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Sales Order to Cash to Re-Order

By: Abe WalkingBear Sanchez

New Business Professional Turns a Cost Center to a Profit Center

In business there exists a disconnect between what is often the largest asset and how to best manage it to its fullest potential.

Money due from customers on the purchase of goods and services is more and more becoming the single largest asset of many companies. A new and better understanding of how A/R is created and managed is needed.

Credit and Collections: The Old Way

Declan Flood the executive director of the Irish Institute of Credit Management tells how as a B2B/Commercial credit manager he'd follow the sales manager in the presentation of the annual report to the company's directors. The sales manager would report on sales made, profit earned and on the projection for sales and profit in the coming year. The directors would applaud the sales manager's report and their appreciation showed itself in his paycheck and status within the organization.

Declan, as the credit manager would report on how much had been lost to bad debt, on how long it was taking to get paid and on projected losses for the coming year. The directors would tell him his job was a difficult one and that he was doing a good job of "managing risk", and then they'd dismiss him so they could join the sales manager for lunch. Company directors and top managers think of "risk managers" and the area of business that they manage as being a necessary evil and as cost center; and this thinking is reflected in the low corporate status and paychecks of credit managers. It's time for a change.

Different Focus, Different Results

What a difference it would make if instead of focusing on DSO (Ave.. A/R turn-time) and % bad debt, directors and top managers would ask and hear about:

- 1) the number and % of new credit customers accommodated
- 2) the % of applied for dollars/pounds/Euro approved AND exceeded
- 3) the increase in repeat sales to existing credit customers
- 4) the number of "business process improvements" identified and implemented
- 5) the savings to the company in the previous year and in the coming year from identifying and implementing improvements
- 6) the savings to customers from identifying and implementing improvements
- 7) the total impact on profit resulting from the efforts of the credit area

And would their appreciation be reflected in the credit manager's paycheck and status within the organization?

Customer/Sales Support: The Better Way

Calling the area of business responsible for creating and managing A/R , Credit and Collections leads to thinking of it as a control and enforcement function, as a cost center and as one CEO put it "as the ugly stepchild of accounting".

Instead, if we focus on the major components and the goal(s) for each, a different picture emerges.

Credit Approval:

A credit application or better still a "new customer information form", represents a pending sale; the only reason to be in business. An investment of time, money and effort proceeds a customer wanting to buy based on payment at a later date. No one likes to be rejected and rejecting a potential credit customer wipes out the investment made in getting that potential customer to the point where they want to buy; and may well result in creating a long term negative memory for the customer...one they may share with others i.e. , negative word of mouth advertising.

The goal of credit approval should be to find a way to say yes, to accommodate profitable sales while remaining confident of payment...via terms and conditions of sale.

Past Due A/R Management...Not collections:

Collections, the enforcement of payment, is the purview of collection agents and attorneys. It is the smallest percentage of past due customers who are trying to avoid payment (type 3s). The vast majority of past due customers are good for the money and there is a good reason why they have not paid within terms.

The goals for in-house past due A/R management should be: 1) to keep credit customers current and buying; the most profitable sale being the repeat and if one additional sale per year results from keeping a customer current the impact on profit is amazing 2) the early identification and control of the small percentage of past due customers that represent a potential for loss (type 2 financial serious and type 3s).

Collection agents and attorneys deal with debtors while in-house credit and A/R people deal with customers...and there's a world of difference between the two.

Rather than being called "collections" the in-house past due A/R management effort is more rightly the "Completion of the Sale".

Following The Parade, Constant Improvement

In today's competitive business environment competition doesn't end with getting a sale...that's only the beginning; competition continues throughout the entire business process. In the course of dealing with past due customers, the credit and A/R people become aware of many "areas of opportunity for improvement". In the U.S. 70% plus of all past due accounts are the result of something going wrong...in the U.K. the figure I've heard from Paul Stevenson , a credit consultant and board member of the ICM, is 65%..either way it's the largest percentage of past dues. The early identification and resolution of these type 2 System problems not only results in payment and re-orders but also elevates customer service levels. And if the "source" of these System problems is tracked , communicated and changes are implemented to avoid the same problems in the future ...the cost of doing business for everyone involved goes down...and profit goes up for everyone involved. The most expensive work done in business is a "re-do".

A business manager not focused on improvement becomes an administrator at best and a bureaucrat at worst.

A Great Credit Manager

One of the best credit managers I've ever met was a woman who years ago worked for a trucking/transportation company in Evergreen, Colorado. The sales people would bring in a credit application from one division of a large company. This woman would get right on it and get the account set up for that division and then on her own she'd set up all the other divisions within the company and then contact them with their "customer number," just in case they ever needed to use her employer's service. This woman would take a \$10,000 sale and grow it to a \$50,000-\$100,000 sale.

In regard to "Completion of the Sale", past due A/R management , she once said to me ,"I love my job, I come to work each day and call my friends all around the country on my employer's long distance phone bill". All her friends happened to work for her employer's customers in their accounts payable department.

This exceptional woman also tracked and communicated "areas of opportunity for improvement" that she uncovered. Her employer's appreciation was reflected in her paycheck and status within the organization.

Summary

DSO (aver. turn time on A/R) and % bad debt are measurements of risk and if the goal is to avoid risk a company ought to get out of credit...of course if they did their business would greatly suffer.

DSO and % bad debt when used to measure the performance of the credit and A/R function are counter productive to profitability.

Customer/Sales Support Managers should be paid on how good of a job they do in finding ways to say yes to profitable sales, while remaining confident of payment. They should be paid to keep customers current and buying. They should be

paid to be TQM (total quality management) guy who follows the parade with a shovel and can identify "areas of opportunity for improvement."

The idea being to best manage to its fullest potential the sales order to cash to re-order cycle...to turn a cost center to a profit center.

For additional information on the three types of past due customers go to www.armg-usa.com/visuals5.pdf

The Author

Abe WalkingBear Sanchez is an International Speaker / Trainer / Consultant on the subject of cash flow / sales enhancement and business knowledge organization and use. Founder and President of www.armg-usa.com , WalkingBear has authored hundreds of business articles. A hard hitting and fast paced speaker, he brings life and energy to a critical business function whose true potential has yet to be realized by most businesses.

Atradius, Irish Institute of Credit Management, TEC, CU, CSU, Texas A&M, National Association of Credit Management - Kansas City, HTDA, BCFM, Poli Hi Solidur, Skinner Nurseries, Deardens, Rain Bird, STAFDA, IBM, Wisconsin Credit Association, are but a few of the groups, schools, companies and associations for whom WalkingBear has conducted programs.

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