



Abe WalkingBear Sanchez, President, A/R Management Group, Inc.

Quiz: What CEOs Know About Trade Credit

- 1) What % of B2B (business to business) Sales On Average Involve Credit Terms?
- 2) In Businesses That Sell Products or Services Based On Payment At a Later Date, A/R On Average Make Up What % of Total Assets?
- 3) In Your Company Where Is The Credit Function Located, Who does It Report To?
- 4) How Is The Performance Of the Credit Function Measured?

My Answers...What About In Your Company?

- 1) 80 to 90 % or more of B2B Sales involve credit terms (payment at a later date) and as commercial lenders have cut back on business lending the % has grown. The spread between the two as of Sept. 09 has grown by nearly \$100 billion since the end of 2008.
- 2) A/R is one of the largest assets and most liquid, on average 40% of total assets.
- 3) In many companies Credit is still found in accounting. The reason why credit is extended is to sell something...Credit is primarily a sales support function and should report to the CEO or Operations, but be located in Sales.
- 4) DSO and % bad debt are measurements of risks and if used to measure performance will adversely impact profitability. What is watched gets done.
Measure for % of applied for \$ approved, % of credit customer paying and buying, and "areas of opportunity for improvement" identified.

WalkingBear



Kraig Kramers, President & CEO of CEO Tools, Inc.

Hello Abe -- Great thoughts on "what CEOs DON'T know about credit" -- thank you for highlighting our need to grow more in this area! All of the measures you mention should use 12mma charts (12-month-moving-average) since any other tracking will generate faulty seasonal and calendar-aberration related readings. How about "% of \$-approved-credits collected within 45 days" or x-days as a key measure of credit function effectiveness? What we want is a lot credit approved but also a reasonably high collection experience!

Hey, can I post your CEO quiz from above and my comment on my BLOG, please? Of course with attribution to you (as I always do) and by the way, you should be getting some interest from my mentioning you and your wonderful credit/collection techniques in all my recent Vistage/TEC talks. With best regards, Kraig



Abe WalkingBear Sanchez, A/R Management Group, Inc.

Hello Kraig,
Thank you for your thoughts, your contribution to this discussion.

As to your question, "How about "% of \$-approved-credits collected within 45 days" or x-days as a key measure of credit function effectiveness?" In both the approval of profitable sales, while remaining confident of payment, and in the management of past due accounts (completion of the sale) the product value at the time of sale must be considered.

Tracking the % of credit customers paying, even if not totally current, keeps the credit people aware of the need for customer contact which leads to: improved cash flow, the early identification of potential problems (both of a systems nature and of a financial nature), and to more and larger repeat sales.

Yes, please feel free to post the quiz and thanks for putting my name out to the groups you speak to. I'll ask Pam to track the source of any calls that we get for my program.

Best wishes for the New Year.
WalkingBear