



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

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

What Resources Do You Need to Manage Your Receivables?

We hear two common questions over and over. "How much should it cost to manage our receivables?" and "How should we allocate these costs?" Surprisingly, your company size, receivable amount, or even the number of customers you have doesn't necessarily determine your resource needs. In some cases, it can cost the same to manage the receivables of a \$100 million company as a \$10 million company-it's just a different use of resources. Most companies, however, spend what they've always spent (or maybe a bit more each year) without understanding what they *need to spend* to manage their receivable.

When assessing resource needs for a company we look at the two main types of receivable portfolios:

Type 1: Receivable is mostly large dollar, concentrated customer risks.

The need for credit expertise should drive resource allocation. Strong analytical skills (and we don't mean the ability to read a credit report) are critical. Credit department personnel (especially in a low margin business) should be able to create effective credit scorecards and predict risk of default (as well as risk of late payments) for each customer. Logically, collection needs would then be minimal where credit qualification levels are high.

Resource allocation (in order):

1. High-level credit analysis.
2. Well-developed policy and underwriting standards.
3. In-depth credit information source.
4. Other resources (lesser need): collection skills, collection technology.

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.

Type 2: Receivable has mostly small dollar balances with large volumes of invoices and/or accounts.

This asset has the opposite needs of Type 1 above. A simple scorecard can process 90 percent of credit decisions, so high-level analysis is unnecessary. However, you'll need to invest in multi-tasking employees who can work quickly to manage the high volume of accounts for resolving disputes and collecting the receivables. Many companies over-hire for these types of portfolios by thinking they need an "analyst". In truth, real credit analysts generally have little interest in making collection calls. You need the talent of someone who likes to negotiate and talk with customers as well as someone with the ability to get things done.

Resource allocation (in order):

1. High-skilled collectors with multi-tasking & customer service skills.
2. Collection technology/tight process.
3. Electronic scorecards for credit decisions.
4. Other resources: inexpensive credit information, occasional credit analysis work.

But we don't live in a perfect world and most companies have a combination of the two different types of portfolios. And, of course, there are many other considerations for resource allocation (for example, the risk tolerance of your business-the lower the risk tolerance, the higher a company should spend on credit versus collections).

We find that when we start working with a company that their resources frequently are not allocated appropriately. We find that companies don't break down the particular needs of the asset in determining their resource allocation. Our most frequent recommendation to companies is to reassess the needs of the portfolio-only then will they understand how much to spend and how to allocate these costs.

Be careful though: cost cutting inappropriate resources not necessary to managing your type of receivable makes sense, but cutting resources necessary to managing the asset will result in much higher bad debt costs and increased interest expense needed to finance your customers' slow payments.

If you are not sure whether you are spending the right resources on managing your receivables, e-mail us at info@tcd.com or phone us at 800-451-0164.

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