amended.

The *Meghna Group of Industries* always prepares and updated the Receivable Aging report and Distributor performance report for addressing their non-payments. The accounts receivable ageing schedule is a listing of the distributors making up ones total accounts receivable balance which is prepared at the end of each month. Analyzing the receivable ageing report help the company readily identifies the root of potential cash flow problems.

They prepare receivable ageing report consists of nine columns: column one for the name of each distributor, column two for the total amount due, column three is the ‘current dues’, the amounts due from distributors for sales made during the current month i.e. last 30 days, columns four to nine list the amounts due from previous sales periods i.e. 45 days, 60 days, 90 days, 120 days, 150 days, more than 150 days. And, columns three to nine will sum to column two which is total dues. For example:

Distributor Name	Total Dues	Current Dues	45 days Past dues	60 days Past dues	90 days Past dues	120 days Past dues	150 days Past dues	Over 150 days Past dues
Liza Trading	220000	150000	60000		10000			
Bismillah Traders	220000	200000	10000	5000		5000		
Azad Distributor	643000	600000	30000	10000			2000	1000
Gaffer Ent.	510000	400000	80000		20000	10000		
Belal Sales & Db.	700000	700000						
M/S Shahid Oil Store	559000	500000	50000				9000	
Al- Jagira Gen. Store	900000	900000						
Bhuiya Ent.	500000	450000		50000				
M/S Rajib Enterprise	870000	850000				20000		
M/S Bhai Bhai Store	860600	854600						6000
Total	5982600	5604600	230000	65000	30000	35000	11000	7000
Percentage	100%	93.68%	3.84%	1.09%	0.50%	0.59%	0.18%	0.12%

This above mentioned ageing report can be used to identify the distributors that are extending their payment time. If the bulk of the overdue amount in receivables is attributable to one distributor, then steps can be taken to see that this distributor’s account is collected promptly. Overdue amounts

attributable to a number of distributors may signal that the company needs to tighten its general credit policy towards new and existing distributors.

Also, the ageing report identifies any recent changes in the accounts making up the company's total accounts receivable balance. If the makeup of company's accounts receivable changes, when compared to the previous month, the company should be able to spot the change rapidly. Now, is the change the result of a change in sales, credit policy? or is it caused by a billing problem? What effect will this change in accounts receivable have on next month's cash inflows? The accounts receivable ageing report can sound an early warning and help you protect your business from cash flow problems.

Moreover, they use Distributor Performance Report to identify the performer and non-performer distributor. Here, Performer distributors are those distributor who take the product in the current month and non-performer distributor do not take any product in the current month. They analyze the non-performer distributors about why they do not take product and do these distributors face any difficulties or not.

The management of the *Meghna Group of Industries* always concern about non-payments. For this reason, they prepare an accumulated bad debt account for reducing cash flow problem. The percentage of bad debt is decided by the top level management. If any distributor becomes default, then the company will use this account for maintaining cash flow in time.

3.3.6 Treat Suppliers Fairly

From the very first sight, non-payment by distributors can put pressure on a business when it needs to pay its suppliers. Thus, treating suppliers fairly and paying on time is important in keeping the flow of cash going.

The *Meghna Group of Industries* is always very much conscious about their supplier. They do not want to lose their relationship with their supplier for payment purpose. They always give the payment in time to the supplier and it is not affected by the non-payment.

3.4 Some Common Delay Tactics and Their Solutions

Whether the distributors pay on time, depends on two main factors such as willingness and ability. The distributors may be able but unwilling to pay on time. On the other hand, they may in fact be unable to pay.

Here are some delay tactics which commonly used in the *Meghna Group of Industries* (FMCG Division) by their distributors that might be symptomatic of problems with collection, namely:

- ✓ Claiming that invoices are not received and asking for them to be resent;
- ✓ Claiming that certain items on the invoice are not received;
- ✓ Querying one small item on an invoice and not paying the entire invoice until that particular item is resolved;
- ✓ Missing the cheque run and asking you to wait another month;
- ✓ Claiming that the cheque signatories are out-of-town; and
- ✓ Changing payment habits: progressively slower payments.

For the purpose of solving the above mentioned common delay tactics, they have two credit managers to handle this type of problems very carefully. A credit manager is a person employed by the organization to manage the credit department and make decisions concerning credit limits, acceptable levels of risk and terms of payment to their distributors. In companies, the role of Credit manager is variable in its scope. However, credit managers of the *Meghna Group of Industries* are responsible for:

- Controlling bad debt exposure and expenses, through the direct management of credit terms on the company's ledgers;
- Maintaining strong cash flows through efficient collections. The efficiency of cash flow is measured using various methods, most common of which is Days Sales Outstanding (DSO);
- Ensuring an adequate Allowance for Doubtful Accounts is kept by the company;
- Monitoring the Accounts Receivable portfolio for trends and warning signs;
- Enforcing the "stop list" of supply of goods and services to distributors;

- Determine credit limits;
- Setting credit-rating criteria;
- Setting and ensuring compliance with a corporate credit policy; and
- Initiating legal or other recovery actions against distributors who are delinquent.

3.5 Factors Affecting Credit Management of the *Meghna Group of Industries*

There are some common factors which affect the credit management of the company vastly. Those are briefly being described in below:

3.5.1 Cash flow

As it is known to all, cash is a current asset includes anything that can readily convert into cash such as savings, shares, stocks, loans to others. These assets are literally money in the bank: hard cash or something equivalent, like bearer bonds, money market funds. As completely liquid assets, cash and equivalents should get special respect from stakeholders. This cash is maintained by the company's cash flow statement. Cash flow is the movement of money into or out of the business. The cash flow statement of a company must be positive. Without cash no company can run their day to day operation. For this result, every company has to maintain minimum amount of cash for their daily operations. When the company faces difficulties like increasing expenses, cash out flow is more than cash inflow, expanding business etc. they give pressure to their distributor to collect money as early as possible. Surprisingly, sometimes they offer discount for this purpose.

3.5.2 Sales

In general, sale is a transaction between two parties where the buyer receives goods (tangible or intangible), services and/or assets in exchange for money. Income from sales is called revenue of the company. The company takes many decisions to increase their sales. Sometimes they encourage their distributor for credit sales in this purpose. The company divides their sales into two categories. Those are primary sales and secondary sales. Primary sales means the company sell their product into their distributor and secondary sales means distributor sales the company's product to different consumer shop. These primary and secondary sales affect the credit management vastly.

3.5.3 Accounts Receivable

Accounts Receivable is normally abbreviated as A/R; these are funds that distributors currently owe to a company. They have received the company's products, but have not yet paid for those goods or services. Companies routinely buy goods and services from other companies on credit. Although A/R is almost always turned into cash within a short amount of time, some distributors are not so diligent. In rare cases, companies have to write off bad accounts receivable, if they have shipped goods or provided services to a distributor unwilling or unable to pay.

In that event, the company opens an account of "provision for bad debt" in parentheses beside the accounts receivable number. The company's set this money aside to cover the potential for bad distributors, based on any such problems it may have previously endured. Even with this provision, companies may still be forced to take hefty write downs, or convert part of their accounts receivable to a loan, if a big distributor finds itself in unexpected trouble.

It is important to compare how quickly accounts receivable grow compared to revenue. If receivables are rising faster than revenue, the company has not yet been paid for many of the sales in that particular quarter.

An accounting measure is used to quantify a firm's effectiveness in extending credit as well as collecting debts. The receivables turnover ratio is an activity ratio, measuring how efficiently a firm uses its assets:-

$$\text{Accounts Receivable Turnover} = \frac{\text{Net Credit Sales}}{\text{Average Accounts Receivable}}$$

3.5.4 Bad Debt

Whenever a seller decides to offer its goods or services on credit, two things happen: firstly, the seller boosts its potential to increase revenues since many buyers appreciate the convenience and efficiency of making purchases on credit, and secondly, the seller opens itself up to potential losses if its distributors do not pay the sales invoice amount when it becomes due. Now, bad debt is a debt that is not collectible and therefore worthless to the creditor. This occurs after all attempts are made to collect on the debt. Bad debt is usually a product of the debtor going into bankruptcy or where

the additional cost of pursuing the debt is more than the amount the creditor could collect. This debt, once considered to be bad, will be written off by the company as an expense. If the company thinks that their bad debt will increase in future, they become strict about their credit policy. They may minimize the credit limits for their new and existing distributor in this purpose.

3.5.5 Days Sales Outstanding

Days Sales Outstanding (DSO) is a measure of how long it takes a company to collect money that it is due.

$$DSO = \frac{\text{Average accounts receivable}}{\frac{\text{Sales}}{\text{No. days in period}}}$$

- Average account receivable is from the balance sheet and is the amount at the beginning of the period plus the amount at the end, divided by two;
- Sales are the revenue line for the period from the income statement; and
- No. of days in period is 91 for a quarter or 365 for an entire year.

Days Sales Outstanding (DSO) is one of the components of the cash conversion cycle, the measure of how quickly a company can move cash through the business. DSO itself measures how long cash is tied up outside of the company accounts receivable after a sale has been made, but before the company receives the cash.

A well-managed company should have low and declining DSO levels, indicating that the company has the power to insist on being paid for its goods or services. If the DSO value is increasing or is longer than comparable companies, then it could be losing control of its ability to receive payment and it might have to begin to write-off portions of its accounts receivable as no collectable. This, of course, is a bad thing.

3.5.6 Inventories

Inventories are finished products that a company has currently stockpiled to sell to distributors. Inventories tie up the company's capital. Money sunk into inventory cannot be used to help sell those goods (and turn them back into cash). Companies with inventories growing faster than revenue, or sluggish sales of backed-up inventory, can be disasters waiting to happen. When management saw their inventories are more than the demand of the distributors, then they increase the credit limit of reliable and trustworthy distributor to sell more products. In such situation, they become liberal to their distributor.

3.5.7 Political State of Affairs

Political violence is nothing new to Bangladesh, results of blame game of political parties. Since the political circumstances remain unrest for many times in Bangladesh, sales volume decreases in a large number. On the other hand, the company needs to meet up their day to day expenses. For this purpose, they need money and eventually; they become strict about their credit policy to come up with that situations.

3.5.8 Seasonal Business

The company has to produce a large amount of product in different festivals like Eids, Ramadan, Puja, Pahela-Baishakh, X-mas day etc. During that time, the company needs more money for their production so that they can collect their dues as early as possible for their extra expense of production. To fulfill this purpose, they also become more strategic and strict about their credit management policy in such cases.

3.6 Credit Collection Procedure

Most of the distributor provide their dues in due time through Online Bank Transaction, Telegraphic Transfer (TT), Demand Draft (DD), Bank Account Transfer, Bank Cheque, Cash Transaction etc. Problem arises when distributors do not give payment of their past dues. In those circumstances, for the first time, Line Manager takes the first responsibility to collect those payments. In this regard, the line manager gives pressure to the Divisional Manager and Area Manager to collect those payments. However, if they are unable to collect the past dues, the Line Manager renders the responsibility to Credit Officer. For this purpose, the Credit Officer gives a

formal letter to the distributor for providing past dues within a specific time period. If the distributor does not pay the dues within specific time, the Credit Officer transfers the responsibility to Legal Manager. Finally, the Legal Manager takes the legal action against the distributor and collects the money in legal way so far.

Chapter- 04: Analysis of Credit Management Policy of the *Meghna Group of Industries* and Findings

4.1 Effectiveness of Credit Management policy of the *Meghna Group of Industries*

The major effectiveness' of Credit Management policy of the *Meghna Group of Industries* are as follows:-

The *Meghna Group of Industries* always keeps consciousness about their credit management policy as a whole. They pay a special attention to make their policy more effective. The reason behind it is the credit management policy is the main running power to continue the day to day operations of a company. If a company follows a wrong credit management policy, the company will suffer in the long run. In fact, it may also be vanished for the same reason.

The credit management policy must be kept very confidential because of competitive market. This is basically for if a company gets to know about the internal matters, the company may make their own policies more strong and tactful. In this way, the company might grab the distributors of the former company. So the *Meghna Group of Industries* does not share their internal policies with anyone.

As their credit management policy is very secure, their distributors have to pay their past dues within the specified time period. The management of the company is very technical and professional to collect their credit and so they offer two types of credit policy. They offer credit limit for their distributor only when they realize that the distributor is reliable, trustworthy and capable to repay the dues even if he make loss from the business. At the same time, they offer business to business payment method to their distributors who are less reliable and trustworthy.

Again, they do not give a big amount credit limit for their new distributor rather they offer very low credit limit at the beginning. If it is not followed, the distributor will invoice for product of bulk amount that he might not be able to sell as he will be provided a very specific credit days for this acts and consequently, he may default at the very beginning. Subsequently, he may lose the interest of business and in future he may stop that business for this reason.

Moreover, the credit limit will increase gradually in response of the distributor performance. If the distributor can sell his entire credit limit within very short period before finishing his provided credit days, then his credit limit will be increased depending on average daily sales by the company.

Moreover, if a distributor cannot complete his selling of product for 3 months after to after, the number of credit limit will be decreased.

Furthermore, they take a blank cheque from their distributors at the beginning as if they can get back their all dues from the distributor bank account. Because, how much a distributor has default cannot be known in the beginning of his business, so the company does not allow the written amount in the cheque.

Also, if any distributor is in default, at the very first the company tries to recover the money by using the blank cheque which he had given during becoming a distributor of that company. However, when the company cannot recover the money by using the same thing, the legal team of the company meets with the distributor individually and attempts to recover the same. Even if they become unable to collect the money, the company brings suit against the distributor. Only then the court gives its judgment about what to do in that situation for both the company the concerning distributor although it is very rare in fact because the legal team tries their level best to resolve the matter.

For the above mentioned reasons, the default rate of the distributor of the *Meghna Group of Industries* is very much lower than other competitors like Unilever Bangladesh Ltd, ACI Bangladesh Ltd etc. in Bangladesh.

4.2 Critical Findings

There are some critical findings for what reasons the company's goodwill may be affected in the long run, namely:

- The company follows two payment methods for its distributors;
- The company follows different credit days for all distributors for that makes the entire procedure more complex;
- The company gives more attention to primary sales rather than secondary sales;
- The company manually updates all required distributor, sales and payment information that becomes very time consuming.
- The company is not that much bothered about the difficulties and business of the distributors.

Chapter- 05: Recommendations and Conclusion

5.1 Recommendations

First of all, *Meghna Group of industries* should follow one method of payment rather than two. The main reason is the two methods makes the total procedure more complex and the distributors cannot decide firmly about with which product line they will do work. For example, a distributor is interested to work with Product Line C and for this purpose, he preferred credit limit as a payment method, however, he cannot do so since company does not offer credit limit as a payment method for Product Line C. As a result, it may cause his reluctance to do with that Product Line only for the complex method of payment which ultimately hampers the total sales volume of the company for this reason. In order to resolve this said problem, they can follow only credit limit for this object, because business to business payment method has some limitations such as; in this method, the distributor must pay their past dues for new ordering invoice.

Secondly, *Meghna Group of industries* should follow same credit days for all distributors for simplicity rather than different credit days for different product line otherwise it may create many problems in fact. For instance, a distributor gets 21 days for his credit payment; on the other hand, the other one gets 30 days for the same purpose. As a result, the distributor who is provided 21 days, becomes demotivated because it may create more pressure to him that is might be both mental and financial, at the same time, the person who is provided 30 days, he is getting more opportunity to make his payment with less pressure of both mental and financial. In this way, it creates discrimination between them although their work is quite similar. In the ultimate consequence, the company is a losing potential distributor which is decreasing number of sales volume since if the distributor who got 21 days was provided 30 days, it would increase sales volume and profitability in the company. Therefore, they may follow 30 days credit limit for all distributors to their development.

Thirdly, the company should give more attention to secondary sales along with primary sales. This is because, if the secondary sale can be accelerated, the primary sales will be accelerated automatically. When a distributor can sell the products, he will make order to buy the same from the company.

Moreover, the company should not manually update all required distributor, sales and payment information which may result to time consummation for the company entirely. After being a

distributor of a company, the employee of the company has to update information regarding primary and secondary sales of all distributors manually which definitely becomes very time consuming. Thus, the company should create unique software so that they need not input the relevant information manually and the distributor can input the same by him.

Finally, the company should be bothered about the difficulties and business of the distributors. For increasing secondary sales, although it is found that the companies always think about their credit policy, the company may think about their distributor's problems of personal, physical and financial and they can give the distributors positive motivation as well as train them to increase sales volume.

5.2 Conclusion

To sum up, it can be stated that credit management is one of the most important factors depending on what every company maintains its cash flow which is also considered as the central foundation of company's operation. Thus, without proper and effective credit management of any company, it might fall into many difficulties such as the company may be unable to run its operation in the long run. The credit management policy must be created in such a way so that it may bring a win-win position between the company and the distributors that automatically may accelerate the growth of company's profit. Besides, in general, there must be a secure and reliable platform on which the business can place its trust. Fundamentally, part of this platform is the availability of reliable information and secure systems. As the Credit Management team has a leading role in building secure systems and one aspect is to ensure that an acknowledged credit policy and procedures are in place and clearly articulated and understood across the business, also, it has to be continued by managing strong strategy. Moreover, along with the promoting secure system, every company has to have some alternative methods of credit management to minimize the barriers such as political unrest etc. for its development. Therefore, all the factors those are very important to make effective the company's credit management policy in the *Meghna Group of Industries* must be considered and taken care of very carefully since again the credit management is very essential for continuous smooth and well-off operation of a company.

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