A Technology Parable

The Importance of Preserving Credit and Collection Automation Capabilities when New Enterprise Software Systems Are Implemented

By Ernie Pudliner

Technology can be a wonderful thing…when it works. Because there is so much around us and it usually works just fine, we often take technology for granted. The problem with our reliance on technology is that when it fails, everything seems to fall apart. There is nothing more frustrating than a downed server. Though we may only lose access to our e-mail for a period or time, it affects our whole routine. If the entire system has crashed, many of us have to think hard to find any work that can be accomplished without using a computer. For better or worse, we are in a co-dependent relationship with technology. Though we may occasionally opine for a simpler time, the fact of the matter is we can't go back, nor would we really want to if we could. For all its challenges, technology has provided us with enormous benefits we are generally loath to give up.

All this is just as true for credit and collection automation. It has provided us with productivity tools that make our jobs much easier. Of course, we are just as busy as ever because our bosses now give us more accounts to handle, but the fact remains that with credit and collection software tools, we are better able to get the job done and have thereby increased our value to our organizations. Problems can arise, however, when management does not appreciate the impact of the automation tools upon which we have become dependent. Organizations have their own evolving technology requirements, and too often, the credit department's system requirements are relegated to a back burner status when new enterprise solutions are being implemented.

That can be a costly mistake, as my organization discovered. We reaped the benefits of automating credit and collections, survived the consolidation and upgrading of our enterprise system and then nearly lost it all when a new enterprise system was acquired. This is my story about those events and the lessons learned.

In Search of a Solution

In the late '80s, Temperature Equipment Corporation (TEC) purchased two other HVAC distributors leading to the establishment of new divisions Bryant Mungo and Harry Alter to expand our coverage of the Northern Illinois and Northwest Indiana market space. After the merger, all three companies continued to use their own computer systems, the owners having made the decision to maintain separate sales functions for each of the merged firms.

This made things very cumbersome for our collectors. They had to look at all three systems and manually consolidate the aging information in preparation for making a single collection call. This was because many of our clients continued doing business with at least two of the merged entities.

At this juncture, I began pushing very hard to convince management that credit and collections needed to be handled at a corporate rather than an operating unit level. We needed a single place to go for credit and collection details, and after extensive research chose, CA$H Machine software from NMC Technologies.

Automation Answers the Challenge

The benefits of using a single software platform for credit and collections were very significant. For one thing, when we were working with three different systems, all four of us in the credit department spent a good part of each morning applying cash. Because of the automated remittance processing features of the software we went down to just two people applying cash and only for part of the morning. As a consequence, we gained more time to make collection calls.

Another advantage from having a single A/R system was that it made it much simpler for our customers to do business with us. Before, we were sending out three separate sets of statements. Now each customer was receiving a single consolidated statement. So along with the dramatic increase in collection activities, we saw the number of disputes and chargebacks drop—and those that occurred were more easily and quickly rectified.

Due to these and many other smaller efficiencies delivered by the system, the improvement in our aging was impressive. Being in the construction industry, we do a lot of delayed billing and so have never relied on DSO as a metric. Instead, we look at the average number of days beyond the due date that it takes to get paid. Before implementing credit and collection software, we were being paid on average about four weeks beyond our due dates. Within a very short period of time we had cut that in half to only two weeks. This provided a tremendous cash flow benefit to our company.

In time, we consolidated all the operating units onto the AS400 software system we had been using with TEC's operations since before the merger (at that point we were able to get our autocash hit rate up to 60 percent, further minimizing our manual inputs). But inevitably, the decision was made to upgrade our enterprise software. At that point in time, management was pushing us very hard to handle credit and collections using only the new enterprise software package. Being a team player, I traveled with our VP of Finance and our Controller to visit the software vendor. After about five minutes of the software company's dog and pony show it was obvious their product was not going to supply the credit and collection functionality to which we had become accustomed. So, we ended up having a new interface written to feed data from the new enterprise software package to our existing credit and collection system.

Another Transition

The next challenge came several years later when Carrier Corporation began strongly encouraging its entire distributor network to move to the same enterprise software. Their goal was to build the capability for all these systems to communicate with each other and thereby tie together the supply chain management process across the entire nation. For the distributors, it was an opportunity to significantly improve their inventory management. For TEC this change would not only require adapting to a new enterprise system, it also meant moving from an AS400 to a client/server-computing environment.

With management mandating a move to this industry standard enterprise product and not wanting to also spend money to upgrade our existing system to a client/server product, credit and collection was again pressured to adapt to the new software. Once again it was decided I should visit the software vendor; and after their demonstration I began asking questions about the software's credit and collection functionality. On the surface, it appeared to provide about 80 percent of the functionality of our existing system. Moreover, the software representatives assured me the additional features I was looking for were in development or available as enhancements that could be purchased in addition to the base package. On that basis, I consented to having credit and collections join the rest of the organization in migrating to the new enterprise software.

By mid-2001 we were hot and heavy into working out the configuration and training on the new software. Because that process was taking up roughly half my time, my credit responsibilities were being short changed, and that was showing up in my performance measurements. Management understood the operational challenges of trying to do your job while implementing a new system, but was inclined to bite the bullet for the short term in the hope that we could quickly get things back under control once we went live in January 2002.

During the transition, we got to know our new software partners much better. Among other things, we had heated discussions about the features that needed to be fixed right away. We were also starting to discover that their response times to our inquiries and work requests were not being handled as promptly as we were accustomed. Their lack of understanding in regard to our needs and sluggish support efforts would prove more critical when we went live.

Every Credit Manager's Nightmare

When training on a new system, it is difficult to replicate situations where you are under fire while dealing with a customer. I noticed that my people were increasingly taking down customer names and numbers to give them a call back, whereas before they would have answered the customers' inquiries while they had them on the phone. With the new system, it was taking too much time to look things up, such as how a check was applied, so the collectors would hang up, do the research and then call the customer back.

As it turned out, the live system also proved less reliable than the test system. While we had no problem with cash applications during testing, we began having trouble proofing our deposits after we went live. We would try to enter a check for multiple invoices, but the software would not always reduce the amount to apply by the first invoice selected. In addition, not all the promised functionality was available when we turned on the switch. They were still trying to get the lockbox download working, forcing us in the meantime to apply all our cash manually.

We immediately missed a lot of other functionality that we had come to rely upon with our old system. Though we could still enter collection notes, there was no dunning system or any tools to help the collectors organize and prioritize their work. Some of these deficiencies cropped up because the software company never got around to creating a tickler system, one of the enhancements they had promised us. And without an integrated workflow engine, I was no longer able to monitor my collector's activities. Before I could see their daily output, how many calls they were making and letters they were sending. Now I was just as in the dark as when we were collecting for three business units running on three different software systems.

It turned out that without our knowledge, TEC was being used as a beta site for a lot of the non-core functionality in the software. We later found out from several other Carrier distributors that our system needs, because of our previous investments in technology, were significantly more sophisticated than the norm. That was one reason the software company viewed us as a good test client for developing enhancements to their core product. In addition, the software company's resources were spread very thin trying to satisfy the needs of all their other new HVAC clients.

Fighting a Losing Battle

While other departments were realizing improved efficiencies with the new software, we were only realizing about 50 percent of the functionality we expected from the new system. On top of that, I was now spending most of my time working on system issues as opposed to credit and collections. I was pushing more and more responsibilities off on my people, who lost efficiency with the migration to the new system. We had to dedicate a third person to the cash application process because we never were able to get the new system's auto-cash function to work reliably. When we started the migration to the new enterprise software we had six people on our credit department staff, so this new hire took us to seven. Despite the staff increase, our problems were beginning to snowball.

I also tried other things to stem the tide. In an effort to reduce the burden on our collectors, we used our collection agencies to do some first party outsourcing. This proved marginally successful, but the heavy burden the collectors were up against involved disputes and other account reconciliation issues, which are more difficult to pass on to an outsourcing partner.

It wasn't long before the downward spiral had a negative impact on our aging and bad debts. Before the transition, about 85 percent of our receivables were current. After a year on the new system, that figure had dropped below 45 percent. We saw a similar deterioration with our bad debt. The industry standard is about half a percent of yearly sales. In 2000 and 2001, a period of general economic weakness, we only wrote off .3 percent and .15 percent respectively. The figure jumped up to .7 percent for 2002, an amount nearly equal to the prior three years bad debt combined.

After about five months, our chairman came to see me and asked, "What is going on here?" After sitting down with him and explaining the situation for an hour and a half, he finally said, "Well, what do you need?" My response was "Now that you understand this is not going to work, we need to go back to NMC." He next wanted to know how much it would cost. Fortunately, the cost of bolting on their client/server system was a drop in the bucket compared to the enterprise software, and it has been worth every penny.

Lessons Learned

There are a multitude of lessons that can be drawn from our experience. They fall into two basic groups: 1) credit processes and 2) software selection and implementation. Most relate to the execution of credit and collection responsibilities, but the lessons learned regarding the selection and implementation of software are no less important.

You cannot be both an implementation/project manager and a credit manager. These are two distinct jobs. If you try to split your time between the two, the receivables will suffer and it will take longer to work out all your system needs. The best solution is to get additional resources for the credit department so you can temporarily offload those responsibilities. Then you can concentrate on getting the implementation done right in the shortest possible time. By so doing you minimize the negative impact of the transitional period between systems and then take advantage at the earliest possible time of the productivity benefits that will be delivered by the new software.

The loss of automated credit and collection tools will disproportionately affect productivity. Going from a fully automated system back to a patchwork of automation and manual tasks was disastrous. The fact that we had relied on automation for nearly a decade compounded the problem in that we had no established systems to fall back on. When that is the case, you end up improvising, and the processes that result tend to be inefficient and inconsistent from one person to the next. To compensate for the lack of a tickler, our collectors started printing and color-coding their aging reports, a task that must be redone each time a new report is printed. Moreover, printed reports become obsolete in very short order, and thus require added fact checking, whereas an online system is being constantly updated as new data is entered. The collectors also had to start recording follow-ups on calendars, another extra step. Any such move back to a manual or paper-based process is going to be time consuming and inefficient.

Stay in touch with all of your data. Automation that includes integrated credit and collection workflow tools is vastly superior to accounts receivable software that claims to provide credit and collection capabilities based on a few extra reporting tools and look-up screens. Access to information is important, as we learned when we centralized all our receivables data within a single system, but how you are able to use that information is just as important. You need to be able to answer a customer's questions while you have them on the phone. If information is supplied in a static environment, it can be difficult to share or connect with other relevant data. Information tools need to be connected to communication tools, and the information needs to be presented in useful formats.

Beware of partial workflow solutions. Either you are automated or you are not. Unless the entire process is automated, your productivity is going to be determined by the manual tasks that need to be performed in support of the automation. An online notepad is not much use by itself. While it may help you retrieve previous notes for quick review, chances are that a simple notepad that is not integrated with the A/R details so collectors can make both item and account level notes, and that is not integrated with a tickler system, does not provide any significant productivity advantages because of all the other manual tasks that must accompany the recording of a note.

Avoid complexity when simple will do. Some situations demand complex solutions, but be aware that the more complex the solution the more opportunity of unintended consequences. We ran into a problem with complexity in the way the enterprise software addressed credit holds. The software offered a sophisticated set of algorithms to determine when an account would be put on credit hold. On paper it looked like an improvement. However, if you were not meticulous in keeping up with all the account maintenance that could affect how the customer was indexed, a lot of orders would end up on hold that should have remained on open status. In addition, the software folks never got some of the algorithms right. Delinquent customers put on a program to make payments on account plus 30 percent for each new order placed, would not automatically fall off the hold status when their balance dropped under 60 days past due. Each credit hold also generated an e-mail to the appropriate collector, and the shear volume of these became another distraction. In the final analysis, the more straightforward credit hold our previous system used proved to be a better solution.

Actions speak louder than words. Watch out for software companies that promise you everything. Unless they can show you where they have done it before, believe them at your own risk. If they cannot demonstrate it, it is probably just vaporware. You should not only find out who else has implemented their software, but the kind of environment those clients migrated from. The level of software sophistication we required was several steps above that of the other HVAC distributors who adopted this enterprise software package, clearly a major source of our problems. Most enterprise software packages have notoriously weak credit and collection functionality, though very often they will claim otherwise. A big part of the problem is that they do not understand credit and collections, or have a very simplistic view of a credit department's needs.

Don't rest on your laurels. To achieve our goals, we must continuously seek out new opportunities for improvement. Already we have started working on a check imaging system that ties into our lockbox with the bank. No longer will we need to store boxes of remittance receipts in the warehouse. Instead we will have the capability of viewing all remittance details right from the screens where we apply the cash that doesn't automatically match and where we answer customer questions about their accounts. We also are taking the imaging a step further so we will be able to scan important documents such as credit applications, joint pay agreements, and personal guarantees right into the system. It is my hope that eventually all customer credit files will be maintained electronically. We will also very shortly begin e-mailing statements to our customers, saving us a tremendous amount in envelopes and stamps, not to mention time.

Making Up for Lost Time

The turnaround was immediate. Within two months of going live with the client/server bolt-on for managing credit and collections, our current aging percentage jumped back up to 68 percent, nearly a 60 percent improvement. We have also been able to limit all cash application chores to just one person, enabling the rest of the department to attack the past due situation. However, we still have a long road ahead, but I foresee us being able to cut our bad debts down to the industry norm by the end of the year. As a result, morale has improved tremendously. People want to come to work again. We are more efficient, we are more customer-friendly, and we are starting to be able to produce the numbers that management wants us to produce—all because we have a credit and collection system that works. It's been a difficult journey, but I am definitely seeing a lot of light at the end of the tunnel.

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