

The Pitts Group



**Top 5
Recommendations
For Healthy Accounts
Receivable**

Why is A/R so Important?

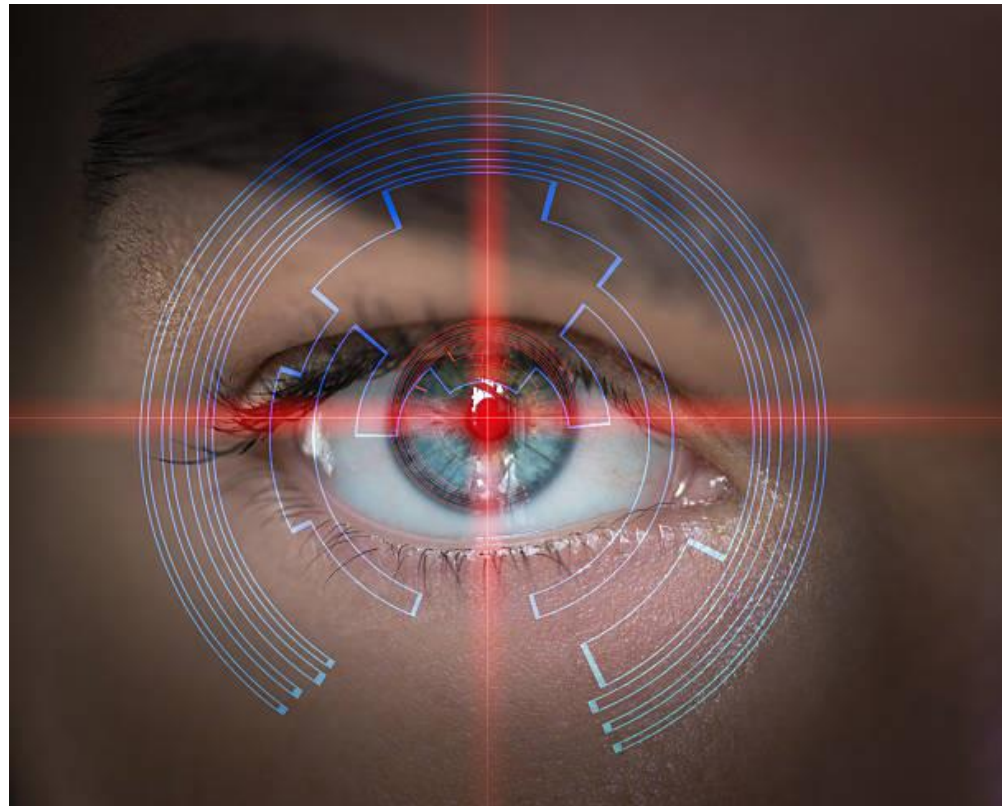


Petroleum Dist = Perfect Storm

- * High Growth
- * Low Margins
- * Entrepreneurial
Leadership



Manage Your Risk



Supplier/Customer Relationship



Cash Controlled by Customers: \$1,033,240

ABC Petroleum Accounts Receivable Aging Recap						
Date	Total A/R	Current	1 - 9	10 - 29	30 - 59	60+
4/30/2019	\$7,578,137	\$6,544,897	\$142,638	\$636,299	\$239,983	\$14,319
	% Current:	86%	2%	8%	3%	0.2%

Topics

1. Effective tool to impact credit department efficiencies
2. System for credit approval processing
3. Managing customer growth
4. What to automate
5. A-Team Collector Habits

#1. Effective Tool to Improve Efficiency

What's a big root cause of inefficiency?



Create a Company-Wide Gameplan

Credit Policy

What to Include?

Purpose – Company Goals – Department Setup – Credit Committee Goals – Credit Application Process – Credit Request Approval Process – Credit Limits Credit Terms – Security – Customer Account Review – Past Due Collection Procedures – Credit Holds – Charge Off Accounts – Invoice/Account Adjustments Finance Charges/Adjustments – Credit Bureau Reporting Customer Communications – Employee Credit – Equipment Rental, Release & Delivery

#2. Systematize the Credit Approval Process

Take the emotion out of credit decisions

What's the customer's risk assessment

Commercial Credit Scoring

Credit Rating

- 1. A 90 points +
- 2. B 80 points +
- 3. C 70 points +
- 4. D 60 points +
- 5. F 59 points + and below

Customer Name:

Date:

Credit Rating:

Credit Rating System

	0 - 4 yrs	5 - 10 yrs	10 + yrs	30 + yrs
1. # Yrs in Business	0	15	20	30
2. Bank References	Bad Ref -25	No Ref 0	1 - OK 5	2 + OK 10
3. Credit References	None Gd -25	None 0	1-2 OK 5	2+ OK 10
Equifax Payment Index	40 - 69 -20	70 - 79 5	80 - 89 10	90+ 20
Equifax Credit Risk Score	451 - 101 -10	517 - 452 0	538 - 518 5	539 - 816 10
Profit Margin	?? 0	?? 20		

27 Bonus Points

Retail Credit Matrix

Commercial Credit Matrix

Getting to the YES

Helps with options besides “NO”

#3. Keeping an Eye on Customer Growth

Have you ever had this happen?



Credit Review Triggers

Annual reviews for accounts over a set \$ credit limit

Semi-annual reviews for accounts in a problematic business sector

Semi-annual reviews for accounts requesting higher credit balance

Frequent reviews for accounts experiencing financial stress and giving off red flags such as late pay

Create a Credit Review System

Run a new credit report

Pay attention to recent payment trends and UCC filings

Benchmark against a previous credit report

Review 12 mo rolling order and payment history

Create a Credit Review System

Have they signed a personal guarantee

Do you have financial statements to review and benchmark

Any negative reports in the community

Are you comfortable with the current credit limit

What's Next?

Information is gathered – what's next?



Work to Create a Solution

Now that you have a better idea of customer situation



#4. Tasks to Automate

Example: 1st touch on a past due customer



#4. Tasks to Automate

Example: Automated Payment Options

- EFT
- ACH
- Portal Payments
- Check by Phone

#4. Tasks to Automate

Example: KPIs to Leadership



#5 Exercise Superior Collections



Bring on the A-Team

Block time for collecting

Might need more time in their day for collections

Touch customers **EARLY** and frequently



Develop Systematic Strategies

Review collector's process, what gets done first

- Broken promises
- Accounts on Credit Hold
- Highest \$\$ past due customers

Develop Systematic Strategies

Don't just focus on a particular bucket for collecting



Current



30 Days



60 Days



90 Days



120 Days

Give Negotiation Authority

Collectors should be authorized to negotiate a plan on the call

If the \$\$ limit is over their authority, they don't need to make the call

Give Negotiation Authority

Shorter terms, lower payments

Paying additional \$\$ on top of current invoice

Set out balance in a note with payments

Secure with collateral

Escalation Plan

Know the escalation plan in advance



Protect Your Lifeblood





Ann Pitts

The Pitts Group

ann.pitts@pittsgroup.net

817.304.1533

