

APRIL 2020

BCMA E~CREDIT NEWS

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April 2020

1. Expert's Six-Step Checklist for Checking Credit

You might call Eddy Sumar "Professor Credit." Not only is Sumar a tireless globetrotting deal-broker in his role as International Trade Financing Manager for sprinkler giant Rain Bird, but he has also devoted a great deal of time to thinking--and writing--about credit.

Sumar comes from an industry in which he envisions a future in which terms will be longer, customer service will be king and all players in the transaction, from top management to sales, to marketing, to credit, to the customer, will be cooperating together as never before.

Sumar has written a book entitled *From The Cutting Board To The Cutting Edge: Reinventing Credit In The 21st Century*. With that project finished, he has been busy recently on a series of booklets he calls The Sumar Series. The pamphlets break down credit methodology into what Sumar calls "The Cs Collection." Each module addresses an area that begins, as Sesame Street's Cookie Monster would wholeheartedly approve, with the letter "C:" Conflict Resolution, Credit, Customer Service, Collections and Cash Flow.

"A successful company is a peaceful company," says Sumar. And part of his modular approach to the credit process, which aims at making everything flow as smoothly as silk, is a six-point Checklist Method of establishing credit.

Sumar has read almost every book on collection and credit, he told us. "They helped me to come up with a checklist on what a credit person needs to make a good credit decision."

Sumar's Six-Point Checklist is as follows:

Step One: A completed credit application. (This one might be termed a classic "no brainer." But as any credit manager can tell you, there are credit apps and there are credit apps). Sumar stresses that there are many sources one can use in order to arrive at a completed application. They are covered in his modular "The Cs Collection."

Step Two: Three trade and three bank references. Sumar says he will accept at absolute minimum two trade and banking references, but he prefers three. "When I send the application, there is a page that has space for three trade and three bank references," he says. Concerning trade references, these are not just any trade references. He wants references in his line of business.

This month's topics...

- 1) [Expert's Six-Step Checklist for Checking Credit](#)
- 2) [The Payments Landscape is Changing Big Time](#)
- 3) [Interviewers' Top 10 Mistakes](#)



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1. Expert's Six-Step Checklist for Checking Credit (continued)

Step Three: Financial statements. Three-year financial statements are a must. "I use the spirit of the Exim Bank method," Sumar said. "If it's more than six months into the year, I need interim financial statements for the current year in addition to the three-year prior period."

Step Four: If an account is above a certain credit limit, Sumar will request two credit reports, in much the same way you might seek a second opinion from a doctor. Since Sumar does business internationally, he said the limit would depend on the customer, what country they were in, and a number of other factors. "My approach is holistic," he said. "I don't look at one area and say the customer is great. I look to see if every checklist item is completed."

Step Five: Comments from the sales force. "I ask them, 'If this was your company, would you approve this account? If you had cash in your pocket right now, would you lend that customer your cash today to buy the product?' If you can answer yes to both, I will do what I can for you. But if you can't vouch for the customer, that's a big alert."

Step Six: Ratio analysis. "I spread the financials," Sumar said. "I have 14 different ratios that I look at. They cover Liquidity, Efficiency, Leverage and Profitability. I look at Days Sales Outstanding (DSO), Days Payable Outstanding, Total Debt-to-Equity Ratio, Acid-Test Ratio, Cash Ratio, ROE, ROA, etc."

However, over and above all of this number-crunching, Sumar stresses that a customer's character is key in any deal he brokers. Although it is not on the six-point checklist, this might rightly be called **Step Seven: the Character Factor**.

"If you know a customer's character, that matters much," he said. "I had a customer in Argentina from whom I was able to collect every dime despite the collapse that started in 2001, because that customer was of good moral character."

"I collected every dime there, and also in Brazil (during 1997/98), because I knew the customer base and had good relations with them. I trust my customers and they trust me every time. My approach is relationships."

Eddy Sumar on LinkedIn

2. The Payments Landscape is Changing Big Time By David Schmidt

Big changes in technology in the payments industry are increasing the rate of innovation on credit management and collections systems. The results are expected to be transformative, bringing benefits of convenience and accessibility, integration and interoperability, automation and throughput, and ultimately greater predictability and control. Here are four snapshots of the changing payments landscape.

The Cloud Is Proving to Be a Catalyst for B2B Payments

According to Deloitte, US business-to-business (B2B) payments are expected to reach \$23.1 trillion by 2020. As consumers have grown accustomed to the faster retail payments landscape, demand for similar service levels in transaction banking and B2B payments have grown. Banks have been slow to deliver; so financial technology firms (Fintechs) have filled the void.

2. The Payments Landscape is Changing Big Time *(continued)*

The advantages the Cloud brings to the payments universe include:

- More convenient access for both parties in a transaction
- An environment that accelerates innovation involving payment platforms and their functionality
- The facilitation of broad-based integration between banks, payment platforms, and both parties to a transaction

Enormous scale for the providers of payment services, which will facilitate a better user experience and transaction throughput

The Fintechs are therefore using the Cloud to bring about digital transformation in the payments sector. The good news for credit pros is that the near future holds the promise of integrated payment solutions for businesses that rival the service levels, tools and convenience that consumers now enjoy.

Take-aways - Credit executives should:

1. Pay attention to the emerging payment mechanisms your customers are using
2. Be looking for opportunities to make it easier to get paid by your customers - this necessarily involves working with your bankers, corporate treasury, service partners (such as EIPP platform and remittance processing providers) and possibly IT.
3. Look for ways to reduce the cost of payments (e.g. credit cards)

From Payment Hubs to Digital Ecosystems

A major challenge for credit managers involves connecting invoice presentment and payment systems to all their customers. AP departments want to capture invoices and then make payments electronically, which can be a burden when credit is forced to manually enter invoice details in order to get paid.

Fortunately, the financial services industry is moving from monolithic payment hubs to "digital payment ecosystems" that provide much more interconnectivity. The future of electronic payments looks to be service-focused, cloud-based, highly configurable, and API-centric, making it easier for disparate systems to communicate, eliminating the manual tasks that AP departments have forced on their suppliers.

For a more detailed look, check out "[The Future of Payments Hubs](#)" in Payments Journal.

Real Time Payments Use by Businesses Expected to Take Hold in 2020

A good rule of thumb is to follow the money. Venture capitalists are making big bets on real time payments and the \$1.9 trillion payments industry. If that doesn't convince you this could be a major development, there were three huge mergers among the leading payment processors -- everybody is looking to build the biggest and best electronic payments highway, and then sit back and collect tolls.

Elena Whisler, Head of Enterprise Payments at FIS, one of the biggest players in this space, has identified five real-time payment trends to watch. She states in [What's Next for Real-Time Payments? Here are 5 Trends to Watch](#) that "real-time payment growth for business use will become a reality," thanks to the appeal to businesses of accelerated cash flow, negligible exceptions, and automatic reconciliation.

Whisler also suggests that "cloud-based processing services are a powerful option to decentralize processing and inspire innovation." Accessibility is the goal, which will greatly

2. The Payments Landscape is Changing Big Time (Continued)

facilitate interactions between your AR and your customer's AP department.

Combatting Credit Card Chargebacks

According to Aite Group, for every dollar charged on a credit card that is disputed, US firms incur an additional \$1.50 in chargeback costs. The cure is more costly than the disease: an environment ripe for abuse.

MasterCard is seeking to handle dispute resolution prior to issuing chargebacks, coupled with the sharing of comprehensive transaction details between sellers and buyers. To do this, MasterCard acquired Ethoca last year, and it is already paying off by reducing chargebacks by more than 80 percent.

To learn more about how MasterCard is doing this you can access their webinar titled "[Transforming Dispute Resolution](#)" (**Editor's note:** It's free, but registration is required.) Even though the webinar focus is primarily on consumer environments, this is good news for business credit executives who should be on the lookout for similar solutions to emerge that have been adapted to B2B credit card transactions.

3. Interviewers' Top 10 Mistakes

One of our favorite writers on HR & hiring-related issues is Mel Kleiman, president of Humetrics. Not long ago, he penned the following piece on the biggest mistake made by interviewers. This is one of the most important tasks of a manager & we always appreciate his take. We cannot do better than quote him here:

10. Failing to Create a Job Description: How can you hire the best person for the job if you have not defined what "the best" is? In addition to listing tasks & responsibilities, job descriptions should spell out the mental & physical capacities, attitudes, personality traits, & skills that are key to success. (While a librarian & a waiter both need to have good customer service skills, only one of them needs an outgoing personality.)

9. Asking Illegal Questions: Write out your interview questions, review each one, & ask yourself: "What does this have to do with the person's ability to do the job?" If it is not job-related, do not ask it. (If you need someone who will be on time every day, do not ask: "Do you have a reliable daycare provider?" Ask: "Other than personal illness, how many days were you late for work in the last six months?")

8. Relying on First Impressions: A study by the University of Chicago found 90% of interviewers make a hiring decision within the first 14 seconds of meeting the applicant. (No wonder so many bad hiring decisions are made.)

7. Forgetting Who Needs to Make an Impression: Applicants today are picky about where they will work. Interviewers need to sell applicants on the job & the company. (Applicants report major turnoffs are being kept waiting & interviewers who are not prepared.)

6. Hiring Based Only on the Interview: A hiring decision based on the interview alone is successful only 18% of the time. The best predictors of success on the job are testing (53%), a temporary job assignment (44%), & the reference check (26%). Experience is reliable only 14% of the time & age is the least reliable predictor of success (-1%).

3. Interviewers' Top 10 Mistakes (continued)

5. Biases: A bias is the instant bond you feel when you find out someone is from your hometown -- even though its population is over 500K & you have never met before. Biases cause us to hire who we like best instead of the person who is best for the job.

4. Not Asking the Right Questions: You can count on every unprepared interviewer to say: "Tell me about yourself," & then ask: "Where do you see yourself in five years?" In addition, every job applicant has canned answers to these questions. The best questions to start with are: "Tell me about your first paying job. What three things did you learn from it?" Use the same questions to take the applicant through their entire work history. The answers, from their earliest experience to the most recent, paint a vivid picture of the person's work ethic, commitment, & drive.

3. Talking Too Much: Most interviewers forget that they cannot learn anything new while talking. Rule of thumb: The applicant should do the talking at least 80% of the time.

2. Interviewing from the Application or Résumé: When you conduct interviews with either of these documents in hand, you tend to simply confirm the information the applicant has already provided (instead of learning what you need to know).

1. Emphasizing Experience & Education: Harvard Business School determined that the combination of information, intelligence, & skill account for only 7% business success. Attitude alone accounts for the other 93%. Far too few interviewers ask attitude questions like: "I know you would work harder or longer hours if asked, but, just in the course of your normal workday, what have you done for an employer that is more than what was expected of you?"

Thanks to Mel Kleiman and Credit Today's Tip of the Week.

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