

CREDIT BASICS - BEST PRACTICES FOR THE CREDIT DEPARTMENT

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IN ASSOCIATION WITH



Credit Management Association



Southwest Business Credit Services



NACM Seattle

TODAY'S TOPICS

Roger

THE WHO, WHAT, WHERE, WHY AND WHEN OF NEW ACCOUNTS AND JOB ACCOUNTS

- \$ New Accounts
 - Your Credit Application-where it all begins
 - Who are you doing business with?
- \$ Job Accounts
 - Benefits
 - Verification



Ginger

- \$ Managing “Credit Limits”
 - Why have them?
- \$ Credit/Collection Policies & Procedures
 - How do we do this stuff?
- \$ Where do you keep your stuff?
- \$ Metrics & Goals –
 - Where have you been, where are you now and where do you want to be??
- \$ Training & Succession Planning
- \$ Employee Engagement
 - Happy people, better results!

THE CREDIT APPLICATION

THE FOUNDATION OF EVERY ACCOUNT

THE PATHWAY FOR EVERY PROCESS

THE RESOLUTION OF EVERY DISPUTE



CREDIT APPLICATION - WHO

- THE MOST IMPORTANT QUESTION ON THE TEST.
- **YOU CANNOT AFFORD TO GET THIS ONE WRONG.**
- WHO ARE YOU DEALING WITH?
- WHO THEY SAY THEY ARE AND WHAT THEY SAY THEY ARE
 - MUST BE VETTED, MUST BE VETTED, MUST BE VETTED!!! THEN GO AHEAD AND VET IT AGAIN.
- IT IS ESSENTIAL YOU ESTABLISH THE ACCOUNT IN THE CORRECT NAME AND TYPE OF ENTITY.
- VERIFY DBA'S AND TRADE NAMES,. IS IT REAL? NEVER ASSUME YOUR APPLICANT UNDERSTANDS THE LEGALITIES OF BUSINESS. MANY TIMES THEY DO NOT.

Business Credit Application

Name/Address

Last: SMITH	First: JOHN	Mic
Initial:		
Name of Business: XYZ CORPORATION		
Address: CENTRAL ROAD		
City: BOSTON	State: MA	ZIP:

Company Information

Type of Business:	In
Legal Form Under Which Business Operates:	Corporation <input type="checkbox"/>

CREDIT APPLICATION - WHERE

LOCATION
LOCATION
LOCATION

- PO BOXES ARE GREAT FOR RECEIVING MAIL, BUT REALLY BAD WHEN YOU ARE TRYING TO FIND SOMEONE.
- YOU DON'T HAVE TO HAVE A STREET ADDRESS ON THE APPLICATION PER SE, BUT MAKE SURE YOU HAVE THEIR STREET ADDRESS SOMEWHERE IN YOUR FILE.
- EVALUATE THEIR LOCATION, DOES WHERE THEY ARE LOCATED CAUSE ANY CONCERN, RAISE ANY QUESTIONS? DOES THE LOCATION TELL YOU ANYTHING ABOUT THE BUSINESS? MANY TIMES IT DOES. IF YOU ARE NOT FAMILIAR WITH THE AREA, TALK WITH SOMEONE WHO IS.
- HAS A MEMBER OF YOUR SALES TEAM VISITED THE APPLICANT'S LOCATION? IF SO, TALK WITH THEM ABOUT IT. IF NOT, IT MAY BE APPROPRIATE TO ASK THEM TO MAKE THAT VISIT.
- WHERE IS THE APPLICANT DOMICILED? IF THEY ARE A FOREIGN ENTITY TO YOUR AREA, ARE THEY LICENSED (IF REQUIRED) IN YOUR AREA?

CREDIT APPLICATION - WHAT



- WHAT DO THEY DO? USUALLY AN APPLICANT WILL BE INVOLVED IN THE SAME ENDEAVOR AS THE MAJORITY OF OUR CUSTOMER COMMUNITY. BUT NOT ALWAYS. IF AN APPLICANT IS NOT IN THAT VEIN, **WE MUST DETERMINE WHY THEY ARE COMING TO US.** HOW DOES WHAT WE PROVIDE FIT WITHIN WHAT THEY DO?
- IF THEY ARE A NORMAL PROFILE CUSTOMER, THERE ARE STILL VARIATIONS WITHIN THAT MAIN PROFILE. FIND OUT WHAT THEIR SPECIFICITIES ARE - RESIDENTIAL, COMMERCIAL OR BOTH, HEAVY ON JOB ACCOUNTS, DEDICATED TO ONLY CERTAIN GEOGRAPHIES, ETC. ALL OF THIS INFORMATION WILL LET YOU KNOW ABOUT CAPACITY, OPERATIONAL NORMS, EXPERTISE, WHAT KIND OF PAYMENT PATTERNS ARE PROBABLE.
- DOES THE BUSINESS THEY DO REQUIRE A LICENSE OR ANY SPECIAL CONSIDERATION? VERIFY THEY ARE QUALIFIED AND CURRENT WITH ANY AND ALL REQUIREMENTS.
- ALWAYS A GOOD IDEA TO HAVE A CONVERSATION WITH YOUR SALESPERSON WHO MAY BE ASKING FOR THE ACCOUNT OR ASK THE CUSTOMER THEMSELVES IF NO SALESPERSON IS INVOLVED UP FRONT.

CREDIT APPLICATION - HOW

HOW LONG?
HOW MANY?
HOW MUCH?

- HOW LONG IN BUSINESS?
 - WHAT IS THE DATE OF INCORPORATION? IF CHANGED TO AN LLC, WHEN DID THAT OCCUR?
- HOW MUCH **CREDIT LIMIT** IS NEEDED? IN OUR CASE, HOW MUCH DO YOU ANTICIPATE BUYING FROM US EACH MONTH?
 - HOW MUCH CREDIT LIMIT THEY REQUEST IS A REAL TELL KEY AND ESSENTIAL PIECE OF INFORMATION, **UNLIMITED IS NOT A NUMBER, "AS MUCH AS YOU CAN" IS NOT A NUMBER, "I HAVE NO IDEA" IS A BAD ANSWER AND A GENUINE CAUSE FOR CONCERN,**
- YOU WANT TO DO BUSINESS WITH PEOPLE AND ORGANIZATIONS WHO HAVE A SOLID GRASP ON WHAT THEY DO. ADDITIONALLY, YOU SHOULD DISCUSS THE AMOUNT OF CREDIT LIMIT REQUESTED WITH THE SALESPERSON WHO WILL BE HANDLING THE ACCOUNT.

CREDIT APPLICATION - REFERENCES



- LIFEBLOOD OF THE CREDIT DISCIPLINE.
- THE FREE FLOW AND EXCHANGE OF CREDIT INFORMATION IS NOT WHAT IT USED TO BE. WE MUST BE DETERMINED, DILIGENT, AND DISCIPLINED WITHIN THIS PRACTICE.
- ESTABLISH RELATIONSHIPS WITH KEY COMPETITORS WITHIN YOUR INDUSTRY INDIVIDUALLY, AND ESPECIALLY WITHIN THE GROUP DYNAMIC AVAILABLE THROUGH **SOUTHWEST BUSINESS CREDIT SERVICES, CMA and NACM Seattle**. YOU NEVER KNOW WHAT SMALL ITEM OF INFORMATION WILL BE THE SOLUTION TO A MATTER BEFORE YOU.
- BE A RESPONSIBLE PARTICIPANT AND CONTRIBUTOR WITHIN THE EXCHANGE OF CREDIT INFORMATION. IT IS ABSOLUTELY ONE OF THE BEST EFFORTS YOU CAN DO FOR YOUR ORGANIZATION AND YOURSELF AS A CREDIT PROFESSIONAL.
- DON'T BE RETICENT TO ENGAGE THE APPLICANT IF THE APPLICANT'S REFERENCES ARE NOT RESPONDING TO YOUR REQUEST FOR INFORMATION. ASK THEM TO CALL THE REFERENCE AND ASK THE REFERENCE TO PROVIDE THE REQUESTED INFORMATION.

CREDIT APPLICATION – SIGN RIGHT HERE – MAKE SURE!

- MAKE SURE APPLICANT **PROPERLY EXECUTES SIGNATURE** AS REQUIRED BY YOUR APPLICATION.
- **FIRST THING** YOU CHECK WHEN APPLICATION IS RECEIVED. IF THIS IS NOT CORRECT SEND IT BACK RIGHT AWAY AND ASK FOR CORRECTION.
- IF YOU REQUIRE A WITNESS, **MAKE SURE**. IF YOU REQUIRE A NOTARIZATION, **MAKE SURE**. IF YOU REQUIRE IT TO BE DATED, **MAKE SURE**.
- **MAKE SURE** TITLE OF SIGNER IS LISTED. **MAKE SURE** YOU CAN READ WHO THE SIGNER IS. **MAKE SURE** SIGNER IS A VALID REPRESENTATIVE OF THE ORGANIZATION WELL ABLE TO INCUMBER THE APPLICANT. IF NOT, REQUEST IT BE SIGNED BY SOMEONE WHO FITS THAT REQUIREMENT. **THIS IS BUSINESS**.

The logo for John Hancock, featuring the name "John Hancock" in a blue, elegant cursive script. Below the name is a decorative flourish that includes a small globe icon.

JOB ACCOUNTS – BENEFITS



To the Customer:

- IT HELPS YOU
- IT HELPS US
- IT HELPS US HELP YOU
- IT CAN GIVE YOU MORE
- IT CAN GIVE YOU BETTER
- IF YOU ARE A SUB AND ESTABLISH A JOB ACCOUNT WITH YOUR SUPPLIER, YOU NOW HAVE A SUBSTANTIAL TEAMMATE WITH GREAT RESOURCES!

For the Supplier:

- IT CAN MULTIPLY A CUSTOMER'S CAPACITY.
 - A CUSTOMER MIGHT ONLY QUALIFY FOR A MAIN ACCOUNT OF \$25,000 - HOWEVER, THE SAME CUSTOMER COULD HAVE 9 JOB ACCOUNTS OF \$25,000 EACH AND NOW HAVE A CREDIT CAPACITY OF \$250,000.
- NOTHING CHANGED WITH THE CUSTOMER IN ANY WAY OTHER THAN PROVIDING JOB ACCOUNT INFORMATION AND CREDIT CAPACITY IS INCREASED TIMES 10.
- LIEN RIGHTS. NOT A GUARANTEE, BUT A VEHICLE TO GET PAID.
- IF THERE IS A CONSTRUCTION LOAN OR BOND INVOLVED WITH THE PROJECT, THIS ACCENTUATES GETTING PAID.

JOB ACCOUNTS – RINSE AND REPEAT



- A JOB ACCOUNT SHEET IS BASICALLY ANOTHER FORM OF A CREDIT APPLICATION.
- WE DO NOT STOP OUR PROCESSING OF THE INFORMATION UNTIL WE ARE SATISFIED THAT THINGS ARE EXACTLY HOW THEY ARE PRESENTED OR WE KNOW THE TRUTH OF EXACTLY WHAT THEY REALLY ARE.
- JOB NAME, JOB ADDRESS, GENERAL CONTRACTOR, OWNER OF THE PROPERTY/PROJECT, CONSTRUCTION LOAN, BONDS, ETC.
- USING ALL AVAILABLE RESOURCES,
 - ASSESSOR'S OFFICE
 - RECORDER'S OFFICE
 - CORPORATION COMMISSION
 - **SOUTHWEST BUSINESS CREDIT SERVICES, CMA or NACM Seattle**
 - REGISTRAR OF CONTRACTOR'S,
 - GOOGLE, MAPQUEST, DRIVING BY THE JOBSITE IF POSSIBLE, IF NEEDED, ETC.
- VET,VET SOME MORE,VET AGAIN,JUST KEEP ON VETTING!!



Any Questions



PAUSE FOR QUESTIONS ABOUT NEW ACCOUNTS, CREDIT APPS OR JOB ACCOUNTS

OTHER DEPARTMENTAL BEST PRACTICES

How is your credit/collection department structured?

Is Credit separate from Collections?

Do you have a Shared Services environment?

How is the work assigned if there is more than one employee?

Location/branch assignments?

Alphabetical?

By Delinquency?

How are collections done?

Email and phone calls?

Automated messages via a dialer?

Dunning notices?



What's the BEST PRACTICE?

BEST PRACTICE – MANAGING CREDIT LIMITS

- Why have them?
- Industry expectations
- Limits vs “Allowances”
- Customer expectations and “untruths” about “other suppliers”
- Secured vs Unsecured Receivables
- Sales prevention?
- Customer PROTECTION!

SOMETHING TO THINK ABOUT



BEST PRACTICE - POLICIES & PROCEDURES

POLICY & PROCEDURES: Reference material that defines your company's credit and collection policy and how you manage to them procedurally. This should include processes inclusive of the entire credit and collection cycle.

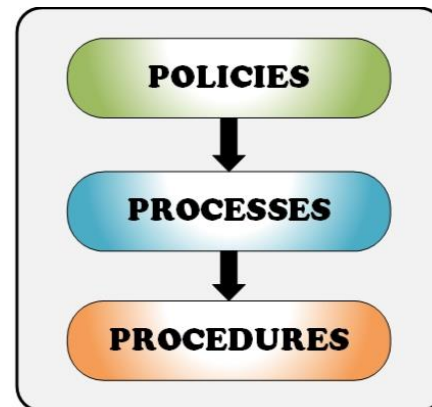
- The POLICY defines your company's rules
 - Company Mission Statements
 - Company Goals
 - Company Standards and Guidelines on how business will be conducted
- The PROCEDURES define how you execute them
 - High level is best, leave room for your “professional opinion”
 - Can “back up” difficult decisions – refer to your corporate policy
 - Creates standardized practices across the organization, creates better customer service when multiple locations are involved



POLICIES AND PROCEDURES

POLICY Examples

- Credit applications required for all new customers
- Terms & Conditions required for all new customers (in the absence of a credit application, a Master Service Agreement) Includes Payment Terms
- Cash & Credit Card Sales
- Past Due Account policy
- Policy Adjustments
- Write Offs and Bad Debt
- Credit References
- Authorization Matrix for Credit Approval



PROCEDURE Examples

- Processing a new Credit Application
 - Tools, Forms
- Processing cash and credit card sales
 - PCI Compliance
- Collection Process
 - Past Due Notices
 - Collection Calls
 - Scripts or Templates
- Bad Debt & Write off Process
- Credit Limits, Severance Actions, etc.

Also ensures that you are consistently managing your customers equally and fairly

BEST PRACTICE - WHERE DO WE KEEP OUR STUFF?

- The ability to refer branches, account managers, customer service, etc. to a specific location to find information related to your Credit/Collection policies and procedures is a great time saver for the department. Let your internal customers “self serve”. This reduces administrative time on team members responding to emails and phone calls and they can focus on processing credit requests and/or collecting AR.
- Keeps your frequently used forms like credit applications, job account forms, change forms, and other requests in one location that can be easily accessed by others outside your department AND a site just for your team!
 - Sharepoint sites
 - Intranet – Company news location
 - Shared Drives
- Consider putting your Credit Application on your Company’s website with an email address to a Shared Credit Department email
- Consider creating a Shared Department email addresses. This allows multiple analysts or collectors to access requests that may otherwise not be immediately addressed. This is a great customer service tool as well if you set service level expectations.
 - Lien Waivers
 - New Credit Applications
 - Credit Reference Requests
 - Invoice or statement requests



BEST PRACTICE - METRICS & GOALS

Basic Credit/Collection Measurements

- Days Sales Outstanding (DSO)
- Percentage of Total AR over 60 days
- Reduction of AR Dollars
- Bad Debt Expense
- Write Offs as a Percentage of Sales

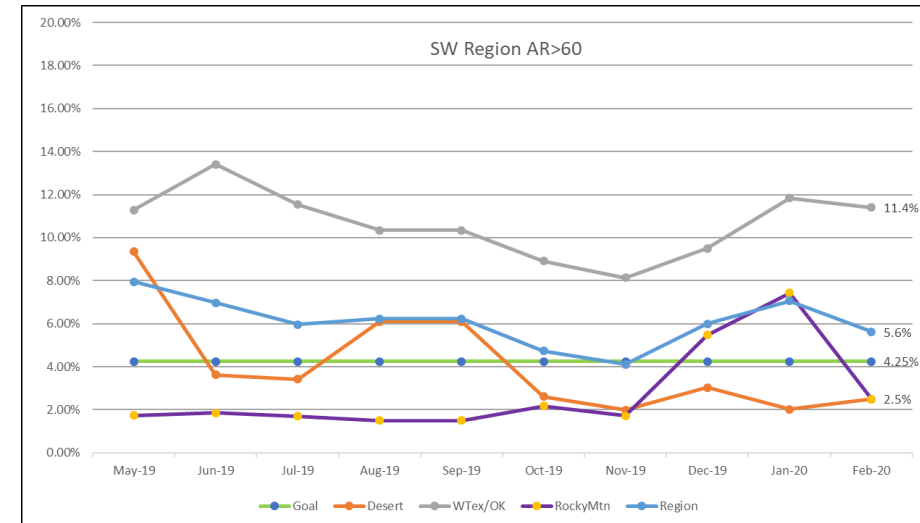


It is important to have Metrics and Goals in the Credit Department!

GOAL – the object of a person's ambition or effort, an aim or desired result.

- Sets expectations
- Creates sense of ownership and accountability
- Know where you are, and know where to target efforts to achieve improvement or goals
- Creates reasons to CELEBRATE! Employee engagement and teamwork
- Enables bonus opportunities and employee appreciation
- Justifies our existence 😊

	Over 60	Total AR	%>60	DSO	Goal
Jan-20	\$ 881,920.58	\$ 34,613,980.73	2.5%	47.96	49.62
	\$ 3,543,392.66	\$ 30,971,329.79	11.4%	57.14	52.17
	\$ 582,757.59	\$ 23,501,829.85	2.5%	37.84	40.23
	\$ 5,008,070.83	\$ 89,087,140.37	5.6%	47.33	47.50
	Over 60	Total AR	%>60	DSO	Goal
Dec-19	\$ 645,760.80	\$ 31,941,552.49	2.0%	47.62	49.62
	\$ 3,744,645.63	\$ 31,642,026.05	11.8%	56.70	52.17
	\$ 1,900,887.02	\$ 25,591,312.11	7.4%	37.91	40.23
	\$ 6,291,293.45	\$ 89,174,890.65	7.1%	47.16	47.50
	Over 60	Total AR	%>60	DSO	Goal
Nov-19	\$ 933,739.28	\$ 30,865,905.22	3.0%	47.98	49.62
	\$ 2,823,718.81	\$ 29,716,614.91	9.5%	58.29	52.17
	\$ 1,254,400.14	\$ 22,932,914.06	5.5%	38.21	40.23
	\$ 5,011,858.23	\$ 83,515,434.19	6.0%	47.82	47.50



BEST PRACTICES TRAINING AND SUCCESSION PLANNING

- Education and Development
 - Internal and External – make sure you budget!
 - Certifications
 - Seminars
 - Industry training
- Feedback and Periodic Reviews (One on One)
 - How are you doing?
 - How am I doing?
 - What CAN we be doing?
- Career Pathing
 - SUCCESSION - Do you have a Replacement plan?
 - So YOU can move forward (or retire!)
 - So your EMPLOYEES can move forward
 - Opportunities for advancement
 - Department position growth
 - Administrative
 - Analyst
 - Sr. Analyst
 - Supervisor
 - Manager



Investing in training and development pays for itself through employee retention – less turnover!



EMPLOYEE ENGAGEMENT

BEST PRACTICES – EMPLOYEE ENGAGEMENT

- Team Meetings
- Committee Involvement
- Focus Groups
- Pot Lucks
- Team building (quick games & crafts)
- “Day in the Life”
- Desk Drops
- Notes and Cards
- Holiday Décor
- Lunch OUT on your dime
- Volunteer hours
- Awards & Recognition

REACH **HIGH**
THINK **BIG**
WORK **HARD**
HAVE **FUN**

COMMUNICATION!!!

Any
Questions



PAUSE FOR QUESTIONS ABOUT THIS PRESENTATION!

THANK YOU FOR YOUR TIME TODAY!



FOR QUESTIONS ABOUT TODAY'S WEBINAR, PLEASE CONTACT:

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