

BCMA E~CREDIT NEWS

BCMA - It is All About You!

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1. Hold Orders: It's Not Me; It's the System!

When it comes to collections, this credit exec does not pay that much attention to customers who are 30 days past due if that is within their history. However, if they are normally at 15 and now they are at 30, or if they are normally at 30 and now they are at 45, that is what he keys in to. He checks agings daily, looking for people who have moved out of one column into something where they have not been before.

"That's what I attack first," he says. "You do one of two things. You call and say, 'I was just reviewing your account, and I noticed that some orders are coming up. However, I also noticed that you are starting to stretch me out. So it may be a little difficult when the orders are ready; the system may hold them because you're further into the past-due issue.'"

Therefore, it is not him. It is the system. As a friend and confidant, he wants to prevent the system from doing that.

His hold letters say, "Our automated orders release system has put these orders on hold due to these past dues." "I always try to be friendly," he says. "Most people will take my calls. When they stop taking them, that's when the concern level goes up."

Each day he checks his schedule to see whom he has to call or email, if they prefer that. He has standard texts that he uses for different situations, which he can just pull and off it goes. Being able to send invoices and statements electronically without having to fax is really helpful. "They can't say, 'I don't have a copy.' I say, 'Watch your email; it'll be there in a minute.'"

What he wants is a commitment and a plan. "Generally when they tell you, 'Cash flow has been tight here, but here's what I'll do,' they'll do it. They are business people, and they want to keep their business running. My only concern is with brand new accounts. We have given them a small line. Now its past due, and I don't know them that well." However, even here he has found that if he is personable--if he comes across as trying to help their business--they will appreciate it and try to do the right thing. They are just looking out for their business.

"I'll have customers call me on customer service issues," he says. "They got a late shipment or a back order and they're concerned about the freight charge. I will say, 'I'll take care of the freight. Don't worry about it.' They feel comfortable calling me rather than customer service because we have a relationship."

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GOT AN IDEA?

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2. Six Strategies to Improve Cashflow

You do not reach management level without forming a powerful commitment to compete for customers' business. In Credit, you form another, equally powerful commitment: competing for customers' money--for getting paid first. This Manager of Credit and Accounts Receivable for a well-known automotive supplier in Michigan, recommends six strategies for meeting this dual commitment:

1. Extend credit prudently. "Set realistic credit lines, based on the information you have about customers," he says. "If you also adhere to these lines when customers get behind in payments, such as holding up shipments or finding other ways to get customers' attention, then you have taken your first step toward collecting the money that is due you."

2. Create a policy of approvals for any special terms. "It's often too easy for salespeople and credit people to extend special terms to customers simply because they ask for them," he notes. "By setting up a formal policy of approvals, you must first identify specific justifications for these requests." For examples:

- Will the extended terms lead to an increase in volume with the customer?
- Are the extended terms necessary to meet a competitive condition?

"In some cases, companies end up finding that, after they've provided special terms to customers, the accounts are no longer profitable because the extended terms wiped out the profitability," he adds. If and when you do allow special terms to certain customers, review these each and every year to make sure that the original conditions that prompted the terms are still valid and to make sure that you are generating the volume and profitability from the accounts that you expect and need. "The assumption that customers will continue to buy more from you if you provide special terms doesn't always hold true," he cautions.

3. Establish professional relationships with customers' accounts payable supervisors. While it is useful to get to know the payables clerks and the payables supervisors' bosses, he has found that the supervisors themselves tend to be the best contacts. "Their bosses don't always know what is going on with your account, and the clerks usually don't have the authority to release payments," he explains. "Some large organizations actually assign specific payables people to their largest suppliers," he continues. In this case, of course, these are the people to get to know.

4. Never give customers excuses not to pay. "That is, do things right the first time," he emphasizes. This includes:

- Shipping the right products in the right quantities damage-free.
- Billing at the right prices.
- Billing at the right times.
- Providing all the proper documentation, labelling and other paperwork.

"In sum, eliminate excuses," he says.

He encourages quality control programs that quickly identify any "glitches" in the ordering, shipping and invoicing processes. "When we find any such problems, we solve them quickly and set processes in place to prevent the same problems from occurring again," he adds. "We get to the roots of the problems."

5. Create a sense of urgency in getting paid. Do this with your salespeople, your collectors, and especially with your customers. "When calling to discuss late payments, don't just go through the motions," he advises. "Instead, emphasize the urgency that you place on being paid in a timely manner." While it may seem basic, not all credit managers utilize this philosophy. "I've found it very helpful," he says.

Besides the sense of urgency in your actual communication, he offers two other ways to stress urgency to customers:

- Encourage them to pay via wire transfer, such as EFT.
- Ask them to send delinquent payments via overnight service. His firm has a contract with an overnight carrier and covers the cost of the service for certain of their customers who send very large checks. "Spending eleven dollars to get a check for millions of dollars overnight is certainly worth it," he notes.

6. Get to the root cause of deductions. "I encourage the quick resolution of deductions in our company because the longer they go, the more difficult they are to research and resolve," he explains. "If you are using receivables to finance your operation, then deductions really present a problem, because they are worthless as assets in your receivables."

In fact, he is in the process of attempting to convince senior management to create a policy that would require deductions to be resolved within a specific period of time.

3. Five Goal-Setting Ideas for Credit Staff

The best goals are not easily achieved, but also are not so tough that they are unreachable. Here are some ideas for goal setting:

1. Annual targets alone are too distant to be much good as a motivator or as a measurement of performance. Monthly goals are more effective because evaluation is more imminent. Of course, it takes more time to set specific, measurable, and achievable monthly goals, but doing so is worth the extra effort.

2. It may sound obvious, but goals must be specific and measurable. An example of a non-specific goal follows:

"The Collection Specialist will work closely with customers and salespeople to ensure that past due balances are addressed promptly and cleared as quickly as possible."

A specific, measurable goal would be as follows:

"The Collection Specialist will reduce the balance over 90 days past due to \$25,000 or less by May 15, 201x and then he/she will maintain it at or below that level until this goal is amended with the approval of the Credit Manager."

3. Five Goal-Setting Ideas for Credit Staff (Continued)

"3. A list of goals that sit in someone's desk are useless. As credit manager, you should meet on a regular basis with your staff to review their progress. It should be the staffer's responsibility to prepare for that meeting by gathering the statistics and information necessary to document their efforts and achievements. This helps them be more engaged and take ownership in the process.

4. Remember to award superior performers. It is likely that your best employee out-produces your weakest employee by a ratio of as much as two to one. When it comes to rewards, financial and other, make certain that your top performers get the lion's share of whatever you as a manager have to offer to them.

5. You can also make goals important by making certain that everyone realizes that there are consequences for not reaching the goals that have been established with and for them. Specifically, substandard employees who consistently fail to reach the goals should be terminated. To do otherwise risks alienating your better employees, or worse, causing your best employees to decrease their efforts in order to reduce the disparity between their performance and the work done by the substandard employee.

Goal setting is tough sometimes and it is not a cure-all for the myriad of problems that you face. However, unless you establish stretch goals for your employees they are unlikely to stretch on their own.

somebody, he points out, so he looks at it as if the question were, "Would I put money into this?' Because that's exactly what we're doing when we extend credit."

"I believe a lot of it is intuitive. You look into all the variables. If the guy's got personal debts of \$50,000 a month and the only income he has is a yogurt shop, am I going to dump \$50,000 worth of product into his place? That is an example of the basic type of thing I look at, but the intuitive factor also goes beyond the basics. "When you hardly have anything come back on you (in terms of bad debts) as credit manager, you know you're doing it right. So after a while you just take a look at each situation and go for it if it feels right. That is how your receivables will stay low, if you look closely at all your accounts before the fact.

Now, it is important to note that here at Credit Today, we are big believers in data. But two points: One, you cannot always get data. And two, common sense is always a critical part of good credit decisions.

"If you make good investments in your customers, if you go with the right ones and nurture them along, it will work out--especially if you have the cooperation of Sales and you can tell Sales, 'Don't load the customer up. Do not give the guy 50 pallets of product if he's just opened. Don't saddle him with that debt.' It's just common sense.

"You can't learn common sense. But you can make a decision to commit to the job. When you're in there, you've got to give 110 percent."

Thanks to Credit Today's Tip of the Week.