BASIC CREDIT FUNDAMENTALS

SELF-ASSESSMENT GUIDE TO BUILDING A SUCCESSFULL CREDIT ORGANIZATION
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DOMTAR GLOBAL CREDIT ORGANIZATION

- More than 10,000 clients worldwide
- 7 different credit groups
- 40 + employees
- Operating in major geographic regions (North America, Europe, Asia)
SELF-ASSESSMENT

- Describe in the same manner your credit organization?
OUR GLOBAL RISK PROFILE AT A GLANCE

- $600M of AR assets monthly
- 90+% of total AR is current at all times
- 1% of total AR is past due 61+ days at all times
- Global losses as a % of sales stands at less than .5%
SELF-ASSESSMENT

- Describe your risk profile?
- Are you satisfied with your results?
- Could they be improved?
OUR CHALLENGES FEW YEARS BACK

- Decentralized Credit Risk Management
- Decentralized Collections
- Decentralized Reporting
- Different customer base
- Lack of Common Systems
- Lack of Common Metrics & Processes
- Mixed Skills level
SELF-ASSESSMENT

- Can you easily identify your own challenges?
IDEA OF SUCCESS

- Centralized AR Risk Management up to X amount
- Centralized Credit Risk Management up to X amount
- Decentralized Internal Partners relationship
- Centralized Consolidated Tool on top of a Decentralized multi systems environment
- Centralized Consolidated Reporting
Can you easily identify your own idea of SUCCESS?
WHAT DO I NEED/REQUIRE TO SUCCEED?

- Support
  - Top Finance
    - Accountability
    - Small appetite for loss
  - Top Sales
    - Sales delivers the Revenue
    - Credit delivers the Cash
    - Solid and positive relationship
- How do you rate your relationship with Sales?
  - On a scale of 1 to 10
    - 1 being the worse
WHAT DO I NEED/REQUIRE TO SUCCEED?

- Build partnerships internally
  - Customer Service
  - Billing
  - Cash Application
  - Deductions
  - Customer
  - Law
  - Master Data etc
SELF-ASSESSMENT

- Have you developed partnerships across your organization? Can you quickly identify your most valuable internal partners?
WHAT DO I NEED/REQUIRE TO SUCCEED?

- Understand the Company Culture
  - Profit oriented
  - Customer focused
  - Sales oriented
- Understand The Company Mission/Values
  - Align with your organization Mission
- Can you describe your company culture?
  - Sales focused
  - Customer driven
  - Profit-oriented
Credit Groups will support with **Agility** the Goals of the Corporation by applying **Innovative** Technics in Managing the Risk of Financial Losses while Maintaining **Caring** and Trustworthy Relations with its Customers.
SELF-ASSESSMENT

Do you have a Mission Statement? Can you write it down very quickly?
WHAT DO I NEED/REQUIRE TO SUCCEED?
CLEAR VISION

- Go back to the Basics
- Balance Risk vs Reward
- Attain Operational Excellence
Do you have a clear vision for your credit organization? Write it down.
WHAT DO I NEED/REQUIRE TO SUCCEED?

- Right People, Right Place
  - Hire right
    - Understanding the needs
  - Train purposely
    - Understanding the Core Competencies and profeciencies required
  - Retain
    - Understanding the behavior required for retention
Self-Assessment

Do you have the team on board to achieve success?
Understanding the Main Functions:

- Customer Acquisition
- Credit Risk Management
- Order Release
- Collection of Accounts
- Customer relations
- Cash Applications
- Reporting
Does your organization perform other functions not listed previously?
WHAT DO I NEED/REQUIRE TO SUCCEED?

- Credit Policy
  - Important
  - Absolute must have
  - Necessary
  - Critical
  - Apply across all functions to ensure consistency of actions and decisions
WHAT DO I NEED/REQUIRE TO SUCCEED?

- Policy & Procedures
  - New customer
  - Existing customer
  - Credit investigations
  - Authority approval level
  - Credit limit
  - Credit terms
  - Payment mechanisms
  - Credit hold
  - Periodic and Annual credit review
WHAT DO I NEED/REQUIRE TO SUCCEED?

- Policy & Procedures
  - Collection
  - Conversion to note and payment plan
  - Cash application
  - Dispute resolution
  - Third party collection
  - Allowance for bad debt and write-off
  - Bankruptcy proceedings
  - Credit reports
Do you have a credit policy? Is it published? How often is it updated?
Basic Legal environment knowledge

- Common Law (CAN)
- Civil Code (CAN)
- Commercial Credit (CAN)
- Fair Credit Reporting Act (US)
- Fair Debt Collection Practices Act (US)
- Anti-Trust Regulations (US)
- Bankruptcy Act (US)
Do you have any basic legal knowledge to properly manage your own credit environment?
WHAT DO I NEED/REQUIRE TO SUCCEED?

Measure (Reporting)
- Metrics and KPIs (why measure)
  - Measure actual performance
  - Compare against a standard
  - Take corrective actions
  - Promote communication
  - Monitor and plan the future
  - For recognition
WHAT DO I NEED/REQUIRE TO SUCCEED?

Basic measurements

- DSO - days sales outstanding
- BPDSO - best possible DSO
- ADD - average days delinquent
- CEI - collection effectiveness index
- % Current
- % over XX days
Do you measure at all? How often do you publish your report? Do you have a wide audience? Do you ask for feedback?
WHAT DO I NEED/REQUIRE TO SUCCEED?

Reliable Credit and Collection Software

- Centralized AR data from multi-systems to a single tool
- Daily consolidated view of accounts
- Segmentation of accounts by analyst, products, risk etc
- Prioritization strategy based on various activities/risk factors
- Increase efficiency & productivity
SELF-ASSESSMENT

Do you need to automate your manual processes?
Benefits of getting the basics right

- Move from Risk Avoidance to Risk vs Reward
- More quality time to really manage Risk
- Ability to work jointly with Sales to manage Margin
- Contribute to Sales growth
- Achieve **Operational Excellence** accurately and timely.
WHERE DO WE GO FROM HERE?

If you were serious about the self-assessment survey

- Recognize your inefficiencies once back at your desk
- Put together a simple but attainable action plan
- Discuss your findings with your immediate partner/superior
- Proceed to implement corrective measures
IT’S A WRAP! MERCI

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