Covering Credit

January 2006

This Month's Topics:

- **Now I Can Say What I Really Think**
- **Reducing Turnover**
- **Questions and Answers**
- **Free White Papers**
- **Free Subscriptions**

//

Now I Can Say What I Really Think

By: Margaret Spencer

After thirty years in credit and collection, I retired late last year and now I have the opportunity to say to other credit professionals the things that I could not say before. For example, I believe that the key to success is surrounding yourself with the best people you can find. You might be saying to yourself: That is hardly a revelation. You would be right, but the corollaries to this piece of advice include:

- **Terminate anyone who is not a team player, who is not enthusiastic, who is not doing the job or who will not do the job the way *you* want it done.**
- **If keeping your best employee means promoting them over someone else with more time on the job, then do it. There will be consequences – but this the price you are going to have to pay if you are going to be a leader instead of a manager.**
- **Never lower your standards simply to fill a position. Keep the job open until the right candidate presents himself or herself and ignore pressure from your employer to settle for someone that does not meet your minimum qualifications.**

Another tip is to make sure there are individual goals as well as department-wide targets. In my experience, most employers are big on individual goals, but tend to assign the departmental goals only to the credit manager. You can be more

successful by establishing both individual and team goals. These team goals should mirror the goals assigned to you. Expect resistance to the idea of team goals. It is likely that one or more of your subordinates is going to tell you they cannot control what happens in the department and that it is unfair for them to be evaluated based on how other employees perform. I suggest you tell them that this process is just as fair or unfair to them as it is to you, and that the only way that you can guarantee teamwork is to establish team goals.

If you want something done right, delegate it to the person with the right attitude – and not necessarily to the employee with the best credentials. Assign work to individuals interested in making a positive impression on you and on senior management. It might sound manipulative, but it is not. The person given the assignment has the opportunity to receive the recognition they want. An additional benefit involves the fact that you will be delegating the task to someone who is enthusiastic rather than someone who is resentful.

Stay positive, even if it requires that you avoid a co-worker who is not. Everywhere I have worked, there was always at least one person who did not want to be there. These people always seem to have something negative to say about the company and its plans – or about a coworker or management. These people seem to energy from the people around them, and the only way to avoid the energy drain is to avoid these people. You also risk being labeled a malcontent if you hang around with a malcontent.

In hindsight, I realize I made a number of mistakes along the way that hindered my advancement. For example, I did understand that there is no such thing as an optional company holiday party, picnic or similar event. Not only should credit professionals plan to attend; they should not leave early because their absence being noticed and noted by subordinates and superiors.

//

Reducing Turnover

One question I received this month lends itself to a more detailed answer than is customary for the Questions and Answers section. Here is the question: Two individuals hired this year as collectors have already quit. This is unacceptable to me and to the company. Their exit interviews did not provide any specific feedback about why they were leaving other than they had found a "better" job elsewhere. We screen applicants very carefully. We offer competitive compensation and good benefits. What else can I do to reduce turnover in the credit department?

I believe that some credit managers spend a great deal of time, effort and energy in finding the right candidates but do not focus enough attention on them after they are hired. For example:

- **The workspace is not ready**
- **They do not have a computer**
- **They have a computer but do not have passwords**
- **They are not assigned a mentor**
- **There is no formal training program**
- **They do not meet often enough with the credit manager**
- **They do not receive enough feedback about their job performance**
- **The credit manager does not do everything he or she can to protect them from problems such as aggressive salespeople**

Some ideas to reduce turnover include:

- **Counsel regularly and honestly discussing performance shortfalls and successes**
- **The collection function can be high stress involving daily quotas and monthly collection targets. It is important to allow subordinates to blow off steam once in a while**
- **Provide your subordinates with timely and useful information**
- **Don't forget things that are important to your subordinates including their birthdays and the anniversary dates of their employment**
- **Work with your subordinates to remove barriers that prevent them from being more effective**
- **Promote from within whenever possible. If a subordinate expresses an interest in a promotion, look long and hard at their qualifications before considering bringing in someone new from the outside**
- **Make it comfortable for people to meet with you to discuss their concerns and problems**
- **If you have a subordinate manager whose style of management is not to your liking, you have an obligation to the rest of the department to address the problem with the manager and to make certain that his or her management style changes**
- **Find and correct the root causes of problems rather than spending time looking for someone to blame when things go wrong**
- **Become an active listener. Before responding to a question or a comment, an active listener often restates or paraphrases a message they receive to verify that they have understood it completely**

//

<u>Questions and Answers</u>

Question. I still do not understand the role and the origin of GAAP accounting. Comments?

Answer. Generally Accepted Accounting Principles [GAAP] are the common set of accounting principles, standards and procedures established by the Financial Accounting Standards Board [FASB]. The mission of the Financial Accounting Standards Board is to establish and improve standards of financial accounting and reporting for the guidance and education of the public, including issuers, auditors, and users of financial information. Thus, GAAP is a combination of authoritative standards that define the accepted ways of preparing financial statements. In a nutshell, these are the rules that companies are expected to follow. Thus, the term "Generally Accepted Accounting Principles" has a specific meaning for accountants and auditors.

Q. As it relates to your essay on escheatment, what is abandoned property?

A. Good question. Abandoned property is property of which the owner has intentionally given up possession under circumstances evincing their intent to give up ownership.

Q. Can you distinguish between the traditional role of a Controller and contrast it with the responsibilities of a Treasurer?

A. I can try. In a company with both a controller and a treasurer, the controller handles issues such as capital budgeting, profit and loss analysis, and generating financial statements. The treasurer's role focuses on the timing of cash inflows and outflows. This requires forecasting the firm's cash needs to assure that it has the funds required.

Q. Should we have a written credit policy for a three person department?

A. There are credit professionals who believe that a written credit policy is more trouble than it is worth and that credit policies are often forgotten or ignored. I disagree. I believe the benefits of having a written policy outweigh the problems associated with writing and updating the policy whether you have three or thirty three employees in the credit department.

Q. In a recent Webinar, you spoke about soft bargaining - but did not define the term. Can you do so now?

A. I believe that debt collection is a balancing act: Collectors do not want to lose a customer by being too aggressive, and do not want to be taken advantage of by the

customer by being too low-key during the negotiation process. Soft bargainers often hint at, or actually reveal their bottom line to the debtor. They might say something like this: "I really need a payment by the end of the month" or "I need at least half the past due balance paid this month." Soft bargainers trust that the debtor will act in good faith, but if the debtor is a hard bargainer, he or she will see a collector's bargaining position as a weakness to be exploited. A collector should express an interest in the debtor's problems and move toward payment commitment gradually. He or she should listen patiently and without interruption. When appropriate, the collector must consider offering or accepting less than payment in full in settlement of the balance due if they believe the payment plan is better than any other alternative.

Q. Management has asked me to develop creative options rather than putting past due accounts on hold. Do you have any suggestions?

A. One or more of these ideas may work for you:

- **Offer to accept an extended payment plan – ideally one supported by a signed Promissory Note**
- **Accept the return of merchandise in payment of the debt**
- **Offer the delinquent debtor a cash discount in return for an immediate payment**
- **Suggest a combination of an immediate partial payment, return of merchandise, and a payment plan**
- **Exchange some or all of the debt for an equity position in the debtor company**

Q. What is soft currency?

A. Soft currency is currency that is not readily convertible into U.S. dollars. A soft currency is not that may not be accepted in international business transactions by you as the seller because of concerns about dramatic fluctuations in the exchange rate or based on the possibility that the currency will not be convertible. Export credit risk management must be proactive. The decision about which currency to accept as payment should be made by the credit manager - not by the sales department or the customer.

Q. I received your White Paper on financial ratios. Thank you. I am not sure I understand the importance of measuring or calculating turnover ratios. Would you expand on this idea?

A. Sure. Turnover ratios measure the frequency that an event occurs. For example, if one of your customer's has an accounts receivable turnover of ten times a year, they convert accounts receivable to cash every 36.5 days. If another customer has an A/R turnover of twenty four times a year, that customer converts

A/R into cash ever 15 days. All things being equal, the customer that turns its' A/R into cash more frequently or faster is a better credit risk since it is more likely to have cash on hand to pay creditors when invoices come due.

Q. In a Webinar last month, you talked about the book value of assets in contrast to the market value. Unfortunately, I think that I failed to fully appreciate your comments about the book value of assets in contrast to the market value of assets. Can you re-state your comments?

A. I can paraphrase what I said. Basic accounting guidelines require customer financial statements record the value of assets at their book value. Book value equals the purchase price minus accumulated depreciation. In contrast, market value represents the real value of an asset because it is the dollar value assigned by a good faith third party buyer.

Q. When you talk about a company's credit policy, to what are you referring?

A. I am referring to the process and practice associated with accepting or denying open account credit terms to customers.

Q. How would we use the times interest earned ratio to evaluate risk?

A. It is important to remember that there is no single financial ratio that is effective in evaluating credit risk. Times interest earned is a way to measure a company's ability to pay its debts. In theory, if a business can make its interest payments, the company can refinance any principal payments on loans and remain viable. For this reason, the higher the times interest earned ratio, the better.

//

<u>Free White Papers</u>

Essays on the following topics will be emailed to readers on request. Please send your request to me at mcdennis@coveringcredit.com

- **How to Measure and Evaluate the Credit Department's Performance**
- **Escheatment**
- **Spotting Credit Fraud**
- **Disputing preference claims in bankruptcy**
- **Financial ratios for the credit department**

//

Free Subscriptions

To receive a free copy of this Bulletin, please send the following information:

1) The Name and Title of the person requesting the subscription:

____

2) Their email address:

____

//

Webinar Schedule

Using Creative Thinking to Enhance Credit Department Performance. This program will be offered January 24th. For more information about this and other programs, please visit: http://www.creditservices.org/calendar/index.shtml

//

To Unsubscribe

To unsubscribe, please simply send an email using UNSUBSCRIBE as the subject.

//

Disclaimer

Nothing in this publication is intended as legal advice, or tax or accounting advice. Nothing in this publication should be considered an alternative to seeking professional legal or professional advice. You are encouraged to use your judgment in deciding which of the ideas to accept or adopt, and which to reject and ignore.