



THE CREDIT DEPARTMENT, INC.
SMART BUSINESS. STRATEGIC VALUE.

January 2003

“Improving cash flow and earnings through strategic credit management.”

Does your Credit Department Contribute to the Bottom Line?

We repeatedly hear senior managers say they are satisfied with their Credit Department. As we listen further, we typically learn: (a) their satisfaction is based solely upon *past* results and very limited or subjective measures, (b) that they will remain satisfied until a credit disaster happens, and (c) they have verbally communicated a "NO SURPRISES" policy to their Credit Department to ensure against these disasters. This is the typical mode of operations (stagnant) for Credit Departments run as cost centers. We believe it is important to *contribute* to the bottom line, not just protect it.

How do you measure up?

Studies have shown that a significant relationship exists between the use of metrics and return on assets. The danger in failing to measure and track results is that you won't know whether or not your strategies are working and what needs to change to stay competitive. A good example of this can be found in our November newsletter called "***Is it time to centralize your Credit Department?***" When effectively measuring the performance of your Credit Department, it is important that you establish standards for comparison benchmarks. Common measures for Accounts Receivables Management include:

- DSO (days sales outstanding) and other variations of DSO
- Percent current and percent past due (over 30, over 90, etc.)
- Bad debt as a percentage of sales

Once you've determined your *effectiveness* as a Credit Department, you need to measure your *efficiency*. Do you know that you are performing at or above industry standards, and most of all, to shareholder expectations? Several factors can be used when measuring AR efficiency:

- Customer accounts per week (FTE*)
- Customer calls per hour

The Credit Department, Inc. can help you manage your credit needs through professional credit management outsourcing and consulting. For more information, contact us at 800.451.0164, email info@TCD.com or visit our web site at www.TCD.com.

- Unauthorized deduction dollars recovered per FTE
- Unauthorized deduction dollars recovered as a percent of sales
- Number of deduction files worked (FTE)
- Credit costs per sales dollar
- Collection costs per sales dollar
- Deduction management costs per sales dollar

Most companies only know the basic *effectiveness* measurements for their Credit Departments: DSO and total costs. You may be losing *hundreds of thousands* or even *millions* of dollars each year due to inefficiencies within your company. ***For example, if a \$100 million manufacturer, with a standard unauthorized deduction recovery rate of .03 percent, could increase their recovery rate (with no corresponding increase in cost) to .104 percent, this would result in an immediate earnings increase of \$740,000.***

These measurements and efficiencies translate to dollars for your company! In a slow growth economy, these factors may make the difference between a loss and a profit.

**full-time equivalent*

For more information on best practices or to see how your credit department measure up e-mail us at info@tcd.com or phone us at 800-451-0164.

The Credit Department, Inc. can help you manage your credit needs through professional credit management outsourcing and consulting. For more information, contact us at 800.451.0164, email info@TCD.com or visit our web site at www.TCD.com.
