MAY 2020

BCMA E~CREDIT NEWS

May 2020

This month's topics…

BCMA - It is All About You!

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

According to an Association for Finance Professionals (AFP) payments survey, the use of checks for B2B payments is roughly half what it was fifteen years ago -- now 42% versus 81% in 2004. Meanwhile, in just the last two years, check fraud in the US has almost doubled - from $8.5 billion in 2016 to $15.1 billion in 2018. This dynamic shift has far-reaching implications for credit pros.

- More and more of your customers will move to electronic forms of payment, which are much less susceptible to fraud than paper checks
- It is imperative that your receivables function develop an Omni-channel Payment strategy for capturing all sorts of electronic remittances
- With electronic payment acceptance comes the challenges of increased difficulty of matching payments with remittance advice
- Data reconciliation and integration will therefore be necessary to efficiently process remittances

The fraud issue is now a major driver for businesses to implement electronic payments into their AP process. The 2019 AFP Payments Fraud and Control Survey revealed that 70% of companies reported experiencing check fraud. Moreover, because check fraud is the fastest growing fraud at many banks -- according to the American Bankers Association (ABA) check fraud accounts for 47% of all fraud losses at banks -- banks are heavily marketing electronic payment services to their business clients.

As a result of fraud in paper processes, the treasury industry is pressuring customers to go electronic. In addition, for a typical business, checks are expensive to process, costing on average $9 each compared to 68 cents for an ACH payment. This beneficial cost savings has long been a catalyst for AP organizations to implement electronic payment protocols such as EDI, ACH, and P-Cards.

Large corporations are leading the charge in converting to electronic payments, and the majority of their payments are already being handled electronically. Credit departments already adapting to the impact of important customers making this shift.

Up to this point, however, enterprises with less than $1 billion in annual revenue have tended to keep using checks. It is a matter of scale. The cost benefits simply are not as big for these firms compared to larger organizations that pay more bills. Smaller firms also have more resource allocation challenges.

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

In the future, however, as payment technologies and the payment services offered by banks become easier to implement, smaller organizations, as they invariably do, will catch up. Therefore, the growth in electronic payments can be expected to come from smaller organizations. That means credit execs will experience many more customers adopting electronic payments.

Keep in mind Pareto's law (aka the "80-20 rule") which holds that roughly 80% of the effects come from 20% of the causes. While today a good proportion of the 20 percent of your customers that account for 80 percent of your revenue may be paying electronically, in the days to come many of the remaining 80 percent of your customers will begin converting to electronic payments.

In other words, more customers, though probably involving fewer dollars, will be asking you to accommodate their electronic payment formats. Obviously, it is important that you be able to handle payments however, your customers you want in order to be competitive.

Glossary
ACH: The acronym for Automated Clearing House - ACH is essentially a very low cost next day funds transfer process designed to replace paper checks. ACH payments are facilitated by electronic payment networks managed by NACHA (the National Automated Clearinghouse Association).
Association for Financial Professionals (AFP): This is the largest treasury organization worldwide
EDI: The acronym for Electronic Data Interchange, which is a messaging standard used by trading partners to communicate electronically - in the credit and collection area, the most relevant protocols are the EDI 820 series of standards related to remittance processing
Omni-Channel Payments: The goal here is to create a gateway that will centrally manage execution across multiple payment and remittance channels as well as consolidate data from every transaction and related customer/supplier interaction in order to provide full transparency and straight-through remittance processing.
P-Card: A purchasing card is a company charge card that allows goods and services to be procured without using a traditional purchasing process.

2. Setting and Meeting Cash-Flow Goals

"I spend my day focusing on my cash-flow goals, and I review every decision that I make in light of whether it will help me reach those goals," declares Floyd Stanton, CCE, credit manager for RJ Supply (Atlanta, GA). In addition, as a "cash-flow manager," he continues, the goals he sets direct both him and his employees. "Our goals are bad-debt write-off of .3%, which is industry standard, and 40 DSO," he says. "I make all of my decisions with these figures in mind." What kinds of decisions do cash flow managers make in light of their goals? Most fall under one of two categories:

1. **Credit decisions**. "If you have no cash-flow problems, you are probably not selling to marginal accounts, and are thus missing a tremendous amount of business," notes Stanton. "The real job of a cash-flow manager is to find ways to sell to marginal accounts with security. In fact, the very best cash-flow managers find ways to sell to marginal accounts that competitors don't sell to." In terms of customers in the construction industry, for example, Stanton sees it this way:

   - About 50% of the customer base is very creditworthy, and everyone sells to them.
   - About 20% of the customer base is not creditworthy, and no one sells to them.

2. Setting and Meeting Cash-Flow Goals (continued)

- About 30% of the customer base is marginal. "This is where cash-flow managers earn their keep," he says.

One security tool, for example, might be joint checks. "In the sheetrock business, joint checks are very common," notes Stanton. "In fact, a lot of new customers come to me with joint check agreements already signed."

2. **Collection activity**. Just setting lower DSO goals and sitting back to wait for the figures to decrease on their own obviously does not work. You must take some specific actions to reduce DSO. One such action is to actively emphasize your credit terms when you set up new customers. Another is to gently persuade existing customers to pay faster.

Stanton offers some recommendations on the latter strategy. "Again, it often requires walking a fine line between speeding up payment and risking the loss of their business," he cautions. In sum, he uses this approach: He arranges to meet with the customer and explains, "We appreciate your business, but we have a situation of concern. Our business is based on profit and cash flow, just as yours is. However, we are having a problem carrying you at this aging. What has made you slow down? And what can we do to help you improve in this area?"

3. Six Daily Customer Service Opportunities

Credit is charged with a very important role in customer service. In fact, in the past decade or so, recognition of how credit and customer service are basically "tied at the hip" has sprung up with many credit execs now called "Customer Financial Services Directors."

In honor of customer service week, we thought we would share how one credit exec takes advantage of the many customer service opportunities that turn up almost daily in any credit department. This particular list is geared more towards a smaller company environment, where the credit exec handles much of the workload. However, the principles remain the same no matter the size of your department, and this "hands-on approach" should be embedded in the DNA of any credit department, no matter the size.

1. **Credit extension** - Make the Sale Happen "Our philosophy is to try not to turn anyone away, even if it means accepting a certified check for the first order," she says. "We go the extra mile to find ways to make appropriate arrangements with new customers."
2. **Take a Proactive, Personal Touch With Credits on Customer Accounts** Of course, it's mandatory to give credits back to your customers (Remember: If you don't give it to the customer, the government gets it!). For this credit exec, if customers end up with credits on their files, she makes it a point to call and notify them of the credit, rather than leaving the responsibility to them. Along the same lines, she forwards the credit amount to the customer as soon as possible. "If I find that a credit has been on the account for a while, I may also add in the 'time value' for the use of the money," she adds.
3. **Problem resolution: Find the Root Cause.** If there are problems with an invoice, bill, or any other aspect of a transaction, she addresses them quickly. "I try to get issues resolved for customers as soon as I possibly can, and I keep them updated with progress along the way." This is not only good from a customer service standpoint, but essential from a "get-to-the-root-cause-of-a-problem to reduce DSO standpoint!"
4. **Reaching Out for More Than Collections.** She also makes it a habit to call customers on occasion to ask them if there are any ways she can serve them better. In her case, typical requests include invoicing electronically instead of by mail so that the customer can take advantage of discounts and lump-sum billings.
5. **Assume the Best.** If a customer is late with a payment, she does not automatically assume the delay is deliberate. "Instead, I first assume that there is a paperwork problem

3. Six Daily Customer Service Opportunities (continued)

or that the customer did not receive the appropriate invoices or bills of lading." When calling customers, she quite often finds this to be the case. "Once I get the appropriate paperwork to them, we receive timely payments."

6. **Visit Customers for More than Collections.** She also makes it a habit to visit customers once or twice a year. "Visits allow me and our customers to 'place faces' when we subsequently talk on the phone, which improves our relationships," she explains. Visits also help customers feel more comfortable with her. In one case, after having had the opportunity to meet with her, a small-business owner provided financial information he normally did not divulge.