

Task 6 (15 marks)

You have been asked to carry out a review of SL Products Ltd's sales order processing procedures and make recommendations for improvement.

You have interviewed the Sales Director, (Cynthia Moss), Credit Controller (Ray Massey) and Accounts Receivable Clerk (Matthew Tunnock). Your findings are below.

Catalogue

The 85-page illustrated catalogue is updated and posted to customers in the spring and autumn of each year. The print run is 5,000 copies. An online version is put on the company's website.

Orders can be placed by post, telephone or online if the customer has been granted credit terms. Otherwise, orders will only be accepted by post and must be paid for in advance by cheque (in British pounds). These cheques are cleared before despatch is allowed.

Accounts that are dormant for 18 months are closed. These customers are removed from the catalogue distribution list.

Customer base

80% of sales are made to just 20% of the credit customers.

Most of these sales are repeat orders for some long-established items in the catalogue.

95% of sales, by value, are to credit account customers.

There are 4,210 customers with credit accounts: 4,000 in the UK; 150 in other European Union countries and 60 elsewhere around the world. Over the last year, 129 new customers have been granted credit accounts. 608 inactive accounts have been closed.

Sales to customers outside the UK have declined over the last five years and now make up only 7% of total sales.

Credit accounts

Account application forms are sent to new customers by Matthew Tunnock. Trade and bank references are required. When the forms and references are returned, Matthew checks them and drafts a confirmation letter which Ray Massey authorises.

Matthew sends the confirmation letter, a copy of the company's terms of trade and a catalogue to the new credit customer. There is no formal credit limit at this stage. Credit limits are placed on regular late payers.

Most customers settle their accounts within the agreed periods or very soon after. There are very few bad debts.

(a) Identify one strength in these procedures. Explain how the business benefits from this.

(3 marks)

(b) Identify one weakness in these procedures. Explain how this damages the business and suggest a remedy.

(4 marks)

(c) Identify one opportunity to improve the procedures. Explain how the procedure should be changed and how the business could benefit.

(4 marks)

(d) Identify one threat to the effectiveness of these procedures. Explain how this could damage the business and suggest an action that would reduce the risk.

(4 marks)

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(a) 1 mark for identifying strength; maximum 2 marks for explanation (maximum 3 marks)

Effective credit control is in place **(1)**.

New applicants for accounts are credit checked and there is routine credit control **(1)**. This minimises bad debt and assists cash flow **(1)**.

(b) 1 mark for identifying weakness; maximum 2 marks for explanation; 1 mark for identifying solution (maximum 4 marks)

It is not easy for new customers to place orders, particularly from overseas **(1)**.

The requirement to apply for credit terms or to send a cheque through the post is an obstacle to trade **(1)** and is probably sending potential customers elsewhere **(1)**.

The account opening procedure needs to be performed electronically **(1)**;

Or,

Customers should be able to apply on line for a small initial credit limit which can be immediately checked with a credit reference agency **(1)**;

Or,

Alternative facility to pay on-line by credit or debit card when placing an order would be attractive to small businesses and those with a poor credit record **(1)**.

(c) 1 mark for identifying opportunity; maximum 2 marks for explanation; 1 mark for identifying benefit (maximum 4 marks)

Improve relationship with customers **(1)**

Printed catalogues are expensive to produce and distribute and not as effective as targeted electronic communications **(1)**. Customers could be sent daily electronic mail shots tailored to their own buying records and browsing history **(1)**. Increased frequency on updating content based on changing trends and new products **(1)**.

This could save money and should boost sales **(1)**.

(d) 1 mark for identifying threat; maximum 2 marks for explanation; 1 mark for identifying action (maximum 4 marks)

SLP operates in a competitive environment **(1)**.

80% of sales are made to small number of customers **(1)** and consist mainly of repeat orders for established products **(1)**. We are vulnerable if our competitors offer new or cheaper products to existing customers **(1)**.

Need to develop or buy the best available products at competitive prices **(1)**.