What CFO’s Want from Their Credit Departments
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Introduction to TCD & Pam Krank

- 38 Years of Managing Trade Receivables
- Leads a 20-person Credit Department providing expert receivables management for mid-market companies since 1993
- Work for dozens of CFO’s in various industries
- Portfolio is mostly manufacturing with some larger service and distribution companies
- Manage over 200,000 open items on 50,000 bill-tos with 30,000 credit parents.
What do CFO’s want?

• Data to drive finance strategies
• Accurate cash forecasts
• Efficient asset management
• NO SURPRISES!
It’s All About the Data!

- Which customers are at highest risk of defaulting?
- What are the payment trends in my customer groups?
- Of my top past dues, why are they past due?
- What threats exist to the quality of the A/R?

DATA  →  KNOWLEDGE  →  ACTION
Why is the Data Difficult to Provide?

• Unsure which data is helpful
• Time-consuming to provide data
• Credit managers strapped with poor/non-existent technology for reporting
What Can Be Done?

1. **Stop** using spreadsheets to do what a database is designed to do.

2. **Track** aged A/R totals by customer, by division the first of every month.

3. **Invest** a few thousand dollars a month on cloud-based collection technology to track all notes, statuses, trends.
Examples of Top Reporting

• Major Delinquent Reports
• Receivables Status
• Payment Trends
• Top Credit risks to the Portfolio
## Major Delinquent Report

### Exception Reporting Example

<table>
<thead>
<tr>
<th>Past due:</th>
<th>Customer Name</th>
<th>Amount</th>
<th>Status</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>93ANA002</td>
<td>EG Controls</td>
<td>$ 52,650</td>
<td>Installment note</td>
<td>Customer on $7500/month payments. Business decision to sell beyond $10,000 line.</td>
</tr>
<tr>
<td>93LUX001</td>
<td>ABC Hotel &amp; Casino</td>
<td>$ 52,477</td>
<td>No PO</td>
<td>Work done without approved purchase order; working with buyer to create</td>
</tr>
<tr>
<td>29DR00</td>
<td>B-RAND COMPANY</td>
<td>$ 34,857</td>
<td>Project delays</td>
<td>Still waiting on customer to advise project completion so we can collect</td>
</tr>
</tbody>
</table>
Pay Trends
(by customer, division, company)
Credit Default Risk

Payless  Sears  Home Depot  Wal mart

0%  20%  40%  60%  80%  100%  120%
They want to know…

• When is my money coming in?
• If it isn’t arriving when expected, why not?
Money coming in:
Tracking Incoming Cash

- Measure and report monthly customer ADTP
- Apply calculation to populate due dates
- Create daily cash plan
<table>
<thead>
<tr>
<th>Div</th>
<th>Inv #</th>
<th>Inv Date</th>
<th>Net Due</th>
<th>Orig Amt</th>
<th>Remaining Amt</th>
<th>Status</th>
<th>Acct #</th>
<th>Pay Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>203</td>
<td>5003800697</td>
<td>3/14/2016</td>
<td>4/13/2016</td>
<td>$295.00</td>
<td>$295.00</td>
<td>Scheduled payment</td>
<td>262300P</td>
<td>4/13/2016</td>
</tr>
<tr>
<td>203</td>
<td>288302716</td>
<td>3/15/2016</td>
<td>4/14/2016</td>
<td>$198.77</td>
<td>$198.77</td>
<td>Dispute</td>
<td>186460P</td>
<td>4/15/2016</td>
</tr>
<tr>
<td>203</td>
<td>305101687</td>
<td>3/2/2016</td>
<td>4/16/2016</td>
<td>$469.94</td>
<td>$469.94</td>
<td>Completed Entry in Portal</td>
<td>202355P</td>
<td>4/16/2016</td>
</tr>
</tbody>
</table>
Partial Cash flow
Forecast Example: 4/26/16

Detailed Daily forecast

| TERRIBLE HERBST Total | $239   |
| THE LNN COMPANIES Total | $742   |
| THE PANTRY Total       | $239   |
| THE ZONE Total         | $814   |
| THIRSTY’S Total        | $1,605 |

Summary Daily forecast

<table>
<thead>
<tr>
<th>Date Expected</th>
<th>Total # of accounts</th>
<th>Total amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>4/26/2016</td>
<td>726</td>
<td>$348,480</td>
</tr>
<tr>
<td>4/27/2016</td>
<td>1297</td>
<td>$539,552</td>
</tr>
</tbody>
</table>
If it’s not in the Forecast, Why Not?
Reasons for Cash Delays

• Disputes: pricing, quality, delivery, etc
• Purchase orders not reviewed/confirmed
• Sales offers not communicated to Credit
• Invoices not received/entered
• Pay delays not forecasted in Credit Analysis
Efficiency Measurements:
Cost of the Department

- Credit Analysis
- Staff
- Collection Metrics
Credit Analysis Efficiency

Biggest opportunities:
1. Credit report costs
2. Scorecarding
3. Small balance auto lines (free internal pay histories)
4. Public record searches

www.accurint.com
Staffing Efficiency

• Automate billing, statements, cash application, small credit approvals, email notifications, customer portals, follow-up queues

• Focus people on collection calls, credit analysis exceptions, customer portal management
Efficiency Metrics

• Calls per hour
• Exceptions managed per hour
• Variable costing
  • Per past due file (by type)
  • Per credit analysis (by type)
• Per deduction managed
CFO’s rely on Credit Departments to...

- Act as the data center for customer payment/non-payment information
- **Predict payments** based on slow pay analysis and actual payments
- **Minimize expense** of the department
- Ensure efficient (low cost) department
Most of all, CFO’s hate Surprises!

If you provide them with the threats, trends, and predicted cash flow from the Receivable portfolio, you will be seen as a valuable asset to the company.
Questions?

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