Covering Credit Bulletin

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This Month's Topics:
- What You Should Know About Credit Outsourcing
- Addressing Technological Changes
- Questions and Answers
- A Dozen Collection Tips
- Patience is a Virtue

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What You Should Know about Credit Outsourcing

By: Michael C. Dennis, MBA, CBF

As the economy slows, companies will begin concentrating on so-called core competencies. Companies will begin considering outsourcing non-core functions including credit and collection. The new reality in American business is that there are no guarantees. Any department may be considered for outsourcing if it can be proven that the function can be outsourced safely and handled competently. Outsourcing companies are persuasive, and credit professionals need to make compelling arguments if their employer is considering outsourcing part or all of the credit function. Here are some suggestions:

- Become an active participant in the process of evaluating outsourcing options. Being on the inside means you have some control of the process
- Remind management of the sensitivity of the work the credit department performs and the importance of maintaining positive relationships with customers
- Remind senior management that outsourcing must be considered to be a cost transfer, not an expense reduction
- Suggest what functions within the credit and collection department might be outsourced, but encourage the company not to outsource the credit department's core competencies which include establishing credit limits and releasing orders from hold

There are no guarantees but this participative approach gives you more control than you might otherwise have been your employer is considering outsourcing.

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Addressing Technological Changes

By: Michael C. Dennis

Many people are intimidated by the pace of technological changes and as a result they are slow to adopt new technologies. If credit professionals fall too far behind the technology

curve, they risk losing their jobs either because they can no longer meet key job requirements or because they cannot provide the necessary leadership to your department.

Therefore, credit professionals must keep pace with these changes or risk being viewed by their employer as being too rigid, out of touch, or incapable of adapting to change as required

Credit professionals should make a commitment to become more technologically literate starting today. Follow up on this commitment by taking action every day that strengthens your understanding of technology. This can be done relatively simply by taking classes, using tutorials, spending time with your Information Technology [IT] staff, and most importantly putting aside your fears.

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Questions and Answers

Question: Should small deductions be written off or worked diligently?

Answer: Every company is different. I know of one corporation that has terminated two credit managers in the last five years because these individuals did not pursue deductions aggressively enough. Factors to consider when deciding if writing off deductions is appropriate include:

- **The current backlog of outstanding deductions or chargebacks**
- **The time it currently takes before deductions can be addressed**
- **The average amount of time required to review and resolved each customer deduction**
- **The percent of time the customer was correct, meaning that a credit must be issued**
- **The credit department's current staffing level**
- **The amount of cooperation you receive from other departments in researching deductions to determine whether you**

Once all of these factors have been evaluated, I believe there is a strong case to be made to senior management relating to the question of whether writing off deductions under a certain dollar amount is justified on the basis of a cost/benefit analysis.

Q. I have been told it is taking too long to approve orders pending. Any suggestions?

A. Modify your software so that orders are not placed on credit referral if there is only a small dollar amount past due. For example, do not place orders into the credit review queue until the past due balance exceeds 10% of the total A/R balance. Consider whether orders for low risk accounts should be allowed to bypass the credit approval process. Consider modifying the software so that orders are not held when the past due balance involves disputed balances - such as outstanding deductions.

Q. We lost money in what I now consider to be a fraud. Any quick solutions?

A. You can help protect your company against credit fraud by being active in one or more industry credit groups. Credit group membership in these groups makes it easier to share and compare payment history and credit references on customers and applicants.

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. An applicant company is demanding a copy of the commercial credit report we obtained which included information we used to deny open account terms. What do we do?

A. Commercial credit grantors are not required to provide copies of credit reports, specific information about what other creditors contacted said about the applicant, or to explain in any detail their credit decision-making process. Document the reason or reasons for your decision and safeguard that document for at least one year.

Q. My manager is considering purchasing credit insurance. Any comments?

A. Purchasing business credit insurance can substantially reduce the risk of bad debt losses. Credit risk insurance coverage can be written to cover a company's entire customer base. It may also be possible to purchase coverage for only a certain number or type of customer.

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Foreign Financial Statements

Credit professionals must view foreign financial statements with a certain amount of professional skepticism. There are several issues to try to avoid when analyzing foreign financial statements, including these*:*

- **Most creditors have no idea about the standards of training or independence required of external auditors in foreign countries.**
- **Many countries do not have the anything approaching the number of accounting and auditing rules as are in effect in the United States. Consequently, credit professionals in many cases cannot accuracy of financial statements presented by a foreign customer even when the statements are audited.**

- **When reviewing audited statements, it is often difficult to know the scope of the audit, or how rigorous the auditing process is**
- **The statements will be in a foreign currency, not in U.S. dollars, necessitating currency conversions.**
- **In some countries, a company will have several sets of books. Chances are that if a customer has multiple sets of books, they will be savvy enough to provide you with the financial statements that make them appear to be the most creditworthy.**

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<u>A Dozen Collection Tips</u>

Here are a dozen new collection tips and techniques. Please remember that not every one of these tools will work for every creditor company:

- **Attitude on the part of the collection specialist is contagious - both positive and upbeat.... or negative and defeatist.**
- **Arrange to structure the aged trial balance in descending dollar order in order to easily prioritize collection calls.**
- **As long as a customer is in business and is answering the telephone, there is always a chance of collecting a balance due - either directly or through a third party.**
- **Be willing to accept help from any source in collecting a past due balance including but not limited to the sales department.**
- **Develop an integrated credit and collection policy that is consistent with the overall goals of the company as a whole**
- **Do not risk losing business or market share with an overly aggressive collection process if doing so is inconsistent with the broader goals of the company as a whole.**
- **Develop an effective and automated way to identify when accounts become past due.**
- **Discourage payment delinquencies by charging late payment penalties and by enforcing them.**
- **Encourage prompt payment by making certain that unearned cash discounts are charged back and customers are required to repay them.**
- **Don't allow deductions to pile up.**
- **Do not include your company's street address on your invoice because payments might erroneously be sent to that address rather than to your bank lockbox.**
- **Learn senior management's tolerance for bad debt losses and then manage your credit and collection efforts accordingly.**
- **Look for the proper balance between diligent and professional follow up on past due balances on one hand and domineering/demanding collection efforts on the other hand.**

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<u>Patience is a Virtue</u>

One technique that delinquent customers use to avoid discussing the status of a past due account is simply to give instructions that their creditors are to be told they are not available. Some of the more common excuses offered include these:

- **He is away from his desk at the moment**
- **She is on another telephone call**
- **He is in a meeting**
- **She has stepped out of the office for a moment**

One technique that debt collectors can use when they believe that a customer is deliberately avoiding their telephone calls is simply to wait. Rather than leaving a voice mail message or calling back later, the debt collector can tell the customer something like this:

"*I am calling about a large amount of money that is now seriously past due and I really need an answer today. I would like to wait until he [or she] is available to take this call. I do not mind having the call placed on hold --- provided that you do not forget that I am waiting."*

Once the decision maker knows that you are on hold, they will often respond within a few minutes. Essentially, when a customer realizes that their stall tactic has not worked, they will have no alternative but to address the past due balance with you.

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