September E-Credit News

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Legal Aspects of Credit and Collections

September 20, 2023
9:00 – 10:00 AM CDT

In this fast-paced hour devoted entirely to the legal aspects that affect the daily operations of the successful credit and collection department, we will discuss the numerous day-to-day legal occurrences that credit professionals deal with that can affect productivity, success, and failures.

You will learn the difference between Credit Agreements and Credit Applications and why Credit Applications are becoming obsolete; Learn the importance of knowing your customer's correct legal name; Learn about the pitfalls of personal and corporate guarantees and how to make them effective; Learn when the customer's purchase order terms is a valid reason for the customer to pay beyond your terms of sale and how to avoid it; Learn how and the importance of being a secured creditor and easy it is to become one; Learn about the Unclaimed Property Act and its requirements.

ICE "International Export

ICE will talk all things Export Compliance!

Join us at the campus of Globally recognized exporters and Wisconsin's very own Johnsonville Sausage as we discuss all things export compliance. We will hear an update from Johnsonville on their business and then Paul Jarzombek of LR INTERNATIONAL and Sue Dragotta of WCTC will break down the "Best Practices" in export compliance and share some case studies from real exporters and situations that warranted navigating

Compliance and Economic Overview"

September 27 | 9:30 am - 1:00 pm CT

tricky export compliance waters. Both presenters bring 30+ years of export experience and are well-known to ICE programs over the years.

Don't miss this fun and informative opportunity to learn, network, and enjoy some good food for lunch!

To Register

New Contacts & Members

New Association Representative
Samantha Stauber ~ Volm Companies
Jessica Tipple ~ L&S Electric Inc

If you have something you would like us to announce please send an email to admin@wcacredit.org

Recession-Proof: How to Ensure You Survive an Economic Slowdown

By: Keith Cowart, FIS

We have been hovering around the dreaded "R" word for some time with many of the world's governments attempting to shorten the potential impact to the global and local economies by taking a hardline approach to fighting off inflation. Most global economists are predicting a contraction of Global GDP in 2023. The contraction predictions vary widely amongst the same group. Overall, it seems that inflation is starting to reduce and is projected to continue to decline over the next few quarters. While we all hate to see the Federal Reserve continue to increase interest rates, it appears to be having the desired effect on inflation. With all this economic uncertainty comes a heightened demand for cash flow and an increased focus on profitability. In simple terms, we are once again being asked to do more with less resources. The question on top of everyone's mind is "how can I get more out of my already overworked team?" There are a few key factors you should be focused on to recession-proof your organization.

People vs Process
Inevitably, when times are tough, companies begin to look for cost saving opportunities. During economic growth, companies look to quickly hire employees to fill gaps in hopes of increasing revenue and riding the wave of increased demand. However, when faced with a declining economy or a recession, the excess hirings become a drain on profitability. Often, companies identify redundancies and cut swiftly and deep – all for the cycle to begin again as the economy recovers. We see this pendulum swing wildly back and forth, because companies are focusing their efforts on the here and now, versus taking a step back and looking strategically at what makes the most sense.

If companies were to spend time reviewing their processes and asking the question “is this the best, most efficient way to do this?”, they would quickly realize increasing resources during the good years is setting them up for very real and difficult decisions in the future. Rather than hire more people to deal with increased volume, identify solutions that allow you to scale and increase efficiency without adding additional human capital.

Automation provides capacity for your teams. It eliminates wasteful, manual activities and focuses your team on what matters most – bringing cash in the door. This is not to say that automation is right in every situation or that it is as simple as flipping a switch. It comes with careful consideration of what the right application is, and what level of returns you can achieve.

In my past life as a former practitioner of Credit and Collections, I saw firsthand what benefits automation can provide. We conducted time and motion studies with our team of Credit Analysts and Collectors to determine where there was waste in our processes. This included desk sits where we walked through each person’s day to track where they spent most of their time. In our manual world, time was wasted on simply organizing activities for the day. Collectors would spend an hour or more printing (yes, physically printing) an aging report and handwriting notes on the paper that included what time of day they should call/email, which invoices they wanted to talk about, and adding phone numbers and email addresses to make the process easier. Not only did this waste a lot of time, but it was also entirely dependent on each collector deciding who was the most important customer to contact and when. There was zero intelligence built into the approach and even less visibility to management as to what work was being performed. To understand what was happening with a given customer, the management team would call a meeting where the collector would inform them of progress with the account. This, of course, created more waste by pulling the collectors off the phone/email to provide this update.

Credit analysts spent most of their time looking up information on new and current customers to then populate that information into a spreadsheet template with their recommendations for credit lines and protection measures to mitigate risk. They spent so much time locating the information and populating spreadsheets that they had very little time to perform their analysis. This turned a valuable activity into a monotonous wasteful exercise.

I share these examples, of which there are many more, to demonstrate how automation can help recession-proof your organization. Leveraging automation for the collections team meant collectors no longer had to plan and organize their day. When they arrived in the morning, their work queues were already established with the appropriate strategies applied to determine which customers they should email or call and what priority should be applied to specific accounts. In addition to that, applying risk analysis to set strategies and priorities meant that lower risk accounts could be contacted through automated emails, creating capacity for collectors to focus their time on more risky accounts. Management gained visibility to productivity measurements to know what work was assigned versus what was completed. They no longer had to pull collectors off the phone to get a status update; they could view all notes and activities on their own. Managers could actually manage their people rather than just trying to understand what work was being done.

Credit analysts leveraged automation by creating scorecards that were automatically populated with all the information they were looking up manually. These data elements were weighted to fit the risk tolerance of our industry and company to provide a very specific analysis of each customer. This afforded credit analysts time to perform a true analysis and recommend measures (if necessary) to protect the company from potential bad debt and delinquency. Credit analysis is a true artform more than a science. I have tremendous respect for those who perform this work. Automation will not replace the insight they bring to the table; it will simply give them the capacity to focus on what matters most.

Intelligence vs Amount

I mentioned above leveraging a risk-based approach to collections. In terms of recession proofing your organization, this is an incredibly important step. In a manual world, human nature focuses on the largest value invoices and the oldest invoices first. This approach produces cyclical results. When you collect a large value overdue invoice, it reduces your overdue accounts receivable. This creates an illusion that your processes are working well. The time and effort spent collecting on that invoice prevented your collector(s) from giving appropriate attention to the smaller invoices of much riskier customers. Over time, these smaller invoices add up and are at a much higher risk of becoming severely delinquent and/or becoming bad debt. When you layer an artificial intelligence (AI) driven risk assessment into your collection strategies, you remove the distortion provided by the invoice dollar value. Of course, value still plays a role, but leveraging the risk of each customer ensures your team is focusing on the accounts that will make the biggest impact over time and also increasing their efficiency.

Let us look at an oversimplified example of how this plays out. If you have customer A who owes $75,000 and is 5 days overdue and customer B who owes $2,500 and is 2 days overdue, who would you contact first? Human nature tells you to contact customer A first. However, when applying a risk assessment of each customer, you learn that customer A is a low risk of going beyond your threshold for acceptable delinquency and customer B is a high risk. Digging into what is analyzed with the AI risk assessment, you will find that one of the factors is a historical experience. Customer A historically pays once per month on the first Thursday of every month. Even though the invoice for customer A is 5 days overdue, you see that if they follow their typical pattern, customer A will pay you on Thursday (2 days from now). Customer B historically misses payments and has always been a struggle to get any payment commitments. You also find that customer B has dramatically decreased their orders from you and their revenue figures last fiscal year declined at an alarming rate. Even with this information, you may be tempted to think about putting a priority on customer A as still being the best approach given the vast difference in amount owed.

Now expand your view beyond these two customers. What if I told you there are another 200 customers with a risk profile just like customer B in your portfolio? Does that change your view of how your collectors should prioritize their time? Customer A owes $75,000 but will pay you in two days. Two hundred other customer Bs owe you a total of $500,000 and are at risk of going severely delinquent. Individually, they do not add up to much, however collectively they can derail your cash flow and wreak havoc on your operations. In a perfect world, you want your collectors to contact all of your customers. However, without automation and applying an AI driven risk-based approach to prioritization, you are setting yourself up for a major crash during a recession.

Applying automation and artificial intelligence (AI) to identify and protect you against risk allows you to be more efficient and effective. You can create capacity for employees to focus on what will impact cash flow the most by eliminating waste in their daily routines. AI driven risk assessment considers the changing economic environment and allows you to stay ahead of potential macroeconomic factors that you may not see coming until it is too late. Step out of the wide swings of the pendulum and take a strategic approach to recession proof your organization.

About the Author:

Keith Cowart is the Global Market Owner for Receivables within FIS' B2B Division, which features the award-winning Credit-to-Cash products, GETPAID and Integrated Receivables. He has over 22 years of professional experience in various accounting and finance leadership roles including Accounts Payable, G/L Accounting, as well as Credit and Collections in large global companies with shared service centers. Keith's focus has always been in continuous improvement and leveraging technology to automate processes which drive results.

As originally published in the Credit Research Foundation 1Q 2023

4 Lessons from the Yellow Corporation Failure for Credit Pros

By Michael C. Dennis

As many people know, Yellow Corporation which is the 5th largest trucking company in America recently ran out of cash, failed and filed for bankruptcy protection and ceased operations putting about 30,000 people out of work.

Here are some of the lessons to be learned from this sad story:

1. Yellow Corp had been around for almost 100 years… so longevity alone does not guarantee that a customer will remain in business --- meaning that being around 99 years doesn't guarantee you'll make it to 100
2. In 2020, Yellow received a $700 million Covid loan… so a customer's ability to borrow huge amounts of money doesn't guarantee its success and borrowing money doesn't solve the problem of a company's inability to generate positive cash flow and/or to report net profits rather than net losses
3. Yellow Corp is publicly traded… and it seems clear that being publicly traded does not prevent insolvency even though a publicly traded company can, in theory, sell more of its stock to the public to generate cash
4. Just because a company has avoided bankruptcy in the past [as Yellow did several times thanks in part to concessions from its union employees and from its secured lenders] doesn't mean they will always be successful in getting the concessions needed to avoid a bankruptcy filing

By the way, I took a look at their financial statements [which are readily available since Yellow Corp is a publicly traded company], and these are some of the red flags I noted:

- Yellow reported after-tax <u>losses</u> in 5 of the last 10 years
- In years in which Yellow reported a profit, their after-tax profits were <u>modest</u>
- In the years in which losses were reported, the after-tax losses were <u>huge</u>
- Yellow has reported a substantial deficit net worth <u>in each</u> of the last 10 years
- Yellow's current ratio is <u>low</u>
- Yellow's financial leverage ratios are <u>high</u> signaling high levels of debt
- On the Statement of Cash Flows, Yellow reported a <u>Net Decrease</u> in Cash and Equivalents for the last 2 years and in 6 of the last 10 years

I'm certain that not every trade creditor was affected by Yellow's failures to the same extent. Undoubtedly, some unsecured creditors took steps to limit, mitigate, manage and potentially to transfer some or all of the risk of non-payment such as:

- Purchasing credit insurance

- Reducing their credit limit
- Shortening their terms of sale to Yellow
- Requiring a letter of credit or a standby letter of credit
- Requiring collateral or security

I am also sure that there were reasons why creditors chose to extend credit to Yellow Corp right up until the end, but I don't personally know what they were. If I were asked to speculate, I might suggest...

- Yellow survived serious financial problems in the past, and they'll survive this one said creditors, and/or
- Yellow is just too big to fail and/or
- The federal government will bail Yellow out... again and/or
- The Teamsters, or Yellow's secured creditors will make enough concessions that Yellow can avoid insolvency

If you know why creditors continued to support Yellow and continued to sell to them on open-account terms, I'd love to hear from you.

By Michael Dennis. Michael is a frequent Webinar presenter for WCA, and the author of the Encyclopedia of Credit, a fast, free, searchable online resource for credit professionals: http://www.encyclopediaofcredit.com/. All Rights Reserved.

Scholarships

Opportunities abound for you and your staff to take advantage of scholarship grant dollars available to eligible members! The application and guidelines are available for download below. Wisconsin Credit Association would like to thank the volunteer committee members for maintaining the goals, objectives and health of the fund; Chairperson Diane Zancanaro CCP CPC, and Chaz Heckman

WCA Education Scholarship Application
WCA Education Scholarship Fund Guidelines
WCA Education Awards Committee Rules & Guidelines

*Only email submissions will be accepted. Please print out a copy for your records. If you have any questions, please feel free to contact us.

Upcoming Webinars

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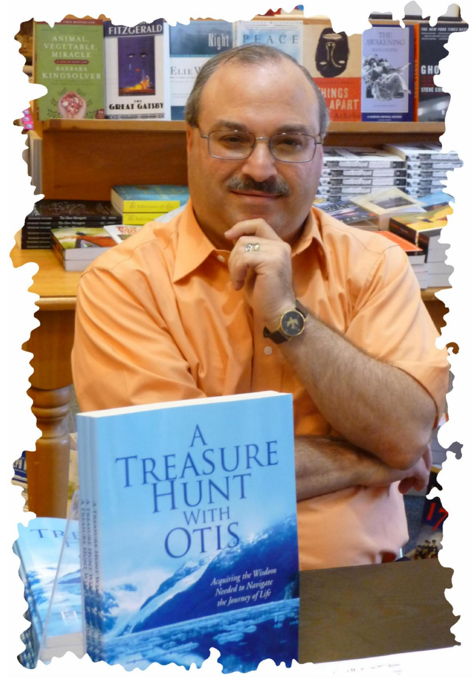

CashFlow Management with a Twist The Seven Essential C's

October 18, 2023
9:00 – 10:00 AM CDT

Learn More

"How To Become A More Successful Collector "

November 15, 2023
9:00 – 10:00 AM CDT

In this interactive program, we will discuss the do's and don't of Debt Collection; the Ideas for accelerating cash inflows; how to handle belligerent customers and antagonistic salespeople; how to prioritize the collection process to maximize your return on investment; and Tips to Becoming a Proactive rather than Reactive Debt Collector.

To Register

We will examine the most important financial ratios for conducting a comprehensive credit risk analysis and learn how to use them effectively. We will review a number of real-life examples and improve your skills.

In this 90-minute interactive program, Michael Dennis will discuss:

The common ratios used and why

- Efficiency ratios, Profitability ratios, Liquidity ratios and Leverage ratios including:
    - Current ratio
    - Return on assets formula
    - Quick ratio
    - Return on equity
    - Gross profit margin
    - The debt to equity ratio
    - Operating profit margin
    - Inventory turnover ratio
    - The long term debt to equity ratio
    - After tax profit margin
- Accounts receivable turnover ratio
- Evaluating ratios – historical/comparative
- Ways to avoid mistakes when using financial ratios

"Financial Ratios and Credit Risk Analysis"

December 20, 2023
9:00 – 10:30 AM CDT

Register Here

BUSINESS CREDIT REPORTING DATABASES AVAILABLE FROM ONE SOURCE!

Ever wondered what information goes into a credit report, and what to look for as you're reviewing it? A credit report is a summary of a company's unique financial history. Credit Bureaus nationwide collect and maintain a history of their credit activity as reported by the lenders and creditors they have accounts with. A credit report provides a quick glimpse on views and comprehensive details related to business payment performance, public record history, and company backgrounds. It lets you quickly & precisely determine a business's creditworthiness.

Why should you pull a credit report on a company seeking credit from your company?

- Monitoring And Alerts
    - Stay up-to-date on changes for a business
- Assess the financial risk of extending credit terms to a particular company
- Obtain background information on a business; including liens, judgements, and bankruptcies
- Assess credit risk of extending terms and determine appropriate credit levels
- Quickly evaluate potential customers to avoid risky transactions
- You can have direct access to some Bureaus that allow you to retrieve Domestic & Canadian reports in seconds

Above are the reasons you should pull credit reports. So why should you choose to work directly with The Association to receive Credit reports?

- We provide popular databases in a single subscription
- As an authorized agent, we offer competitive pricing, including capped accounts
- Packages have no annual minimums or administrative fees, no contracts to sign, no expiration dates, and no "use-em" or "lose-em" conditions
- Your investment is intact until you consume it.
- Flexible business credit reporting subscription
- You only need one report….. no problem
- Consulting assistance can be provided to interpret the reports.
- Domestic & International reports available under the same contract

To learn more, visit our website @ **https://www.wcacredit.org/credit-reporting/** or give us a call, 888-546-2880, we would love to help you.

Credit Professional Alliance

Credit Management Association
The Business Credit Management Association Wisconsin
Business Credit Intelligence
Mountain States Commercial
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A CONFERENCE FOR CREDIT PROFESSIONALS

CreditScape is a unique opportunity where attendees can interact with and learn from other credit professionals through peer to peer networking and hear from expert panelists.

While CreditScape features subject-matter experts sharing their experiences with credit practitioners, much of the learning at CreditScape will come from practitioners sharing real-world experiences with each other through workshop-style sessions.

October 4-6, 2023
Registration Pricing
$399 For Members; $449 For Non-Members

Featured Topics

- Nuetralizing Obstacles Through Gratitude
- Credit Applications
- NextGen
- Advanced Payment Remedies on public and Private Projects
- Economic Outlook
- Sales and credit
- Supply Chain Disruption/ Shipping Internationally
- Building Communication to Improve Credit Department Performance
- Leadership From the Inside Out
- Getting Paid When Your Customer is Insolvent or Bankrupt
- and many more...

Register At www.CreditScapeConference.com

UPCOMING INDUSTRY CREDIT GROUP MEETINGS

September 8, 2023
Electrical Suppliers Industry Credit Group
Pewaukee, WI

September 12, 2023
Fine Paper/Graphic Arts Industry Credit Group
Book of Reports

September 13, 2023
Plumbing & Heating Industry Credit Group
TBD
Regional Paper & Packaging Industry Credit Group

September 18, 2023
Western Electrical Suppliers Industry Credit Group

September 19, 2023
Minnesota Fine Paper Credit Group
Teleconference Call

September 20, 2023
Building & Construction Materials Credit Group
Milwaukee, WI
Food Service Supply Hospitality Industry Credit Group

Teleconference Call **September 14, 2023** Metals & Industrial Suppliers Credit Group Wauwatosa, W **September 15, 2023** IL Fine Paper Industry Credit Group Teleconference Call	TBD Minnesota Electrical Suppliers Credit Group Brooklyn, MN **September21, 2023** Construction Industries Credit Group Appleton, WI

For more information, contact:
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