MAY 2019

BCMA E~CREDIT NEWS

BCMA - It is All About You!

May 2019

This month's topics...

1. Handling "Runaway" Accounts

One credit manager talked to us about runaway DSO accounts at her company. This is what she had to say:

My manager recently asked me, explain the status of certain accounts he referred to as "runaways." Runaway accounts tend to occur when sales management is given the authority to override credit decisions and release orders when the customer is either over their credit limit or past due. My boss asked what could be done to better control these runaway accounts. I responded as follows:

1. I could do a better job if I were in charge of determining how much credit risk we could accept, what orders should be released, and which orders to hold.
2. Since sales management is allowed to override my decisions, I believed my proper role is to document the problems this policy creates, and to do my best to collect the open balances after the fact.
3. My department does everything possible to resolve collection problems even though we did not create those problems.

In our business, as in many businesses, if we do not sell on open account our customers are likely to find another distributor who will offer more liberal credit terms or less stringent follow up on delinquent accounts. I suggested that we accept the fact that customers who want to leave will do so. I commented that all things being equal, if a company has a choice of buying from a vendor that required them to pay on time or one that allowed payments to slip 30, 60, or 90 days the decision about who to buy from becomes relatively simple.

I expressed my opinion that the key is for senior management to agree on an acceptable DSO and what constitutes acceptable bad-debt losses for the company. [I believe that as long as my company is more concerned about making the sale and/or keeping the customer happy than it is about delinquencies and bad debts, the credit department's role in managing "runaways" will remain limited and somewhat ineffective.

I told my manager that by understanding what senior management wants from my department; my department can adjust our internal policies accordingly. I asked my manager to state in writing the specific outcomes they want. This way, if action is taken that causes customers to leave, or action is not taken that result in a cash crunch, we will be less likely to be blamed for not doing our job.

In general, credit professionals need to take responsibility for what they can control, and take appropriate steps to avoid being blamed for situations they are not given authority to control.

BCMA MEMBERS

- [NACS Credit Services, Inc.]
- [Pennsylvania Association of Credit Management]
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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!

2. Forum Discussion: I have a check from a customer that is VERY high risk. What can I do before I release the order?

I have a check from a customer that is VERY high risk. His order, is of course an emergency & he needs it shipped today. This company could not pull $7K together 2 months ago, but now gave us a check for $18K. I tried to verify funds, but according to his bank, they do not allow this. They will only give that the account is open. What can I do before I release the order? Anything?

Credit Manager, Medical Company

The bank will verify the funds are there today -- they may not be when the check hits. I would request a wire.

Credit Manager, Chemical Company

If you are holding, the order for prepayment- just having a check in house does not mean it is paid. As far as the order is concerned, no funds have been received so the order cannot be released.

Credit Manager, Brass Manufacturer

I would call the customer to tell them the check would have to clear before shipping the product.

General Credit Manager, Plastics Company

Unfortunately, in the medical industry, we sometimes cannot wait to release an order. I thought the bank would be able to do an instant clearing of the check upon request.

Credit Manager (the inquirer), Medical Company

Have customer stop payment on that check and send funds EFT.

Director of Credit & Collections, Automotive Aftermarket Company

Have the customer get notice from bank that funds are valid and send onto you. If the bank will not provide you with the info, they should be able to provide it to your customer. The customer should understand, based on hardships 2 months ago and the size of this order that verification would be needed and should be able to provide.

Credit Manager, Textile Manufacturer

Just advise the customer that due to the amount of the check, it has to clear the bank before the order is released. I would advise the customer that if they want to void the check and do a wire transfer. The order can be released when the funds hit the bank and it would be a faster release.

Credit Manager, Brass Manufacturer

If you have a branch near you for his bank, you can take the check and get immediate funds.

Credit &Collections Manager, Environmental Company

Cancelling the check and having the customer to do a wire transfer seems to be the best choice in this situation. Checking account balances change and, even if the check is confirmed to clear today, there is no guarantee that it will when it is presented by your bank.

Director of Credit & Collections, International Manufacturing Company

2. Forum Discussion: I have a check from a customer that is VERY high risk. What can I do before I release the order?
(Continued)

Why don't you ask them for a cashier's check for the order, which will save the trouble of verification of funds?

Corporate Credit Exec, Steel Manufacturer

Run to the bank and deposit it.

Manager - Global Credit, Automotive

I realize it is late in the day in Ohio, and you have probably already had to make a decision. For what it's worth, in the situation you describe, I would only accept a wire transfer. Too many things can go wrong with a check, or even with ACH. It is not easy to determine when a check has actually cleared, and no one is going to tell you. I hope this turns out well for you.

Credit Manager, Global Steel Company

3. The Four Types of Risk

Do you understand the specific types of risks your customers face? It's an important question.

One global company we spoke with recently has had great success in managing global portfolio because of how they focus on the types of credit risk. He cites this as his single best achievement in his six years with the company.

"Risk management has always been a critical component in supporting sales growth, avoiding losses resulting in bankruptcy or preference lawsuits, and identifying ways to accelerate cash flow," he said. The emphasis on risk management has helped us minimize bad debt levels over the past six years. By the same token, he said, his objective is to support the sales function without restricting sales growth.

The four types of risk he sees for his customer base are:

- Strategic risk, as when a company fails to address competitive moves by other companies.
- External risk, important for global companies, which involves the political and economic demands of doing business in foreign countries.
- Financial risk, meaning a company's inability to service debt levels (a major issue in Ampacet's industry at the moment.)
- Operational risk, which basically involves cost overruns and internal controls.

"Look at these four areas with all of your customers," he emphasizes. He feels strongly that this approach has contributed to their success in keeping bad-debts levels under control.