Unbound Credit Management

W ith spectacular credit problems, ambush bankruptcies, and accounting headaches littering the business landscape this year, credit mangers could be excused for feeling that the weight of the corporate world is on their shoulders.

On the flip side, credit executives now have a splendid opportunity to showcase the value that they and their departments bring to their firms. Indeed, the value of the credit function has suddenly shot from background to center stage. It's the perfect time, consultants and credit executives say, to reposition the credit function as a key driver of corporate profitability and growth.

By Joanne Y. Cleaver

As the weight of the corporate world shifts to the credit function's shoulders, savvy credit managers are seizing the opportunity to demonstrate how they can strengthen their company's financial position.

"This is *the* time for credit managers and the credit function," says Ranjini Pillay, vice president of AIG Trade Credit.com. "There has always been this tension between the sales side and the credit side. [Credit] is seen as the 'no's.' But in this current climate, with bankruptcies hitting the corner shop as well as the Kmarts, the old notion held by salespeople that they know their buyers and their financial condition doesn't hold as true anymore."

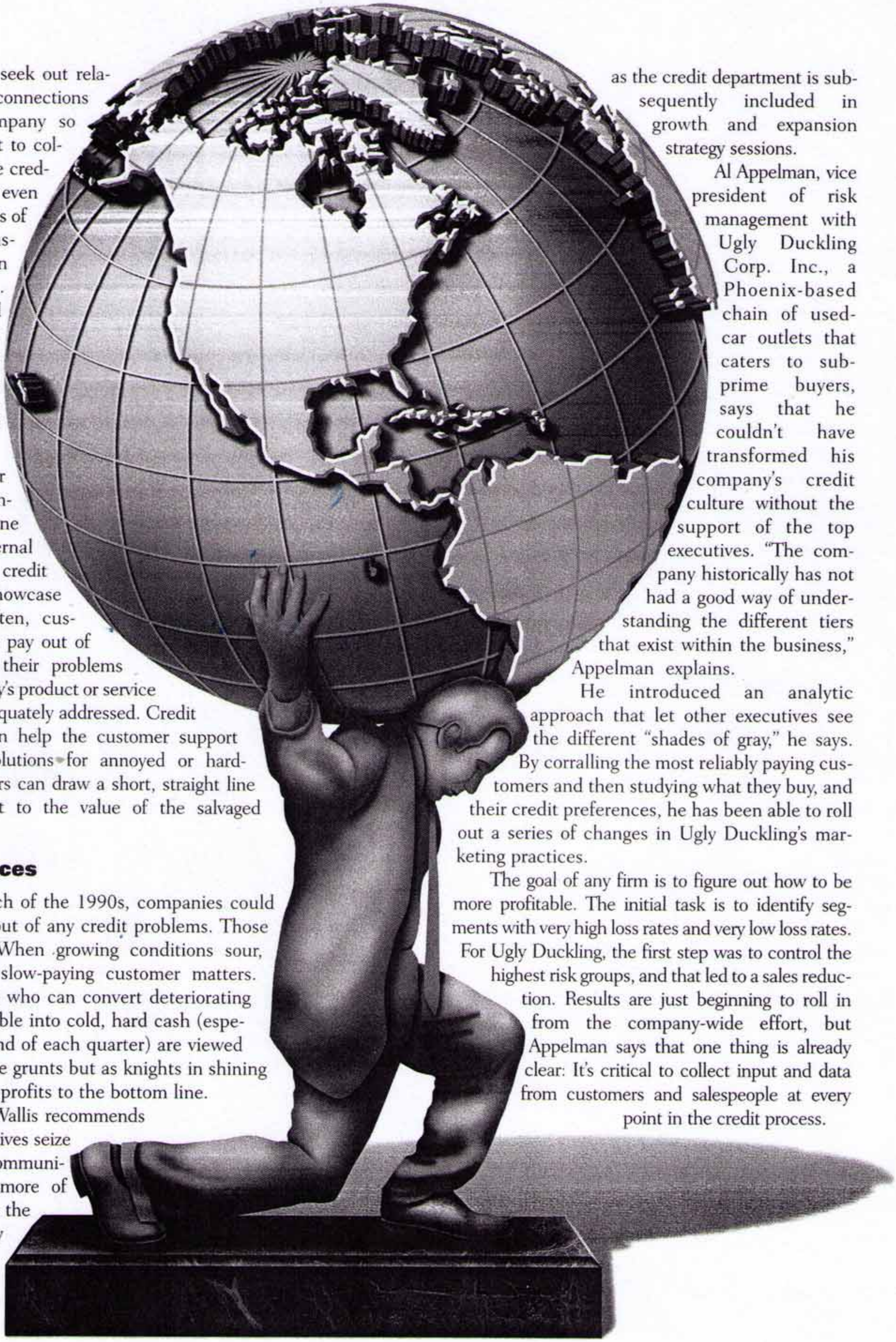
Companies have always had checks and balances in their systems, with the credit staff as one of the primary factors in that, points out Jay B. Adams, owner of Adams Inc., an Omaha financial executive recruiting firm. "But for the growth and development of the company, they have to have people who want to participate in that growth," he notes.

Assertiveness Pays

With great prescience, the Credit Research Foundation released a study two years ago urging credit managers to be more assertive about participating fully in their companies' growth. "If you think of credit in a very tactical, task-oriented way, you're limiting your own career path, in your organization and beyond," says Lyle Wallis, vice president of research and author of "Credit Deserves Credit: A Leadership Role for the Credit Professional in Revenue Chain Management." The natural trend, Wallis says, is for the credit operation to evolve into a customer service-oriented organization.

Whether or not the traditional "gatekeepe'" role is becoming passé is a matter of some debate among credit executives. Wallis argues that the party-pooper attitude has got to go.

The press of every day business can understandably undermine any credit manager's efforts to think strategically instead of just plow through the pile of approvals, reports, and requests on his or her desk. It's imperative to rise above that, says Wallis,



and proactively seek out relationships and connections within the company so that others want to collaborate with the credit department at even the earliest stages of a sales or customer retention effort. "Executives need to move in lock sync with their environments or they will be shoved aside," he warns.

Customer relationship management is one burgeoning internal function where credit analysts can showcase their value. Often, customers refuse to pay out of frustration that their problems with the company's product or service haven't been adequately addressed. Credit analysts who can help the customer support staff develop solutions for annoyed or hard-pressed customers can draw a short, straight line from their input to the value of the salvaged account.

Forge Alliances

Throughout much of the 1990s, companies could grow their way out of any credit problems. Those days are over. When growing conditions sour, every loss and slow-paying customer matters. Credit managers who can convert deteriorating accounts receivable into cold, hard cash (especially near the end of each quarter) are viewed not as back-office grunts but as knights in shining armor delivering profits to the bottom line.

That's why Wallis recommends that credit executives seize the chance to communicate more and more of how they benefit the company, directly to top executives. Key alliances forged now will pay off as the credit department is subsequently included in growth and expansion strategy sessions.

Al Appelman, vice president of risk management with Ugly Duckling Corp. Inc., a Phoenix-based chain of used-car outlets that caters to sub-prime buyers, says that he couldn't have transformed his company's credit culture without the support of the top executives. "The company historically has not had a good way of understanding the different tiers that exist within the business," Appelman explains.

He introduced an analytic approach that let other executives see the different "shades of gray," he says. By corralling the most reliably paying customers and then studying what they buy, and their credit preferences, he has been able to roll out a series of changes in Ugly Duckling's marketing practices.

The goal of any firm is to figure out how to be more profitable. The initial task is to identify segments with very high loss rates and very low loss rates. For Ugly Duckling, the first step was to control the highest risk groups, and that led to a sales reduction. Results are just beginning to roll in from the company-wide effort, but Appelman says that one thing is already clear: It's critical to collect input and data from customers and salespeople at every point in the credit process.

Promoting Credit Risk's Top and Bottom-Line Value

Credit has long been in the business of control – controlling the flow of inventory, determining what constitutes a worthy credit risk, turning receivables into dollars, and administering systems that help streamline cash application and credit information. Although the intent is good, the result is that credit professionals often find themselves in the unenviable position of "police officer" when working with sales and customers. As organizations increase their focus on internal and external customers, the credit function has responded by shifting emphasis away from controlling inventory and limiting customer purchases, to managing the customer relationship with a financial bias.

Evidence that credit is indeed responding to the return-on-investment approach is found in the role credit plays by adding value to the top and bottom line of the organization's profit & loss statement.

One vision of the core credit function of the future suggests a new set of roles and competencies:

• Credit, collection, and A/R Services (80% to 90% of the credit staff). This group will be the core of collectors and credit grantors – those with the most direct contact with customers to apply policies and procedures. They will answer questions and devise tactical solutions to matters such as deduction resolution.

• Administration (10% to 15% of staff). These personnel will maintain systems and data to support the personnel who extend credit lines, the collectors and cash appliers. They will form the first level of hand-off from the customer service function.

• Planning (5% to 10% of staff). These professionals will be the strategy development and program designers in the credit organization. They will handle the most complex and intricate problems and issues – those requiring more time and a broader perspective and greater sensitivity to the strategic customer relationship to resolve.

With the role of credit in transition, perhaps the important question to ask is not what jobs will pay most, but what roles and skill sets will be most highly prized. Considering current trends, the most highly valued (and paid) credit professionals in the future will:

• Understand the business operations and external environment of the organization. This will be essential to providing advice on and support for organization and job design in order to focus the workforce on achieving business results.

• Add value to the organization with partnering and consulting skills. This means a proactive and creative approach to problem solving and includes both the direct delivery of service to an internal customer and the ability to manage the delivery of that service by others to customers.

• Understand how the disciplines within credit need to be integrated to address the overall effectiveness of individuals and the workforce. This calls for a grasp of the strong links among: product knowledge, customer financial knowledge, technology prowess, economic awareness, and negotiation skills.

• Know that accounts receivable is both an asset and cost to the organization.

Credit professionals who develop and show these competencies in serving their internal and external customers will be in high demand as employers strive for maximum performance from all employees.

In the past decade or so, the cost-cutting pressures accompanying global competition and the technology boom have compelled credit professionals to change not only their roles but also the perceived value of their contributions. Credit professionals have sought to better explain the effects of their work on the bottom line through indicators such as increased receivable turnover, productivity improvement, and bad debt avoidance. In many progressive companies, credit has successfully positioned itself as a key player on the management team, a strategic business partner, and a high-level advisor.

How does the credit executive gain entry to the executive suite as a strategic business partner? More and more credit organizations are coming to rely on numbers to make their case. Credit Research Foundation studies note that the function of credit will almost always be looked at as an expense if data are not available to show a contribution to the bottom line.

Credit executives gain respect when they begin to prove their value, manage the credit function like a business, and learn to use information to forecast outcomes. There is no better way to become a strategic business partner. The focus shifts from justifying the function's existence and fighting for money, to demonstrating value.

This is an excerpt from "Communicating the Value of the Role of Credit," a chapter of "Credit Deserves Credit: A Leadership Role for the Credit Professional in Revenue Chain Management" by Lyle Wallis, vice president of research for the Credit Research Foundation. The entire report may be purchased by clicking on Publications at www.crfonline.org.

Credit managers may even serve as a breath of fresh air, because they represent a new way to solve nagging problems, suggests Pamela S. Harper, founder and president of Business Advancement Inc., a Glen Rock, N.J.-based corporate change consultancy, and author of "Preventing Strategic Gridlock."

Pivot Point

Global expansion, mergers and acquisitions, and technological confusion all have clouded customer relations, Harper says. The credit staff can serve as a pivot point for collecting and disseminating critical information about customers, thereby helping other departments retain those customers.

The vast databases managed by the credit department can be invaluable to the sales and customer service departments, especially when the credit staff takes the time to school them in how to interpret the data. "These days, company business structures can be very complicated. Say you're dealing with a joint marketing agreement and your company wants to bring in a customer and the alliance partner doesn't," Harper poses. In such situations, the credit staff can help find common ground – by determining, for instance, that a potential customer has sufficient cash to buy into the proposed project – and thus directly impact revenue.

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> ***President***
> ***Portfolio Defense***

Once credit executives have established rapport with peers in other departments, they can broaden the scope of the decisions and operations that they can affect, says Peter DeForest, president of Portfolio Defense, a risk management consulting firm based in San Francisco.

Though predictive models and similar analytic tools may be a mystery to customer relations and other departments, credit staffers can create fans when they bring those tools to bear on other departments' problems. "You can build attrition models and strategies that can be integrated with account management. Then you can look annually at who is likely to be retained, and sweeten the deal for the customers you really want to retain," he says.

DeForest also suggests that credit staff collaborate with the sales staff to develop profiles of potential customers who apply for credit, are approved, and then reject the offer. Identifying elements of the offer that could be tweaked to reel in those shoppers can help the sales staff meet its goals, and that can create a steadfast ally.

Michell A. Woods-Howell, a senior project manager for Microsoft Worldwide Credit Services, has found that this exact approach has positioned her and her staff as internal consultants within Microsoft. Because she wants to thoroughly understand all the nuances of how credit fits into a business operation, when she saw the opportunity to run the credit and collections unit for Microsoft's MSN advertising division, she grabbed it. She is now in charge of monitoring and allotting credit for MSN's some 600 advertisers.

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Business Advancement

An Eye-Opener

Writing the policies, overseeing the processes, and working with the ad sales staff has been an eye-opening experience. It has cemented her conviction that credit analysts must be willing to roll up their sleeves and dig deep into their companies' growth plans. She routinely looks for the gray areas in credit decisions, the better to understand both the perspective of the Microsoft salespeople and of their customers.

"I tell the account reps, I want to help you get there," she says. "I know you want to do business with this company ... but here are the trends this year. Let's see what we can do to protect ourselves."

Sometimes that means taking a tougher stance. For instance, she has been increasing the scrutiny of venture capital-backed startups and, in many cases, now requires a written guarantee from the venture capital firm before approving a purchase. Yet, she goes to great lengths to avoid irritating the customer. "We present it as a 'just in case' scenario to the customer," she says. "And we include the sales person in negotiating the safety net with that customer."

Woods-Howell constantly communicates with sales teams, explaining trends and advisories that can help set their expectations for customer negotiations. She is assertive about being included in the sales process as early as possible. "We decide ahead of time what the set-in-stone requirements are," she says. "We need the account people to be on board with us ahead of time. You don't want the salespeople to suddenly side with the customer, in the meeting, leaving you holding the bag."

Business Advancement's Harper recommends that every credit department conduct internal surveys of how they are perceived by other departments, where the friction points are, and how the other departments would like to improve and advance the relationship. "You can strategically reposition yourself just by asking the questions," she says. "As you're doing it, people are saying, 'Oh, they care.' But then, you have to be committed to enact some changes. Don't do it unless you are prepared to be responsive." ■