

JUNE 2020

BCMA E~CREDIT NEWS

BCMA - It is All About You!

June 2020

1. 11 Takeaways from Warren Buffett's Annual Meeting

We always like to sit in and listen to Warren Buffett at the Berkshire Hathaway annual meeting. Yes, this is a credit newsletter but there is no one who understands business and credit better than Buffett and his overall observations are always worth paying attention to. This was perhaps his most unusual meeting in that it was just he and one other person in a huge empty room. However, he carried on as he always does and offered up some great observations. We listened carefully and here is our take on the most important points he makes:



This month's topics...

- 1) [11 Takeaways from Warren Buffett's Annual Meeting](#)
- 2) [Credit Talk: Ways to Secure Accounts Upfront](#)
- 3) [Work With Customer Service And Everyone Wins](#)



By clicking on [TSYS Merchant Solutions](#)' logo, you will be leaving this web site. Products and services accessed through this link are not provided or guaranteed by your Business Credit Management Association (BCMA). [TSYS Merchant Solutions](#)' June have a privacy policy that is different from your BCMA Affiliate. Please review [First National Merchant Solutions](#) privacy policy.

1. He has taught college courses from the age of 21 until now (the age of 88) and had never used a slide until the day of this meeting. It is noteworthy that his slides were as barebones as you will ever see: simple black and white text on a white sheet of paper that he held up by hand. You cannot get much more low tech than that. But the thing is, they were compelling.
- The takeaway? Fancy slides in a PowerPoint are not nearly as important as your message.
2. Buffett was a buyer of Berkshire Hathaway stock for the first two months of the first quarter, which is always a positive sign. However, strangely and ironically, they stopped buying anything in the third month, as things got worse. Normally when the price drops, he will be an aggressive buyer but that was not the case then, and he wanted to make that clear. If there is anything that stands out as a warning sign it is this: Warren Buffett not buying stocks after a price drop. We cannot recall that ever happening. He did explain that what happens next is very unpredictable and said that the range of possibilities of what can happen economically going forward is still very wide right now.
3. While he seems very nervous about the near term, he is nonetheless still very positive long term. For perspective, he noted that the wealth of the country in 1789 is estimated to be about 1 billion dollars (we paid 3 cents an acre for the 800,000 square miles in the Louisiana Purchase, and that included the mineral rights). Now it is over 100 trillion dollars or about 100,000 times each original dollar. In real terms that is about 5000 to 1. ("It's mind-blowing," he noted. "Beyond what anybody could have dreamt.")

BCMA MEMBERS

- [NACS Credit Services, Inc.](#)
- [Wisconsin Credit Association](#)

GOT AN IDEA?

Would you like to contribute to the BCMA Newsletter? The most important part is your idea. We can handle the polishing. Just write to us at BCMAEditor@CreditToday.net with your idea!

1. As Check Use Dwindles, Fraud Increases By David Schmidt (continued)

In addition, these mind-blowing gains did not come with smooth progress:

- o The Civil War -- 6% of the male population was wiped out in 4 years from 1861 -- 1865 (equivalent today would be 4 million males)
- o The Great Depression -- He was born in 1930, and it took until early 1951 for the stock market to break even from that point.

The point of these two stats; it looks rough now, but we have had worse and the goal of credit is more important than ever in hard times.

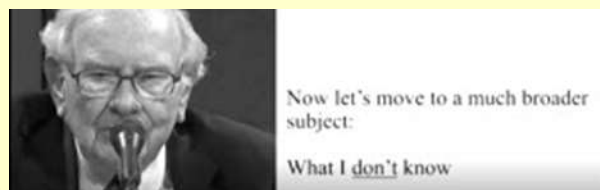
4. The Federal Deposit Insurance Corporation (FDIC) was a huge innovation that did not exist in the Great Depression and its existence dramatically cuts the risk of another big Depression today. It is essentially a mutual insurance company for banks and their depositors, which costs taxpayers nothing.

Think you need a fancy PowerPoint? Your message is more important than how beautiful it looks.

5. **"What I don't know."** -- He does not know, nor does he believe anyone knows, what is happening next week, next month, or even next year in the market. However, he does believe our country will move ahead.

6. You can be positive on America, but you still must be careful, because "markets can do anything." In 1987, it went down 22% in one day. In 1914, they closed the market.

7. Operational and risk concept: "We run Berkshire so that we literally try to think of the worst case of not only one thing going wrong but literally other things going wrong at the same time."



The takeaway for credit managers? Think about your customers from the same perspective.

8. "Most good salespeople believe their own baloney."

9. Operating earnings of the first quarter have no meaning whatsoever as far as what is going to happen in the next year. "I don't know the consequences of shutting down the American economy. I know eventually it will work whatever we do. . . Our operating earnings will be less -- considerably less -- than if the virus had not come along. It hurts."

The takeaway for credit managers? Be very wary of past financial statement data.

10. "When money stops flowing," Buffett observed, "every bank and CFO in the country knows it and they react with fear and fear is the most contagious disease you can imagine...Makes the virus look like a 'piker.'"

11. **To the Rescue (?) -- Biggest Borrowing Binge Ever:** "And then (in) March, when the market had essentially frozen, closed a little after mid-month, (it) ended up, because the Fed took these actions on March 23rd, . . . being the largest month for corporate debt issuance I believe in history. And then April followed through with (an) even a larger month. And you saw all kinds of companies grabbing everything." Buffett observed that anyone borrowing money in March or April ought to have sent a thank you letter to the Federal Reserve, which opened the spigots of liquidity.

2. Credit Talk: Ways to Secure Accounts Upfront

"Most credit people are good collectors," observes one credit manager we know. "But we need to focus on what we can do to secure accounts up front." Securing accounts is not synonymous with tight credit. In fact, it can be the opposite. "Our credit policy is: 'Whatever it takes to make the deal happen,'" he reports. He finds ways to secure accounts that otherwise would not be eligible for the credit lines they need. He assesses customer risk and extends credit that the risk level warrants.

If the customer needs more credit than its risk level indicates, he seeks a way to secure that extra credit: "We offer the customer a menu of security instruments," he explains. "Each instrument is assigned a value--one to which we can attach a line of credit."

The menu includes the following:

- letters of credit
- blanket security agreements
- purchase money security agreements
- cross-corporate guarantees
- personal guarantees
- dual-payee checks
- partial cash in advance
- documentary collections
- escrow agreements
- assignment of proceeds

While customers should be allowed to select the plan that best meets their needs in order to achieve the level of credit they need, this CM finds that one of the most popular for customers and suppliers alike is the purchase money security agreement.

"If you don't get paid for your product, you have the right to get it back or receive the proceeds of the sale of that product," he explains. Customers are usually comfortable with this option, and their banks will usually allow them to sign such documents even though the banks have liens covering "all" of the customers' assets.

3. Work With Customer Service And Everyone Wins

The credit department may not have control over how the company's customer service department processes orders, but a cooperative relationship between Credit and Customer Service can help both departments achieve greater productivity, efficiency, customer service, and profitability. It can also make your job a lot easier!

How You Can Help

Occasionally when Customer Service receives an order, it may want to run a quick credit check to make certain the customer is still in good standing with the company. Don't see this as an imposition on your time. Instead, welcome the contact. After all, making a quick check on an account now could save you a great deal of time in the long run.in this area?"

If the customer is on shaky ground, telling Customer Service now could save you collection headaches later.

3. Work With Customer Service And Everyone Wins *(continued)*

On the other hand, if the customer is in good standing, it may mean the customer could receive a larger order or a price break. This is the kind of news Customer Service loves to give customers. After all, happy customers mean better business for everyone.

What Customer Service Can Offer

When customers are delinquent, you'll often hear that there was a problem with their orders. Some of the more common problems include the following:

- Orders shipped too late
- Too few parts shipped
- The wrong parts shipped
- Damaged shipments

These problems can often be solved readily by customer service people, but it's the credit department that hears about them first when payments are late. Therefore, when customers offer complaints as reasons for nonpayment, you should turn to Customer Service for answers. They will have the information you need to settle the problem once and for all.

If the facts show that your company acted properly, you can contact the customer and explain your position. This will force the customer to either validate its claim with solid facts, or back down from a false complaint. On the other hand, if the facts show that your company is at fault, Customer Service will be able to help you correct the situation, thereby getting the customer to pay in a more timely manner than if you hadn't contacted Customer Service about the problem. Customers with legitimate claims will appreciate your efforts to straighten out the problem, and will probably be more loyal to your company in the future.

A Pattern For Better Service

Try to work out a pattern that allows you to do the following:

- Alert Customer Service to specific problems.
- Receive confirmation that the problems will be addressed.
- Wait for return notification of resolution.

In return, make certain you respond to Customer Service's questions quickly and correctly.

By working with Customer Service, you can make both your job and the jobs of customer service representatives easier while keeping your customers satisfied. Everyone wins with teamwork.