FEDERATION of CREDIT
and FINANCIAL PROFESSIONALS

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Ask Not, What Your Company Can Do for You…

Instead, as a true Credit Professional, ask what you can do for your company, in addition to approving open account credit and collecting money. For some, your first reaction may be, to say, "Don't I do enough already?". Well, within a limited perspective, one could agree. After all, the Credit Department does have a tough job. Who else has to say "Yes", well "maybe, if", and "oh, by the way, pay me, please", and, then, deal with the consequences, if the money does not come in, on time, always, even if you were forced to release that huge order, beyond your better judgement? Well, the purpose of this paper, is to offer some ideas, and explain their value, for your company and you.

The main focus of FCFP is to provide every Credit Professional, with the tools to succeed, not only in the so-called "standard" role of collecting money. As you read this, refer back to our previous White Papers, articles and presentations, and, then, keep this Paper in mind, as you read future offerings. (Hey, spread the word to your colleagues and friends, because it all comes, with your annual dues, with NO further fees!) Oh! I almost forgot to mention that this has another advantage, in that most of this material is provided <u>FOR</u> you, <u>FROM</u> Credit Professionals, who have sat in your chair and dealt with your issues, on a daily basis. In other cases, we go to the experts in particular fields.

Sales-Centric Ideas

As mentioned, many times, Credit Management is part of the overall initiative to grow revenue, provide cash flow, manage the A/R Asset, and to mitigate the potential for Bad Debt losses. That, alone, is not easy. However, the skills and knowledge, required to do it, can also be used, beyond that. Consider, the following:

<u>Automatic Credit Approval</u>: Actually, this is not as radical, as some may think. Every account that you approve, and every order that you release, has the potential for becoming a loss, or an expensive collection issue. Management, hopefully, understands that. Simultaneously, they have a desire, and a demand, to increase revenue, maintain cash flow, and to make a profit. The trick, for a Credit Professional, and, admittedly, it is a tough one, is to do both, together. Consider the following points:

- The Sales Department wants to sell to everyone, as long as they meet the market parameters set by Management.

- Circumstances vary, by industry, by the makeup of its customer base, and by the process, by which a credit account is established. They will also vary by the process, by which a customer makes his or her purchase. In some industries, orders are placed, for inventory stock and by delivery only, while other industries will have that, plus times, when a customer walks into a store or up to a counter, to make a purchase for immediate pickup, or to arrange for quick delivery to a job site or some other time-sensitive situation.

The first situation usually allows for enough time, to get a credit application, do the investigation, approve the account, assign a credit availability and release the order. However, the time-sensitive purchase circumstance may not always allow for that. Hopefully, your Sales Associate will have anticipated everything, and has already gotten a completed and properly signed Credit Application and Sales agreement, and you will have done your thing, with an approved account, with an adequate open account credit availability, to handle that upcoming order. Then again, we can always hope, but the reality is that, such is not always the case.

So, what is an adequate alternative? Obviously, you could still require a completed, properly signed Credit Application and Sales Agreement, an investigation and the chance to review all of that, while a customer waits patiently. However, time sensitivity and patience seldom go hand-in-hand. At that point, the potential is there, both for an angry Sales Associate, as well as an irate customer, who may have been promised something. The answer could be, some degree of automatic approval. This can vary, according to:

- Company policies, regarding when, and under whatever other circumstances, having a happy potential source of ongoing business, and what level of anticipated loss is acceptable, to get that.

- Follow-up policies and procedures, to obtain the documents and information needed to go ahead with that customer, on a more permanent basis, or not.

With that said, I do have direct, and successful, experience, with such a program, albeit with adjustments made to it, over time and according to changing circumstances, internal and external. So, here is an example, keeping in mind that you must consider your own company's requirements, needs and demands, from whomever. My company was a large, privately-owned, growing wholesale distributor, with a lot of either over-the-counter pickups or rush orders, for quick delivery. Extremely important, for the success of this kind program, is to ensure that everyone, at the corporate level and at every level in the field, both sales and branch operations, has a complete understanding of the policy and its associated procedure, and that it is maintained, in writing and with easy access. For the sake of this Paper, I will illustrate a relatively conservative version of the procedure:

- In today's litigious world, require a completed and signed Credit Application and Sales Agreement, at least at the time the first order is placed. The guy at the counter can bring it in, or the customer can send it directly to the Credit Depart.
- When you had originally released the Program, you will have advised everyone, that there is a maximum limit assigned to this account, and that it cannot be exceeded.
- Immediately set up the account, with that maximum credit availability, which is commonly referred to as a Credit Limit.
- Release the order.
- Until such time as you verify the validity of the signature on the application, done your investigation, and made your final decision, continue to release orders, within that Credit Limit, as long as the customer pays, according to terms

This type of program can be particularly beneficial, when your company makes an acquisition or opens a new branch location, if your field people have not yet brought you the proper Credit Application and Sales Agreement.

Prospect Lists: As I mention the world of acquisitions and new locations, there is another way that you take an extraordinary step, to help with the effort to grow revenue, in those new territories. Normally, it is the responsibility of the Sales and Marketing Departments, to find new business. You may ask how that can be done, by a Credit Department? The first step is to have an Automatic Credit Approval program, which we just described. Then, understand that there are multiple databases out there, that maintain lists of businesses. Some of these are maintained, within specific industry membership groups, or others are maintained, or at least accessible, within credit-reporting companies, usually without assigning a credit rating. I will leave it up to you to investigate that, since FCFP does not normally involved in that. Let's say that your choice maintains its list within specific SIC (**S**tandard **I**ndustrial **C**lassification) or NAICS (**N**orth **A**merican **I**ndustrial **C**lassification **S**ystem) codes and geographic areas. Here is what I did, to find new customer prospects, for acquisitions, new locations, AND, when a local Sales or Operations Manager asked for help:

- First, find out the appropriate SIC and/ or NAICS codes for your customer base.
- Second, determine a geographic radius for the appropriate location. The size of that potential territory should be within a reasonable delivery distance, or within whatever area that your Sales, Operations or corporate people want.
- Third, get your list. Delete any obvious bad entries, such as trade organizations, competitors and typos. For instance, you may be searching for prospects in the hospitality industry, and a hospital shows up.
- Set up an account, within the policies discussed above, or new policies, intended for this type of prospect list. For instance, I was able to assign an initial temporary credit

limit, sight unseen, simply to support the expansion effort. After a certain "break-in" period, that limit would be withdrawn.

- Be sure to announce your company and your handing of this type of situation, to your prospect, providing all of the necessary contact information, what you sell and why you are doing this, just in case your Sales or Operations people forget to do so. Also, be sure to advise the prospect of his/her/its rights under the ECOA (**E**qual **C**redit **O**pportunity **A**ct). (See earlier White Papers, on credit applications and credit approvals.)
- Be sure to include your Credit Application and Sales Agreement, with a statement that you require that it be completed, properly signed and returned, in order to maintain the credit availability.
- Obviously, provide the list to your Sales and Operations Departments, including the locals. What they do with it, is up to them, of course, but, you have given them an excellent working tool.
- For an acquisition, add a second list, which will be the Seller's existing Customer Master. An added pressure point, is that they are very likely already selling those people on open account credit, or not, and you do not want to damage that relationship.
    - If they have accounts on Credit hold or Cash, set them up the same way.
    - If they have assigned credit limits, use them, in place of your regular Automatic Credit version. Follow up, as appropriate. Be sure to explain, to everyone, that you are a separate and unrelated legal entity, and that, unless the Acquisition Agreement and the Sellers credit app. Has the proper language, you need this new Credit Application and Sales Agreement, to maintain the open credit status.
    - Ensure that the appropriate field personnel understand, so that they will not, inadvertently, disrupt your ability to get the job done.

New Account List: There will always be new customers, who may have bypassed your field people:

- Maintain an accessible list of these new accounts, including the type of account, either open or cash, with any appropriate credit availability
- Announce these new accounts, to the appropriate Sales Associate and Branch Manager, along with their superiors. Do this as part of your new customer set-up process, and send it at the same time, as your Welcome Letter, to the customer

Field Training: New locations, meaning new employees in the field, bring up another way, in which you can value to your company. Obviously, they will be trained in operating procedures, but, based on experience, there will be other things that they need to know, such as why certain procedures are in place, such as how to handle credit card information, within FACTA (**F**air and **A**ccurate **C**redit **T**ransaction **A**ct) and other legal issues.

- Prepare written procedures, including detailed explanations about the reasons for those procedures.
- Prepare appropriate PowerPoint presentations, so that you can present the procedures, whenever possible, such as regional meetings and so on. Make those PowerPoints, with notes, available to Sales and Operations management, if they want them.

Proactive Field Visits: Getting to know your co-workers, in the field, and your major customers, will almost always leave that so-called "good taste in their mouth".

- Good working relationships allow for better understanding, when there are issues that require a decision, other than what the other person expects. Trust is important.
- Customer visits are always excellent opportunities, to learn more about them and their operations, plus they help to foster a relationship with the principals. That may be critical, when circumstances require some request for financial statement or there is another less-than-desired situation. The vast majority of these situations will result in positive results, when you and your customer have met face-to-face.

Vendor Investigations: Sometimes, a vendor's reliability, from any perspective, is a given. However, there are also circumstances, where a vendor's problems create performance issues for your customer. This can range from a late delivery causing your customer to be charged penalties or delay payment to him, that, in turn, delays payment to you. There can also be the worst of situations, where a product defect or other design issue causes your customer to install it incorrectly, causing harm to someone. If not already required by Management, offer to, at least, do a credit/ public record/ BBB investigation on questionable, new or largely unknown vendors. It cannot hurt.

Study and Evaluate Your Invoicing Process: So much of the cost of doing business involves just how efficient procedures and processes are. One of these will definitely affect your ability to do your job, and that is your invoicing process. For instance:

- Under Terms of FOB (**F**ree **o**n **B**oard) Origin/ Shipping Point, Title passes to the customer, as the material is shipped, actually when the driver signs the Bill of Lading, so, is the invoice cut at the same time? Is it done electronically, or on paper? Is that paper invoice mailed on the same day?
- What selling terms are on that invoice? Discount terms will prompt faster payment than Net terms, assuming a customer is willing and able to take advantage of it. Thus, you may receive payment in less than 14 days, with the cost of the discount more than offset by the carrying costs of A/R, in terms of interest, while, depending on re-aging process and late-charge policies, Net 10th Prox. terms will allow a customer, who buys on the first of the month, to wait up to 40-60 days, maybe more, before there is any penalty or collection effort.
- Is all the proper information on the invoice? For instance, if a customer requires a PO (**P**urchase **O**rder) number or some other identifier, is it there? Maybe, if that is

missing, he will still pay, with a POD (**P**roof **o**f **D**elivery), so is the ticket signed or is the proper shipping identification number on it, so you can get a POD later?
- Sometimes, a customer will restrict purchases to certain named individuals, so does your invoicing process cross-reference to such a database?

Selling Terms: It would be very helpful, for your company's profitability, and your customer's willingness/ ability to pay, if you would evaluate your Terms of Sale, in relation to time your customer(s) takes to pay, normally, without incentives. For instance:
- With terms offering a prompt payment discount, and they fail to meet the time restriction, you can charge back the dis-allowed discount.
- However, if there are requests for extended terms, you need to understand a customer's normal habits, which he or she will tack onto the end the extended term, which can be very expensive in terms of the cost of money.
- In either example, and there can be others, it is very important that you communicate these costs to your field and management people, if, for no other reason, than it being a form of covering your posterior.

Operating Costs: A very large, actually huge, part of the cost of carrying Accounts Receivable, even the extension of the open account credit that results in that A/R, is the day-to-day operation of the Credit Department. I recommend that you refer back to four previous White Papers, dealing with the automation of mundane tasks, in your operation.
- The more efficient, through automation, that you can make the review & follow-up for your credit application process, the actual credit investigation, cash application, collections and account follow-up, the more time and staff that you will have available, to make those all-important business credit decisions.
- Concurrently, review each step in each process, to ensure that you truly need that done.
- Certain of these steps can be done more efficiently, by your customer, so, when possible, as in completing and signing your Credit Application and Sales Agreement, include instructions on how to do it, plus explanations, where needed. For instance, offer an explanation on who can legally encumber a particular type of legal entity.
- Just because something was always done a certain way, does not mean it should be done that way now, or at all. Delete what needs to be eliminated, and make everything, and everyone, more efficient.

Be Proactive: Dynamic companies will always consider new things, such as expansion, changes, additions to its product and/ or service levels, going international, going public and so on. Think ahead, about, not only how these changes will impact the Credit Department, but also, how it may impact other areas. Consider these examples:
- A simple one is a privately-held company's ownership decision to go public. Attorneys and advisors will likely provide financial and certain legal advice.

However, does Management understand that part of the compliance required under the Sarbanes Oxley Act (SOX) requires that you as a Credit Professional (Department Head) means that every procedure, lines of authority and every policy has to be documented, in writing?

- Suppose your American company decides to do business internationally. Obviously, dealing overseas will require a lot of research and serious logistical considerations. However, even something as simple as opening locations in, or simply selling across the borders with, Canada and Mexico, will require some work. For instance:
- While Canadians speak English, even in the former French colony of Quebec, that province requires that all forms, such as a Credit Application and Sales Agreement, be in French, although you can provide English as a second language. Do some research.
- That same circumstance involves Mexico, where Spanish requires about 20% more words, to say the same thing. If your U.S.-registered customer maintains executable assets, even with judgment in this country, in Mexico, you will need to file suit there, with local counsel, and that country has the same issue that we do, as it is also a federation form of government, with each Mexican state having different interpretation of its laws.
- In both cases, look into the Sales & Use tax laws, not only there, but also in the U.S. states along the border, from where you may ship over the border. Example: Look up the Border State Caucus, regarding sales across the American/ Mexican border.

<u>Be Proactive, Phase 2</u>: Have you ever had a Sales Associate ask/ demand that you approve an order(s), for a financially marginal customer, or one who pays slowly, simply because he or she needs to meet a monthly goal? Of course, you have, since you are a Credit Professional, and this is a natural part of your life. Maybe someone in Sales or Operations Management says the same thing, about being too restrictive, on their favorite accounts, or you simply want to do something to help, with sales. Coincidently, you know that there are many customers who do not fit the pattern. Here are some creative, and positive, solutions:

- <u>Preferred Customer List</u>: Sometimes, a Sales Associate may be simply too busy, with solving his current customers' problems, he or she may not have the time, to seek new business (?). So, perhaps it is time, for Credit, to help.
    - Prepare a list of existing customers, who will qualify for additional open account credit sales. Include all contact information, plus the Total AR, Credit Limit and the difference between the two, under a heading like "Available to Buy", or similar.
    - Send this to each assigned rep and branch manager, plus their superiors, all the way up. Then, go a step further, and divide the unassigned accounts into the same geographic areas. Send that list to the appropriate people, telling them, in very positive and diplomatic language, that this is to help them.
    - To be even more diplomatic, consult Sales and Operations Management, before sending the list out to individuals, but be sure to copy all appropriate people,

including the pertinent Credit Department personnel, when you do send it out to the field.
    - Consult with your Sales, Operations and Marking Management people, to devise a sales program, intended for this list. Example: There is always a push, at month-end, to enter orders, even make deliveries, before a customer really needs it. That is sad to say, but it does happen, and you may very likely have a payment problem, especially so, when your system applies a late charge. Suggest, for orders to these people in the last five days, prior to month-end, that you apply extended terms.
- <u>Say "Thank You"</u>: The list above may include a lot of relatively inactive accounts. However, you have a lot of active customers that always pay on time, or close to it. Also, there will almost always be, depending on your industry, a slower period, during the year, where you could use some additional business.
    - Make a list of those customers, and prepare a program, coordinating with the appropriate departments, as above, that will provide these people with an added discount and, perhaps, extended terms, for making purchases during this particular period. Add a minimum purchase, to make it more beneficial, to your company.
    - You announce the program, with all details, and a "personal" expression of gratitude, for the excellent manner, in which they have handled the account. Include the "signature" of the assigned Credit Professional, which could be you or a subordinate manager.

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Of course, all of the suggestions made in this Paper are voluntary, entirely up to you, plus they should be considered only within the context of your company's policies and practices. FCFP wishes to help you succeed, not cause problems for you. If you think a change is in order, and you believe it will be well received, even if just to think about it and then say "No", do it. If you believe it to be a less-than-optimum move…perhaps not.

As mentioned a couple of times already, visit our website, and review the material there. FCFP exists as a source of educational material and other information, just for you, our members, free of any other charges, other than your membership dues.

Since we exist for you, our Member, we would like your input. Keep an eye out for an FCFP survey, asking for your input on other similar ideas, and also what you think of those presented in this Paper.