

# Conquering the Challenge of Overridden Credit Decisions

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# Agenda

- ▶ Why? Pressure Sales or Company Culture
- ▶ What is it costing your company?
- ▶ What needs to change?
- ▶ What are the benefits of change?
- ▶ How can you gain trust & buy-in?
- ▶ What can you do to ensure you will continue to gain support?

# Why is Upper Management Over-rides credit Decisions

- ▶ What is the existing culture?
- ▶ Company Strategic Initiatives
- ▶ Does upper management trust your leadership ability?
- ▶ Credit & Sales conflict?
  - ▶ Conflicting Goals
  - ▶ Bonus plans
  - ▶ Commission Chargeback?
- ▶ Was credit involved before the company invested too much money to walk away?

# What is it costing the Company?

- ▶ Cash Flow – (1 day DSO = 1 days of Sales)
  - ▶ DSO/ BPDSO
- ▶ Profits & Productivity
  - ▶ Higher Interest Costs
  - ▶ Higher Labor Costs
  - ▶ Higher Expenses
- ▶ Increase in Bad Debt
  - ▶ Dollar Sales to offset write off

# Impact Bad Debt Write off on Sales

**YOUR NET PROFIT IS:**  
 Provided by the Commercial Law League of America

Your Write Off	YOU WILL NEED THE FOLLOWING AMOUNT OF ADDITIONAL SALES TO OFFSET THE LOSS				
	2%	3%	4%	5%	6%
\$ 100,000.00	\$ 5,000,000.00	\$ 3,333,333.00	\$ 2,500,000.00	\$ 2,000,000.00	\$ 1,666,666.00
\$ 250,000.00	\$ 12,500,000.00	\$ 8,333,333.00	\$ 6,250,000.00	\$ 5,000,000.00	\$ 4,166,666.00
\$ 500,000.00	\$ 25,000,000.00	\$ 16,666,666.00	\$ 12,500,000.00	\$ 10,000,000.00	\$ 8,333,333.00
\$ 750,000.00	\$ 37,500,000.00	\$ 25,000,000.00	\$ 18,750,000.00	\$ 15,000,999.00	\$ 12,500,000.00
\$ 1,000,000.00	\$ 50,000,000.00	\$ 33,333,333.00	\$ 25,000,000.00	\$ 20,000,000.00	\$ 16,666,666.00
\$ 1,500,000.00	\$ 75,000,000.00	\$ 50,000,000.00	\$ 37,500,000.00	\$ 30,000,000.00	\$ 25,000,000.00
\$ 2,000,000.00	\$ 100,000,000.00	\$ 66,666,666.00	\$ 50,000,000.00	\$ 40,000,000.00	\$ 33,333,333.00

For example, a business with a net profit of 2%, experiencing \$100,000 in write-offs, would require an additional \$5,000,000 in Sales to offset the loss of profit .

# What needs to Change?

- ▶ Evaluate the Credit Department
  - ▶ Create a new Credit Policy
  - ▶ Establish a Credit Committee
  - ▶ Scorecards/ KPI –
  - ▶ Bonuses – Credit/Sales tied to performance
  - ▶ Commission Chargebacks– on slow paying accounts or write offs
- ▶ Evaluate other departments in the organization
  - ▶ Sales
  - ▶ Purchasing (Special Orders/ Proprietary products)
  - ▶ Transportation
  - ▶ Operations
  - ▶ Marketing

# Benefits / Opportunities

- ▶ Increase Cash Flow
- ▶ Lower Bad Debt Write Off
- ▶ Lower Expenses– Labor, Interest
- ▶ Teamwork & Productivity
  - ▶ Accountability – reward top performers
  - ▶ Quicker decisions on new & existing accounts
  - ▶ Ability to manage marginal accounts
- ▶ Increase Sales to Profitable Accounts – Retain profitable accounts
- ▶ Future growth and opportunities

# How do you gain trust and buy-in?

- ▶ Present the facts
- ▶ Roll out new Credit Policy
- ▶ Understand daily challenges
- ▶ Track & measure for success
- ▶ Training, coaching & development
- ▶ Recognition

# How can you be sure you will continue to gain support & buy-in?

- ▶ Bonuses tied to Credit/Sales performances
- ▶ Commission Chargeback
- ▶ Tracking/Measuring for Success – Company KPI
- ▶ Sales Training/Meetings
- ▶ Annual / Quarterly Sales Recognition
- ▶ Credit Committee