

Business Credit News

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“EINSTIEN, CREDIT, AND INSANITY”

By: David Balovich

Nineteen years ago I wrote the article below for a column in the Creditworthy News. It later appeared in several other popular credit publications.

CREDIT AND CONFIDENTIALITY

“I doubt much has changed since I was a practicing credit manager in that 95% of all our customers or applicants were marginal, only a handful or less than 5% were the "blue chippers". As you know, reading this column, my philosophy towards what we do is to identify the risk and then find a way to minimize it. I have always kept on my desk, even today, a small plaque that says "Find a way to make it happen, for the customer".

The first step is to obtain as much information as possible about the applicant. Once that is done identify all the reasons "for" and all the reasons "not" to sell on credit. If the "not" outweighs the "for" then we want to share the information with others in our organization such as sales or upper management. Often times others can assist us in making the right decision for the organization.

There is an old credit myth that says credit information is confidential and should be closely guarded. Well, I do not disagree entirely but we must keep in mind whose information this belongs to. It does not belong to us or the credit department it belongs to our organization and they have every right to see what we are looking at to make our decisions. Just as we expect sales to provide us all the necessary information to evaluate the applicant, sales is entitled to all the information we used to reach our conclusion.

If there is fear that a non-credit person will breach the confidentiality in which the information was obtained then simply delete the source of the information (other creditors name). With respect to credit reports those are considered to be public information sources and there is no problem with others in the organization reading those reports.

Experience has proven that an informed salesperson or management member is an ally not an opponent. Only when they are not fully exposed to the facts do they become aggressive or hostile.”

Well, after the article ran, Rich Hill, the publisher of the News got a few letters from “credit professionals” who obviously did not agree with me. He decided to publish the response of one of the Offended who pretty much summed up the opinions of the other responders.

“In the November 12th issue of Creditworthy News, David Balovich made mention of credit and confidentiality with the following comment:

“There is an old credit myth that says credit information is confidential and should be closely guarded. Well, I do not disagree entirely but we must keep in mind whose information this belongs to. It does not belong to us or the credit department, it belongs to our organization and they have every right to see what we are looking at to make our decisions. Just as we expect sales to provide us all the necessary information to evaluate the applicant, sales is entitled to all the information we used to reach our conclusion.”

This got the attention of (name deleted) CCE, from (name deleted). She wrote back with the following comment of her own:

From my credit experience the 80/20 rule prevails, 20% of the normal portfolio is "marginal". Confidentiality is NOT an "old credit myth" and "Sales is NOT entitled to all the information we used to reach our conclusion".

The Statement of Principles was written by RMA and NACM in 1955 and revised in 1978. Its first principle is "Confidentiality is the cardinal rule in the exchange of credit information. The identity of inquirers and sources should not be disclosed without their permission".

Actual examples and consequences:

1. A potential customer refuses to share financial information. In a prior disclosure financial information got into the hands of his competition. He will never again disclose financial information.
2. A NSF check is received. Credit calls other suppliers and then shares the information with his controller. The controller tells the customer who calls all of the other suppliers to decry their actions. The other suppliers threaten to never share any information with the credit manager.
3. The customer learns that his company was a subject of conversation at an industry group meeting and threatens to sue for defamation.
4. Trade history on a customer is disclosed at an industry group meeting. The sales person of a member firm shows up at this customer's facility the next day.
5. A supplier is sued for allegedly causing the demise of a customer's firm by refusing to grant credit. The customer had heard that trade references were instrumental in the decision. The court demanded the credit manager reveal his sources or be charged with contempt of court. He declined. Confidentiality is the fundamental tool that allows the free flow of credit information. Lack of professionalism in the credit function will destroy access to information to make good decisions. Support from your company comes if you have a good track record and use diplomacy. There are alternatives to revealing sensitive and potentially damaging information about customers.

And Rich asked me to respond, which I did in another column.

In the December 12 edition of the newsletter I wrote "sales is entitled to all the information we use to reach our conclusion". This comment drew the ire of, Name and Company redacted, who not only wrote to me but also posted her concerns in the Credit section of the CMi&s Discussion Room.

I would like to first thank, name redacted, for writing. The purpose of this column is not to foster one person's opinion but rather to suggest ways to improve upon what we are doing in the field of credit and collections. Before reading further I would suggest you review my column of Dec 12 and her response.

I would like to respond to the concerns expressed by her not as a credit manager but as a business owner, which I am, as she suggests my opinion "bears serious consideration".

Our business like all businesses was created to provide goods/services to those wanting to purchase same and to make a profit in doing so. In our business we have employees who are responsible for various functions; management, sales, billing, credit, distribution, etc. but regardless of their function they all work towards the same goal which is to make the company profitable. Our business, like all for profit firms, exists for no other purpose.

When our credit manager promises confidentiality to peers, that means that the information will be held confidential by the organization and to see that the information obtained is not released to others outside our organization. The information being obtained is for the organization to use for the determination of risk in doing business on credit with those firms who have requested open terms. The information is not the property of any individual or department within the organization. It is the property of the organization and is to be used by all members of the organization who contribute to the decision making process, so the organization can make money. The sharing of this information with management, sales, finance and others deemed necessary is not only perfectly acceptable but it is required.

We help each other become educated not only because we want our industry to stay healthy but most importantly we want our firm to be healthy regardless of what is happening in the industry. Our business and welfare of our employees is always our first priority and the industries condition will reflect how well or poor our business is doing. Our business is not controlled by the industry or any professional association. In order to have an industry or supporting profession there first has to be an operating business.

The sales organization has far more information concerning our competitors sales figures than the credit department. This information is readily available through industry sources as well as reports obtainable from Dun & Bradstreet, Standard & Poors, the public library and the internet. Several members of the sales team may have previously worked for the competition or know someone who presently does and they have first hand knowledge of the sales volume. In fact, our credit department has no knowledge of our competitors sales information unless they receive it from our sales department. They are not permitted to ask either for sales volume or terms of sale during their credit investigation as our attorneys feel this may be an antitrust issue. What the credit department may ask is: highest credit extended; balance owed; amount past due by category (30,60,90); if there is security or guarantees; and if the customer discounts or anticipates its' bills.

When sharing this information, if the credit personnel feels that someone in the organization is untrustworthy, then the source of the information is coded (similar to how NACM assigns member numbers for the use by its members) so that the reference name is not revealed. I mention this in the original column.

There is no question that good credit practices are the responsibility of the credit department. We must, however, always keep in mind who pays for and benefits from the information acquired, it is the organization. Good credit practices mean that we use and share the information with those in our organization who have the need to know and we protect the information provided from those who are not privileged.

Sales is among those who has a need to know. How else can the credit department assist in showing sales the profit and/or loss potential of the applicants?

Credit decisions are the responsibility of credit and sales working together as a team to produce profitable sales. This means they share with each other the information they obtain independently so that the companys' goals can be met. "Let them figure it out and let them take the fall" is a motto that will never apply if there is open communication between sales and credit. Open communication guarantees that it will be figured out and if there is a fall, we knew the potential existed.

It is time that credit managers get "out of the tunnel" and begin to look at the "big picture".

All too often the credit community laments "that they are misunderstood and not appreciated for what they do". That will never change if we continue to foster the attitude that "we tell them what we learn without expressing details". If we are not sharing the details then how can we expect them to support the decisions we are making?

Our salespeople not only have confidence but support the credit decisions made because they are included in those decisions. That way when a customer becomes delinquent then it is everyone's function to bring the account current. It is a team effort, both in the decision to sell on credit and the collection of the credit sale.

Albert Einstien defined insanity as doing the same thing, the same way, over and over again but each time expecting a different outcome. As long as we continue to believe in the "old credit myth" then we continue the insanity.

It's been 19 years and I'm a practicing credit manager again. I have worked in several industries during the past 40 years and I still find that 80% of active customers to be marginal. Probably more so today, than in the past. And I still believe as strongly today as I did back then that sharing information with those in the organization who have the need to know builds and strengthens internal relationships and contributes towards a better managed and understood AR portfolio.

The Statement of Principles and Exchange of Information were written over 61 years ago, by an organization no longer in existence and another whose longevity is questionable, in an age when credit was not the commodity it is today. Our profession has changed to the point it is now an industry and if you want to survive you have to stop the insanity and look for alternative ways to be successful within your profession.

***** JULY 2016 *****

Day	Date	Group	Location	Time
Tues	5	Austin Construction	Texas Land & Cattle, 6007 N IH 35 & Hwy 290, Austin TX	11:30
Tues	12	Coastal Bend Group	Holt Cat, Corpus Christi TX	11:30
Wed	13	Rio Grande Group	Pro Build, Mercedes TX	11:30
Thurs	14	SW Food Credit Group	Las Palapas, 4802 Walzem Rd, San Antonio TX	11:00
Tues	19	Austin Construction	Texas Land & Cattle, 6007 N IH 35 & Hwy 290, Austin, TX	11:30
Wed	20	Victoria Credit Group	Sky Restaurant, 236 Foster Field, Victoria TX	11:30
Thurs	21	Austin Ad Media	Phone Conference Meeting 1-800-791-2345	2:00
Thurs	21	Fuel & Lube/Heavy Eq.	Phone Conference Meeting 1-800-791-2345	2:30
Thurs	21	HVAC Credit Group	Texas Air Products, 11122 Gordon San Antonio TX	11:30
Fri	22	SW Electrical Group	The Onion Creek Country Club, Austin TX	11:30
Tues	26	SA Construction	Las Palapas, 4802 Walzem Rd, San Antonio TX	11:30
Wed	27	Laredo Credit Group	Phone Conference Meeting 1-800-791-2345	2:00

EASY ACCESS TO LEGAL INFORMATION

Did you know you could go on-line to get the legal list bulletin? You can download legal information (mechanic liens, state, and federal liens, suits, bankruptcies, abstract of judgments, etc) on any of the following counties: Travis, Williamson, Hays, Cameron, Hidalgo, and Bexar. To access go to our web site at www.nacmtx.com . All you have to do is go to NACM Online, enter your membership information and make selection under Legal Bulletin. It will bring you to the legal information you need. Select the county, type of legal information and the time period requested. Type in the word **all** at the search information box. Also, you can type in the business name to receive all legal information on that specific company. For help on how to use the legal bulletin on-line give us a call at (210)225-7106.

NACM COLLECTION SERVICE

Our collections staff is willing and certainly able to take on those tough, overdue accounts to which you've been devoting too much of your valuable time. We act promptly, personally contacting the debtors on the same day we receive your accounts. We are equal opportunity collectors, that is, no matter where your debtors live in the nation or who they are, we will find them and collect. In cases where we don't collect, we charge no fee, albeit we do so grudgingly.....we don't like failure. For your protection, all funds collected are placed in trust accounts. Also, all employees and attorney's are bonded. When you hit that wall in your collection efforts, give us a call at (210)225-7106 or you can fax your problems to us at (210)293-1501.

REFERRALS! Have you talked to a company lately that's not a member of NACM? Help NACM and your industry group grow by e-mailing, faxing, or calling to NACM any new prospects.