



Show Your Value

NACM

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Agenda

- The problem of *not* showing value for Credit Managers
- How Company Executives Value Credit Managers
- Proving and Increasing your Value and Visibility
- Reporting on Your Results to Show Value
- How Highly Compensated Credit Managers Articulate their Impact to Increase their Value
- Where the Future Credit Managers' Contribution and Value are Headed



Background on Pam Krank, (TCD)

- Manage global trade credit for 50 mid-market companies around the world.
- Oversee management of 300,000 open invoices daily
- 25 years in business; 38 years in Credit
- Must prove value to upper management (clients) every time a contract renews!



Cost of Not Proving Value

- Underpaid Credit Managers
- Lack of respect for the position
- Turnover in the position
- Frustration for those who stay
- Fewer Opportunities and Career Possibilities





Common Mistakes by Credit Managers

- Stay in jobs without a future too long
- Don't know enough about the company's finance needs to contribute beyond A/R
- Don't cultivate relationships with the CFO/Controller/CEO.
- Ignore opportunities to gain important skill sets besides credit and collections.



How does Upper Management Value You?

Need to prove

- What you can do that a machine can't
- What you know about the customers that others don't already understand
- You are important to making the company more profitable with a stronger cash flow
- You are making your employer a better-run company





How Do We Show Value?

- Measure EVERYTHING
- Document Important Contributions
- Do More than We're Paid to do
- ASK for More Than We're Getting (incentives)
- THINK like Upper Management





Important Reports for Showing Value

- Cash flow forecasting
- Aging changes
- Top Risk Warnings
- Major Issues causing cash delays (disputes, terms issues)
- Risks to the supply chain (suppliers, carriers)
- Customer intelligence (customer practices, pay patterns, ownership linkages)
- Conversion of Unsecured to Secured Receivables



Cash flow Example #1

| Div | Inv # | Inv Date | Net Due | Orig Amt | Remaining Amt | Status | Acct # | Pay Date |
|-----|------------|-----------|-----------|-------------|---------------|--------------------|---------|-----------|
| | | | | | | Completed Entry in | | |
| 203 | 292002281 | 2/24/2016 | 4/9/2016 | \$ 239.68 | \$ 239.68 | Portal | 202355P | 4/26/2016 |
| 203 | 5003800698 | 3/11/2016 | 4/10/2016 | \$ 164.33 | \$ 164.33 | Scheduled payment | 262300P | 4/27/2016 |
| 203 | 289801822 | 2/26/2016 | 4/11/2016 | \$ 239.68 | \$ 239.68 | Dispute | 202355P | |
| | | | | | | Completed Entry in | | |
| 203 | 289801824 | 2/26/2016 | 4/11/2016 | \$ 151.51 | \$ 151.51 | Portal | 202355P | 4/28/2016 |
| 203 | 5003800705 | 3/14/2016 | 4/13/2016 | \$ 291.39 | \$ 291.39 | Dispute | 262300P | |
| 203 | 5003800697 | 3/14/2016 | 4/13/2016 | \$ 295.00 | \$ 295.00 | Scheduled payment | 262300P | 4/30/2016 |
| | | | | | | Completed Entry in | | |
| 203 | 292002287 | 2/29/2016 | 4/14/2016 | \$ 659.12 | \$ 659.12 | Portal | 202355P | 5/1/2016 |
| 203 | 288302716 | 3/15/2016 | 4/14/2016 | \$ 198.77 | \$ 198.77 | Dispute | 186460P | |
| 203 | 237204046 | 3/16/2016 | 4/15/2016 | \$ 2,561.13 | \$ 2,561.13 | Emailed | 262295P | 5/2/2016 |
| 206 | 242906679 | 3/17/2016 | 4/16/2016 | \$ 370.42 | \$ 370.42 | Scheduled payment | 169615P | 5/3/2016 |
| 206 | 242004285 | 3/17/2016 | 4/16/2016 | \$ 611.67 | \$ 611.67 | Scheduled payment | 169615P | 5/3/2016 |
| | | | | | | Completed Entry in | | |
| 203 | 305101687 | 3/2/2016 | 4/16/2016 | \$ 469.94 | \$ 469.94 | Portal | 202355P | 5/3/2016 |



Partial Cash flow

Forecast Example: 4/26/16

Detailed Daily forecast

| | | |
|--------------------------|-----------|------------|
| TERRIBLE HERBST Total | \$ | 386 |
| THE LINN COMPANIES Total | \$ | 742 |
| THE PANTRY Total | \$ | 239 |
| THE ZONE Total | \$ | 814 |
| THIRSTY'S Total | \$ | 1,605 |

Summary Daily forecast

| Date Expected | Total # of accounts | Total amount |
|---------------|---------------------|--------------|
| 4/26/2016 | 726 | \$ 348,480 |
| 4/27/2016 | 1297 | \$ 539,552 |



Aging Example: Changes over Time

| <u>Aging bucket</u> | 9/14/15 | 9/13/2016 | Diff |
|---------------------|-------------|-------------|-------|
| current | \$ 576,892 | \$ 996,221 | 73% |
| 14 day bucket | \$ 370,002 | \$ 535,879 | 45% |
| 30 day bucket | \$ 84,347 | \$ 105,813 | 25% |
| 60 day bucket | \$ 34,147 | \$ 58,089 | 70% |
| 90 day bucket | \$ 10,117 | \$ 16,964 | 68% |
| 120 day bucket | \$ (2,629) | \$ (8,882) | -238% |
| 150 day bucket | \$ (3,956) | \$ 160 | -104% |
| 180 day bucket | \$ (503) | \$ 5,708 | 1235% |
| 180 plus bucket | \$ (13,096) | \$ (11,451) | 13% |
| 15+ pd | \$ 108,426 | \$ 166,403 | 53% |
| 30+ pd | \$ 24,080 | \$ 2,500 | -90% |
| DSO | 18.29 | 17.05 | -7% |
| % 15+ pd | | 10.3% | 9.8% |

| <u>Aging bucket</u> | 9/14/15 | | |
|---------------------|---------|-------|-----|
| current | 1,447 | 2,195 | 52% |
| 14 day bucket | 1,043 | 1,405 | 35% |
| 30 day bucket | 224 | 308 | 38% |
| 60 day bucket | 166 | 203 | 22% |
| 90 day bucket | 44 | 83 | 89% |
| 120 day bucket | 35 | 68 | 94% |
| 150 day bucket | 28 | 35 | 25% |
| 180 day bucket | 16 | 18 | 13% |
| 180 plus bucket | 145 | 181 | 25% |



Top Risk Accounts Example

| <u>Customer</u> | Risk of default | Total A/R | Past due | DSO last month | DSO 60 days | Dso 12 months | Comments |
|-------------------|-----------------|------------|-----------|----------------|-------------|---------------|--------------------------------------|
| XYZ Manufacturing | Very high | \$ 582,000 | \$ 62,000 | 62 | 58 | 47 | Payment slowing; previous bankruptcy |
| ABC Signs | High | \$ 88,000 | \$ 44,000 | 79 | 92 | 97 | Cash dropping, state tax liens |



Major Cash Delays

Exception Reporting Example

Past dues:

| | Customer Name | Amount | Status | Notes |
|----------|--------------------|-----------|------------------|--|
| 93ANA002 | EG Controls | \$ 52,650 | Installment note | Customer on \$7500/month payments. Business decision to sell beyond \$10,000 line. |
| 93LUX001 | ABC Hotel & Casino | \$ 52,477 | No PO | Work done without approved purchase order; working with buyer to create |
| 29DR00 | B-RAND COMPANY | \$ 34,857 | Project delays | Still waiting on customer to advise project completion so we can collect |

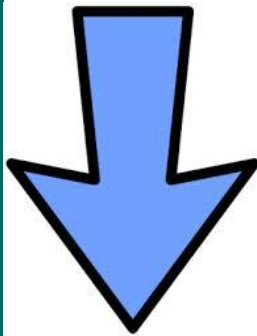


*What do Highly
Compensated Credit
Managers do to Prove
Value?*



Strategies to Increase Profit

Lower Expenses



- Interest/Opportunity Costs
- Overhead (cost of each collection/credit/deduction file)
- Bad debt



Increase Revenue

- Risk Pricing
- Service Charging
- Marginal Sales Risk Management



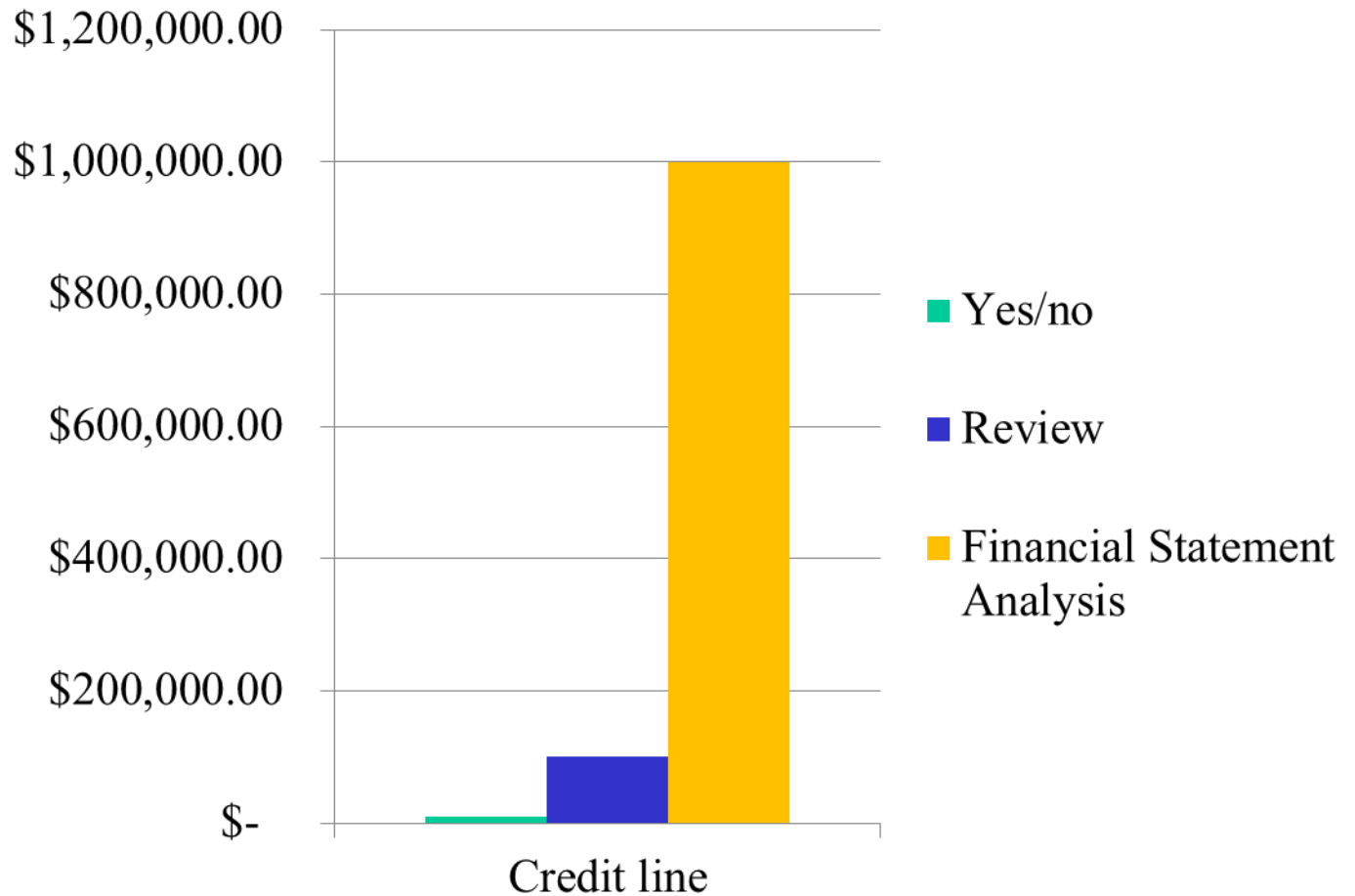
Lower Expenses: Interest Calculation Example

| Current | 30 days | 60 days | 90 days | 120+ |
|---------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|---------------------------------------|
| 5-1-12 Aging | \$980,000 | \$620,000 | \$580,000 | \$460,000 |
| 4% borrowing/ Interest cost | \$3,222 (30 days of interest) | \$4,076 (60 days of interest) | \$5,720 (90 days of interest) | \$6,049 (120 days of interest) |
| 5-1-13 Aging | \$460,000 | \$225,000 | \$116,000 | \$82,000 |
| 4% borrowing/ interest cost | \$1,512 | \$1,479 | \$1,144 | \$1,078 |
| Monthly Interest Savings | \$1,710 | \$2,597 | \$4,576 | \$4,971 |

Total Interest Savings: \$13,854/month



Credit Resource Allocation Examples





Cost of Credit Example

Report cost

+ Bank reference cost

+ Analysts' salary & benefits

+ Systems cost

Total

Divided by # of Analyses performed

= Cost of Credit per file



Increase Revenue Examples

- Risk pricing: Risk of slow pay/default affects pricing model and margins
- Service charging: If not already done consistently, implement by type of customer.
- Marginal Sales: Security agreements, Cross-corporate/personal guarantees, Aggressive monitoring





Obstacles to Overcome

- Lack of support/respect
- No budget for technology
- Limited resources
- Inability for Credit Manager to adjust





Value-Focused Credit Management of the Future

- Increase Automation: must work to automate every task possible
- Measure changes, results
- Utilize Artificial intelligence: pay on notice, automatic cash application, notifications, credit decisioning
- Manage multiple systems, automation tools
- Become experts at big data management
- Consider offering services to multiple companies





What Can We Do Now to Maximize Value?

- Study automation opportunities in your department and implement
- Set up regular meetings with upper management: ask them what they value
- Increase your data management and technology skills
- Focus on reporting on what's important to top management in your company!



Questions?
Thank you!

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