

E~Credit News



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PROVIDING EXCEPTIONAL CUSTOMER SERVICE

March 10, 2022

9:00 a.m. - 10:00 a.m. CST



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- » Learn what customers really want from their suppliers

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Subject line: Member News

Congratulations to Emily Hoyer on becoming Director of Credit at Ariens Company as we sadly say Happy Retirements to Jeff Ness. Cheers to the next road in life.

NEW ASSOCIATION CONTACTS:

Emily Hoyer

Ariens Company

Catherine Mueller

Eutectic Corporation

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INTERNATIONAL CREDIT EXECUTIVES (ICE) GROUP

Emily Hoyer

Ariens Company

Catherine Mueller

Eutectic Corporation

CONVERGENCE OF A/R AND TREASURY CREATES A CASH CULTURE WORTHY OF INVESTMENT

By: Keith Cowart, FIS

Most of us have a built-in protection mechanism that will not allow us to give up control of our respective organizations and responsibilities. So, the very mention of Accounts Receivable (A/R) and Treasury heading towards a convergence sends shivers down your spine. One of the major arguments against it is that Treasury team members do not understand the nuances involved in the art form that is credit and collections. They focus on liquidity positions, foreign exchange rates, and other high-level topics, without the necessary knowledge and experience of working with customers to ensure a healthy, effective and efficient collections process. On the flip side, A/R team members do not possess the skill set and broad knowledge to mitigate liquidity risk and position the entire company for any eventuality.

These arguments, while mostly valid, are simply focused on convergence – meaning that one organization will take over the other. This is what drives the intrinsic fear that keeps most teams operating in their silos. Individually, each silo may be very good at what they do. But what if we step out of our comfort zone and begin thinking about convergence having a different meaning. The reality is, it is happening whether we like it or not. If we think about convergence, meaning that both organizations work closer together for a common goal, it becomes less scary and creates an incredible opportunity. At some point in almost everything you do, the three key areas for any successful organization are People, Processes and Technology. When A/R and Treasury converge, the positive impact on these areas will create a cash culture that will be the model for every company.

- **People** – Working closer together provides additional education and training for individuals who otherwise would never have the opportunity to see things from the other side. This opens new job opportunities and creates a culture of continuous learning that has been shown to increase employee satisfaction – which equates to less attrition and strong bench strength.
- **Processes** – When teams have an impact on each other, it certainly helps to understand the upstream and downstream effects of any decision that is made. Understanding these effects allows managers to create sustainable processes that have a cumulative impact on the greater good.
- **Technology** – Credit and collections tools provide specialized functions that support the day-to-day operations for bringing as much cash in the door as possible while balancing customer satisfaction. Treasury tools provide a high-level overview of the company's liquidity position and overall health. One tool that tries to do both is not the answer. We have all heard the phrase, "A jack of all trades is a master of none". Most people don't know that the full saying continues

CONVERGENCE OF A/R AND TREASURY CREATES A CASH CULTURE WORTHY OF INVESTMENT (CONTINUED)

with “A jack of all trades is a master of none, but oftentimes is better than a master of one”. Technology is a part of the “oftentimes” exception. The key is not to have one solution to cover all. The key is interoperability between specialized solutions. Solutions that communicate and work together while focusing on the specialized areas of each organization is the future.

Continuing with the theme of investment in technology to support this convergence, API (Application Programming Interface) connections are extremely important. Legacy batch file updates present many challenges – missing files, unbalanced data, delays in loading the most up-to-date information, and the list continues. Having systems speaking a common language with real-time updates ensures managers have accurate and timely information to make decisions. APIs are the only way for true interoperability to be achieved. You may be asking yourself: What does this mean from a practical application between A/R and Treasury? Let’s look at a potential scenario.

Company XYZ
Manufacturing company
\$750M in annual revenue

Company XYZ rarely offers discount terms on invoices. Their standard terms are Net 60 days. Their credit and collection team is very efficient, consistently running at 95%+ current A/R balance. The board has decided they want to acquire a smaller player in the industry, but they lack the capital to complete the acquisition. The Treasury team has indicated that there are options available to support the acquisition. They can either take on additional debt (through a loan from the bank) or they can adjust current processes and policies to pull in cash quicker. Taking on the additional debt will provide them with the capital quicker, however it will have a longer term impact and cost with interest accruing. The recommendation from Treasury is to offer discount terms to all customers of 2% Net 60 days. While this is potentially reducing revenue by 2%, it is far less of an impact than the 6.5% interest the bank is offering. In today’s environment, after approval from the board, Treasury would inform all business units and, more importantly, the credit and collection department of the new policy. The credit and collection team would then begin updating (or working with the business users with the authority) to adjust the terms on every invoice. The process takes a lot of effort and a lot of time to complete – time they don’t have to complete the acquisition.

In tomorrow’s environment where A/R and Treasury have converged and achieved complete interoperability, the Treasury team will be able to flip a switch (or move the toggle on a sliding scale) to adjust the cash flow needs to support the acquisition. With this adjustment, cascading changes are automatically made in the downstream systems. Discount terms are automatically applied to invoices. Collection queues are automatically updated to focus the collectors on getting cash in the door quicker. The risk associated with the new cash forecast is communicated in real-time back to the Treasury system to allow for additional adjustments to make sure they meet the necessary capital requirements. Additionally, A/P systems are also updated to stop paying invoices early to conserve cash in the bank. All this information is instantly available in a dashboard for Treasury to see progress and anticipate any issues. After the acquisition is complete, Treasury can adjust the switch to return to ‘business as usual’ which automatically updates all downstream systems.

CONVERGENCE OF A/R AND TREASURY CREATES A CASH CULTURE WORTHY OF INVESTMENT (CONTINUED)

This is a very simplistic example. I can already hear the “What about this? And what about that?”. I fully admit there are many other factors that impact decisions like this, but the scenario is indicative of how A/R and Treasury will work closer together in the future – no longer independent silos, but a convergence of two important teams. You will notice, in this example, no one lost control over their organization. Treasury is still responsible for the overall liquidity of the company, while A/R is still in control of the operations bringing cash in the door. One department didn’t take over the other. They are simply working toward a common goal of creating a cash culture supported by close communication and collaboration. Creating an ecosystem of all financial systems is on the horizon. It has been talked about for years, but the technology was not there to support it. We have moved past the impossible eutopia and jumped into the reality of what is right around the corner. The question is, are you prepared for what’s next? Or are you focusing on protecting your current responsibilities?

The convergence of A/R and Treasury creates a great opportunity to improve People, Processes and Technology. It simply takes an open mind, investment in digital technology that will support it, and a little bit of imagination.

This article was originally published in the Credit Research Foundation 2Q 2021 Perspective



THE PANDEMIC CONTINUES TO WEIGH VERY HEAVILY ON EVERY GLOBAL ECONOMY.

There have been drastic cuts in output due to labor shortages that have been triggered to some degree by absenteeism. It goes beyond this to include an impact on demand. The expectation had been that workers would be returning to their offices by this time – as recently as last November the estimate was that 80% of employees would be back to the old routine. As of the end of January, only around 35% have reported back to the office. To the oil sector, this means a sharp reduction in demand for oil. It is acknowledged that demand is high right now due to the natural gas crisis but the sense is that this is an issue that could resolve at any moment. Either Putin backs off or Germany backs down. The long-term demand factor is that daily commute by millions of Americans now commuting between their kitchen and the home office. (Courtesy of Armada Business Intelligence)

EXPERIAN’S BEYOND THE TREADS, WINTER 2022 REPORT

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UPCOMING INDUSTRY CREDIT GROUP MEETINGS

FEBRUARY 8, 2022

Fine Paper/Graphic Arts Industry Credit Group
Book of Reports

FEBRUARY 9, 2022

Plumbing & Heating Industry Credit Group
Teleconference Call

FEBRUARY 11, 2022

Electrical Suppliers Industry Credit Group
Pewaukee, WI

FEBRUARY 15, 2022

Building & Construction Materials Credit Group
Milwaukee, WI

Minnesota Fine Paper Credit Group
Teleconference Call

FEBRUARY 16, 2022

Food Service Supply Hospitality Industry Credit Group
Delafield, WI

Regional Paper & Packaging Industry Credit Group
TBD

FEBRUARY 17, 2022

Construction Industries Credit Group
Menasha, WI



FEBRUARY 18, 2022

IL Fine Paper Industry Credit Group
TBD

FEBRUARY 21, 2022

Western Electrical Suppliers Industry Credit Group
Book of Reports

FEBRUARY 22, 2022

Minnesota Electrical Suppliers Credit Group
Brooklyn MN

No Meeting this month

Metals & Industrial Suppliers Credit Group
Iowa Plumbing Heating Electrical & Construction
Industry Credit Group

Education Events

BCMA WCA

On Your Time Schedule Via Online
Comprehensive Credit Professional's Training Series

March 10 Webinar
Providing Exceptional Customer Service

March 16 ICE Breaker
Letters of Credit (more info to follow)

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