

Business Credit News

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**NOVEMBER 2013 Chairman: Mark Haley
Johnson Oil Company**

“IS OUR CREDIT & COLLECTION DEPARTMENT OPERATING AS EFFICIENTLY AS WE BELIEVE?”

This is the time of year many of us begin working on our annual business plan for the coming year. There isn't any question as to whether the credit and collections department is an important element of the financial function and also the company as a whole. The credit and collections department is constantly interacting not only with the company's customer base but also the other department personnel who provide our company products and service to the customer.

It can be said that a competent credit and collections department is an asset to the finance function while an extraordinary credit and collections department is also an asset to the sales and marketing functions.

Here is a question to consider as we develop our business plan. Do you and your company management share the same beliefs about the function and purpose of the credit and collection department?

I have listed below some questions whose answers should provide some insight about the role of the credit and collection function in your organization and to possibly improve department performance.

What caliber of people do we seek and employ in the credit and collections department?

What training does our company provide?

How do we motivate our staff, and what tools do we use to monitor performance?

How often do we update our customer credit files?

What reporting systems do we use to identify changes in our customers payment patterns?

Are our remittance processes designed to decrease collection time and increase cash flow?

Is customer satisfaction a goal of our credit department?

Do our collection representatives know and understand how the customer processes their invoices for payment?

What do we do to assist the customer in processing our invoices in a timely manner?

If the company only views the collection department's task as chasing slow paying customers then it is losing out on its' opportunity to generate additional revenue. Collection calls can either be distasteful or they can be an integral component of the customer service process. Companies have always faced the challenge of attracting and maintaining a highly effective and professional collection staff. It is essential that these professionals are empowered to not only do the job they were hired to do but also enhance the company's image.

The collection function is the final element of the sales cycle. Failure to handle the customer properly while bringing the sale to conclusion can leave the customer feeling unappreciated and not valued, causing slowness in future payments which can lead to diminished revenue. Are the people in the credit and collection department empowered and motivated to service the customer or are they expected to make collection calls all day? Is your credit and collection department empowered to solve problems and recommend changes to enhance customer satisfaction? A properly trained department can enhance the company's performance through increased cash flow and improved perceptions among your customers.

Never permit credit department personnel to become languid because your business and current collections have experienced a good year. Change is a constant and every creditworthy customer is a potential problem. The credit department should always be in the forefront of identifying potential trouble. Maintaining an updated credit file on our customers is critical. It will help us to identify potential problems before they can become bad debts. Customers who refuse to provide timely

financial information should be looked upon as a potential problem and assistance should be sought from the sales department to secure adequate assurance of performance (□2-609 UCC).

Does the company have systems in place to track changes in the customer's quick, current, and working capital ratios? Is the customer's inventory turn in line with industry averages? What about day's sales outstanding in comparison to day's payables outstanding? Does the company maintain a data base of these ratios by customer to better understand how a specific customer ranks? These ratios will better help the credit department understand changes taking place with the customer. We should always keep in mind that profits alone do not provide a clear picture of a company's ability to meet its obligations.

Tracking your customer base by risk category and payment history will allow the credit department to more efficiently prioritize the collection effort and customer trends. Understanding why your customer's payment history is changing can lead to opportunities of increased revenue and collections while conversely curtailing bad debts.

We need to maintain a constant vigilance over the accounts receivable. Having systems in place to identify slow paying customers early in the process is important. A good system should minimize the company's exposure to trouble. The majority of businesses do not disappear overnight. Early detection of problems will allow you to reduce your financial exposure with the customer before other creditors start their collection process. Creditors who utilize Article 9 of the UCC and secure their sales and leases will not be a member of the unsecured creditor list should the customer file bankruptcy.

Are the company's systems such that a monthly list of delinquent accounts is made available to the senior management team in high dollar down format?

Technology is rapidly changing how we do business. Is the company still waiting for the check to arrive in the mail? Does the credit and collection department understand how the customers process their invoices? Has the remittance process grown to the point where it is consuming too many resources? What does it cost to process a remittance? How many days does it take to process a remittance? Does the department have trouble reconciling remittances with customer balances? Are our customers local, national or global? If the customers are global what is the currency risk exposure and do they engage in hedging? Instead of waiting for the check to arrive the company may want to consider:

- lock boxes
- credit insurance on the customer to reduce risk
- use out of state remittance sights to decrease mail delays
- "E" payments and "E" commerce
- letters of credit
- trade acceptances
- automated payments

Our bank can be a good source of ideas on how to reduce remittance time, and secure letters of credit or trade acceptances to reduce risk. Credit insurance is a good alternative to monitor marginal customers' credit worthiness and for establishing credit limits. Credit insurance can be a useful tool for growing companies exposed to high credit limits by a few customers. Look for ways to shrink the time it takes your customer to approve your invoice, process it for payment and making the funds available for you to use.

A key component of any successful company is customer satisfaction. Does the company look at its credit department as bill collectors or a team empowered to solve customer problems? Does the company have disputes with customers concerning:

- billing inaccuracies;
- shipping errors;
- low inventory that causes shipping delays;
- quality issues.

Is the credit and collections department trained and empowered in handling customer problems?

Does the credit and collections department understand the needs of its customers? How can it be hard for a customer to remit payment? The internal control processes undertaken by some companies make the remittance process difficult. Therefore it is important we understand our customers' processes and requirements. Do we have a customer oriented approach to increase

customer satisfaction, cash flow, and revenues? Understanding our customers' needs and requirements can result in additional business as the customer turns to suppliers willing to help them be successful.

We should make sure the systems and structure are in place to monitor our segment of the business. An appropriate feedback system needs to be established to provide essential information to management on how to better service the customer while ensuring the protection of the company's assets.

To succeed companies need to maintain a competitive edge. Part of that competitive edge will come not from new technologies but from applying solid business practices to every aspect of the business. Credit and collections departments should be looked upon as a source of customer satisfaction and not a cost center necessary to collect your revenue. Credit and collection department personnel are in daily contact with our customers. Let's make sure our business plan includes empowering them through training, motivation, and professionalism so that we will be successful to adding to our company's bottom line and not detracting from it.

David Balovich is an accomplished author and public speaker. He is presently the North Region credit manager for Holt Cat.

***** **NOVEMBER 2013** *****

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, 1325 South Padre Island Dr, Corpus Christi TX	11:30
Wed	13	Rio Grande Group	Victoria Palms Resort, 602 N. Victoria Rd. Donna 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	Santa Rita Tex Mex, 1206 W38th St. Austin TX	11:30
Thurs	21	Fuel & Lube/Heavy Eq.	Teleconference Meeting 1-800-791-2345	2:30
Thurs	21	HVAC Credit Group	Texas Air Products, 11122 Gordon Rd, San Antonio TX	11:30
Fri	22	SW Electrical Group	Onion Creek Country Club, 2510 Onion Creek Pkwy, Austin TX	11:30
Tues	29	SA Construction	Las Palapas, 4802 Walzem Rd, San Antonio TX	11:30

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.



We still have some Bond & Lien Booklets available for purchase. If you are interested in obtaining one please give us a call at (210)225-7106.