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In 1995, Wayne Crosby, a 35-year veteran of Credit and Collections was recruited from New York to Oshkosh, Wisconsin, by the Fonda Group as their Assistant Treasurer upon their recent acquisition of Hoffmaster from Scott Paper. His challenge was to create a credit and collections department for this disposable paper products manufacturer. Twelve solid performers, without credit background, were recruited from departments, including customer service, accounting and traffic.

When Hoffmaster's President, Bob Korzenski, met Wayne Crosby, he gave him one significant and timeless piece of advice. "I've given you good people. Instead of telling them what to do let them show you what they *can* do." With this management blueprint, Wayne began to build a unique credit framework for Hoffmaster. As Wayne recalls, "in the first few months just balancing general ledger was a time consuming task." Through employing standards of efficiency and process improvement, Crosby moved the company to daily GL balancing. Working with his team, he established new processing cutoffs, improved methods of invoicing, issued credit allowances, and conducted the oversight of the accounts receivable ledger. The previously overwhelming month-end process was reduced from one week to a couple of hours under Wayne's leadership.

This role more than any other shaped Crosby's credit and people management approach and subsequently paved the way for him to assume a key role as Portfolio Manager for Alliance Laundry Systems LLC.

Alliance's Client Base – The Key to Credit Their Approach

Alliance manufactures commercial laundry equipment under well-known brand names like Cissell, Huebsch, Ipso, Speed Queen and Unimac. The brands are supported through an extensive network of distributors and route operators throughout the world. Alliance Laundry sells equipment to distributors who sell to "Mom and Pop" Laundromats (their largest client segment), hotels and institutions like hospitals, colleges, universities and prisons. The distributors can offer financing to their clients through the captive credit arm of Alliance. A "Mom and Pop" laundromat may require \$200K to \$500K in financing. These financing costs encompass equipment and construction build out of the laundry facility. Today's typical laundromat has approximately 80 pieces of equipment that cost between \$1200 and \$12,000 each. The construction build-out costs can be part of the financing. The investor in the Laundromat typically puts 30 percent into the overall financing of the operation (in a \$500K operation, the customer finances \$150K and the captive credit company of Alliance finances \$350K.)

Department Overview

Alliances' Finance organization is comprised of three distinct teams; underwriting, customer support and portfolio management. It is the portfolio management team which is the most significant and unique twist in Alliance's captive finance company approach and the one for which Crosby is responsible.

Underwriting and customer support perform the typical functions of most credit departments. Underwriting extends credit by processing credit applications, analyzing financial statements and credit reports of prospective clients as well as other data that includes market analysis and demographics. The group has layered approval levels:

- \$50K for credit analysts,
- Over \$50K to \$150K requires the additional approval of a credit supervisor
- Over \$150K to \$250K requires the prior level plus the Director of Financial Services

- Over \$250K to \$5MM requires the prior level plus the CFO' signature
- Loans above the \$5MM mark require approval of the Credit Committee which includes the CEO
- In this manner, underwriting remains focused on "speeding up" the credit process by striving for same-day approval for all loans up to \$100K and 48 to 72 hours for larger loans. With underwriters only responsible for the extension of credit, they are removed from the "contentious" role of "credit authority". The customer support team books loans into the system, handles the Finance group's daily cash management relationships with lock box and ACH providers, applies cash receipts and oversees the critical UCC filings. At this point, the portfolio management team begins delivering their true value added service to captive clients.

Early Intervention: Sophisticated Collections with a Twist

Under Crosby's watchful eye, the financial integrity of the portfolio is ensured. As the secured lender, the team is responsible for the portfolio-meeting auditor's standards. Portfolio Management springs to action "proactively" when payments from borrowers are eight days late. Their expertise in eliminating potential credit losses by amending and rewriting loans while helping clients to navigate through business challenges is invaluable.

The team is the last decision point in the credit process when a location cannot be remarketed to another investor. This approach is decidedly different from the approach of traditional credit collections, which responds "reactively" to invoices past due.

In the more traditional scenario, invoices are often over 90 days past due before any action is taken. At that point, a delinquency is reported and the borrower is "on the hook" for the entire outstanding amount of the loan. In sharp contrast, when an Alliance client's invoice is only eight days past due, the early intervention group:

- Contacts the client
- Helps the client to analyze why performance is off and
- Makes the determination whether payment can and should be made or restructures the loan to allow the client to "work out" of the problem and continue to pay on the loan.

Real Life issues—Real Life Solutions

Crosby describes his team as outstandingly good at what they do. "We have one goal and that is to help keep our clients in business and keep loans performing." In 2005, when Hurricane Wilma hit southern Florida, many Alliance Laundromats were affected. The team has the ability to help clients overcome not simply "credit issues" but issues related to "business process and management."

They have become a resource rather than an adversary in working out creative solutions with their clients. Their historical performance analysis of business process/efficiency has provided them with critical knowledge on things like site water usage and interpolating the revenue a site should be producing based upon that usage.

"If something is broken, we have the expertise and data to determine why," says Crosby. He knows that total utilities should range between 22 to 28 percent of total gross. If they do not, then potential issues like employee theft could be factors in a business's poor performance metrics.

Portfolio Management's delinquency is judged differently than a typical credit department. Delinquency is based upon total loan amount outstanding and not just the amount of the recent delinquent payment. In problem cases, Crosby and his team will restructure the deal by tiering or offering interest-only payments. For new small businesses, they will build in ramp-up periods. Since 2004, portfolio management at Alliance has brought the percentage of dollars in the portfolio that are over 30 days past due, down by an impressive 25 percent. The historical percentage of portfolio over 30 days past due is 3.098 percent. Crosby's team goal in 2007 is 2.75percent, and they are on schedule to having achieved 2.5 percent in the first six months. There is,

however, seasonality to this business in the summer which historically drives this rate up. When kids are not in school, laundromats experience a seasonal decline in revenue, affecting timeliness of payments. Crosby's team is held accountable for this performance. Team incentive and performance appraisals are inextricably tied to this performance. To give "heft" to this function, Crosby is one of four direct reports to Todd Rice, Director of Financial Services for Alliance. The role is critical to Alliance's success since the company has funded over 13,000 loans with \$2 billion in fundings.

Department Budget - The Envy of Credit Managers

Crosby is given the budget necessary to get the job done. The budget is based upon historical trends and has not been exceeded since 2004. Crosby has a \$400K legal expense budget and a \$400K remarketing budget. The remarketing budget is key to obtaining recoveries on defaulted loans. As is true in most real life situations "nobody does anything for nothing". When a borrower does default and a store does need to be remarketed, certain expenses inevitably surface and others are incurred. A distributor can earn up to 10% for finding a qualified buyer to either purchase the store or take over the debt. Sometimes Alliance learns that the defaulted borrower got behind in the rent and the landlord won't allow the lease to be assumed until the rent is brought current, or local tax authorities advise that the personal property taxes have not been paid. In these situations Crosby needs to manage his budget and negotiate with everyone who has their hand out.

Trends/Challenges in Industry: Listening to Distributors

Like most credit operations, the focus is on making the process less onerous and cumbersome for clients. The distributors of the equipment are quick to provide feedback on ways that Alliance might improve their operation, and Alliance listens. As a result, one-page credit applications previously used only for transactions up to \$50K are now being used for transactions up to \$100K. The front end process is continuously being streamlined.

Alliance considers their current home grown AS 400 credit monitoring system obsolete. While the system provides excellent notes, a "must" for credit departments in sharing information enterprise wide, it has a slow response time and Alliance is currently evaluating new systems. Response time must be speeded up to match the pace of business. Customers, as well as management, are increasingly expecting accurate information more rapidly.

Productivity has been enhanced by phone checks, which give Alliance the ability to create and draft checks by phone (telephone banking). This has dramatically reduced late charges and delinquencies. Alliance charges borrowers \$3 per phone check for this service. They also use ACH to automatically debit client accounts for payments. There is no charge for this service. All of these approaches contribute to a skillful managing of delinquencies and non-performing assets.

Visioning the Future of Credit

As a member of the Board of the Business Credit Management Association (BCMA), Crosby sees an opportunity to both mentor and credential young professionals in credit collections within a 2.5 to 3 year period. Accreditation can be achieved earlier allowing individuals to build a career in business credit/collections that will be knowledge and experience-based. He is helping to pioneer the American Society of Credit Collection Professionals (ASCCP) that focuses on mentoring, training and providing a defined career path for future generations of those who will specialize in accounts receivable and risk management. This would provide an invaluable service to business and industry allowing them to select staffs that have attained core competencies while committing to building a long-term career in this specialized and business critical profession. With mentoring from experienced credit professionals, young professionals can move more rapidly from the historic role of number "cruncher" and "credit as power" to collaborative, creative problem solvers who keep business and industry moving.

At a Glance	
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Corporate HQ:	Ripon, Wisconsin
Industry:	Leading designer, manufacturer, marketer of standalone commercial laundry equipment in North America and a leader worldwide
Customer base:	Laundromats, multi-housing laundries, consisting primarily of facilities in apartment buildings, universities and military installations and on- premise laundries at hotels, hospitals, nursing homes and prisons
Sales in 2006:	366 million
DSO:	Reported as percentage of \$ over 30 days. Currently 2.5% of total portfolio/Annual Goal for 2007 is 2.75%. Total Loan Portfolio (outstanding A/R to credit professionals) is approximately \$240 million
Reporting Structure:	Portfolio Management Executive reports to Director of Financial Services