



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

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

Is The Right Team Managing Your Receivables?

Let's say you owned a professional football team and were looking to build a championship team. You decide to find a strong leader and a group of talented, supporting players to help you succeed. Your strategy is to get a star quarterback and then recruit linemen to train for all the other positions. However, despite the best intentions and great training, the linemen never bring you that championship because they never score any points. You wonder if maybe you should've searched for individuals with more specialized skill sets to help you become a championship team.

What's Going On In Credit Department Teams?

Like any team, credit departments need members with specific skill sets to achieve results. In our consulting practice, however, we rarely see credit teams with the right skills to fit the needs of managing the company's receivables asset. While experience and education levels in many credit departments can be extensive, too often each team member has *similar* skill sets, not skills that *complement* each other or match the needs.

Most traditional credit departments are staffed by "generalists", or people who are hired to do a little bit of everything: collections, clerical, and credit analysis. In very small companies, this might make sense: everyone in the company plays multiple roles, as there's no need for a fulltime person to perform each role. Even then, small companies must prioritize the needs of the department and match the high priority needs to the person. For example, if the job is 50 percent collections, 35 percent clerical, and 15 percent credit analysis, you don't want to hire at a credit manager level. You'd pay too much, and the credit manager would be bored within a few weeks. In mid-sized and larger companies, departments should

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have the need and the budget to hire specialists. Curiously, however, most choose to duplicate the small business model and hire numerous generalists. This practice can create serious problems in credit departments.

What Are The Costs To The Company?

Besides overpaying for positions, the largest cost to companies is in bad debt expense. Sometimes we see that the focus on protecting the asset gets lost on competing priorities within credit departments. Generalists still gravitate toward what they enjoy doing (usually problem-solving or collecting) and the other work just doesn't get the attention it needs....especially risk management.

High-level analysis work for larger credit lines still needs to be performed with a highly skilled individual, which is not a common hire for companies, regardless of size. This leaves the asset management to groups of generalists. These credit people have talent in making collection calls and resolving account balances but are generally without the skills to accurately, thoroughly, analyze risk. When no one is specifically focused on the changing portfolio risk, bad debts occur without understanding why or how to prevent future write-offs.

What Can Be Done To Correct The Situation?

Generalists will only perform well in a company if a) specifically engineered process flows are followed by the individuals and monitored regularly and b) credit scorecards are used consistently throughout the department to ensure accurate credit approvals.

Whenever possible, credit departments need to separate the duties by function (credit analysis, collections, clerical) to better match skill sets to accounts receivable management needs.

If you're concerned about whether you have the right team managing your receivables, contact us at TCD today to help evaluate your accounts receivable needs!

For more information on creating the right team to manage your receivables e-mail us at info@tcd.com or phone us at 800-451-0164.

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