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FRONT OFFICE BY MARY COLLINS

Revaluing The Role Of Credit And Collections

Ad sales can't benefit the bottom line until the payments are received. Renaming the credit and collection function will help to shift internal perceptions about its importance to the success of the business.

By Mary Collins
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If you want to appreciate how important your collections department is to the success of your business, just look at the accounts receivable (AR) number on your balance sheet. That's the advice of Abe WalkingBear Sanchez, founder and president of the consultancy A/R Management Group. WalkingBear Sanchez, also a founding member of the International Profit Center Credit Group, says the importance of collections departments is often overlooked because their location on the organization chart is as a cost center as opposed to a profit center.

At the risk of employing an over-used metaphor, credit departments are the Rodney Dangerfield of many media company organizations; they get no respect. In an article appearing in the March/April issue of MFM's *The Financial Manager* magazine (*TFM*), WalkingBear Sanchez provides a number of suggestions on how to create some respect for the credit and collections function and explains why it's important to do that.

Story continues after the ad

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In most companies, WalkingBear Sanchez observes, ad sales reports are typically high on the business meeting agenda, while any collections focus is only on the amount of bad debt and DSO (days sales outstanding — i.e., the average A/R turn-around time).

WalkingBear Sanchez believes companies could experience a marked improvement in the motivation and results of credit and collections departments if the head of the credit department was also asked to report on:

- The number and percentage of new credit customers accommodated.
- The percentage of applied-for dollars approved and exceeded.
- The increase in repeat sales to existing credit customers.
- The number of "business process improvements" identified and implemented.
- The savings to the company in the previous year and in the coming year from identifying and implementing improvements.
- The savings to customers from identifying and implementing improvements.
- The total impact on profit resulting from the efforts of the credit team.

He further suggests that renaming the credit and collection function will help to shift internal perceptions about its importance to the success of the business. "The term 'credit and collections' has become burdened with a negative connotation. It's come to suggest a control-and-enforcement function ... as one CEO put it: 'the ugly stepchild of accounting'" WalkingBear Sanchez recommends focusing on the major components — and goals — for each half of that term. For example, renaming a credit application a "new customer information form" would help to reinforce its fundamental role in a pending sale.

Moreover, renaming the process recognizes the company's broader investment of time, money and effort to support a purchase based on payment at a later date. No one likes to be rejected and rejecting a potential credit customer wipes out the account rep's investment in getting that potential customer to the point where he or she wants to buy. "That situation may well result in creating a long-term negative remembrance for the customer — one they may share with others in the form of negative word-of-mouth advertising," WalkingBear Sanchez warns.

This shifting of perception can also help credit managers to appreciate their importance to the sale. "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," he notes.

While we give credit and collections equal billing in describing the function, WalkingBear Sanchez points out that the collections process actually involves the smallest percentage of past-due customers. The vast majority of past-due customers will pay, and there is often a good reason why they have not paid within terms.

With this in mind, he suggests there should be two primary goals for in-house past-due A/R management. The first is to keep credit customers current and buying and the second involves the early identification and control of that small percentage of past-due customers that represent a potential for loss.

"Collection agents and attorneys deal with debtors, while in-house credit and A/R people deal with customers," he says. "Rather than being called 'collections,' the in-house past due A/R management effort is more aptly described as the 'completion of the sale.' "

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 our industry, one of the common issues cited by the customer is a billing discrepancy between the order placed by advertiser or agency and the actual invoice. Members of MFM's BCCA subsidiary have been very effective in synching up the terminology used on insertion orders and invoices to prevent many of the commonly encountered discrepancies.

As WalkingBear Sanchez observes, the most expensive work done in business is a "re-do"; we can lower the cost of doing business and improve customer relationships by avoiding the same problems in the future. By using these measures to redefine the A/R process, the whole cycle of sales order to cash to re-order is managed to its fullest potential. "That turns a cost center into a profit center," he says.

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Ken Thomson posted 4 days ago [Reply](#) | [Report](#)

What an interesting article. The credit function is, indeed, an arm of marketing and sales. Sales people have to qualify buyers, as do credit departments. The potential customers that sales people produce likely cost a lot to bring in. And they represent progress towards monthly sales quotas. The concept of a more positive term for the Credit Application makes great sense. And if, in fact, a potential customer has to be turned down, based on the facts presented, it has to be done in a way in which you endeavor to win the turned-down customer to your perspective and way of thinking..

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Overnights, adults 18-49 for 11/29, 2011

1.		3.8/10	4.		1.7/4
2.	FOX	3.1/8	5.		1.5/4
3.		2.3/6	6.	CU	0.7/2

Source: Nielsen

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REVIEWS OPINIONS FEATURES

- ▶ [Glenn Garvin](#)
Fox's *I Hate My Teenage Daughter*, a sitcom about single moms ruthlessly manipulated and bullied by their kids, is trashy, cruel and inappropriate. It's also likely to turn into your favorite guilty pleasure if you give it half a chance. Some viewers — maybe a lot of them — will find the show's brand of humor heartless or worse. But the show, underneath its crusty exterior, is anything but cold-blooded.
- ▶ [Alessandra Stanley](#)
Scott Turow's Innocent, a sequel to *Presumed Innocent*, begins TNT's *Mystery Movie Night*. It's an improbable plot set in a rather tame, domesticated version of Turow's fictional Kinde County, a little like the Chicago area. It's not the stuff of a high-stakes action-adventure movie. But it's a cleverly wrought mystery that fits well on the small screen, helped by a strong cast and diminished expectations.
- ▶ [Hank Stuever](#)
With just a slight shift in context, Rodgers and Hammerstein's beloved musical *The Sound of Music* — something almost everyone likes, except, famously, the late film critic Pauline Kael — can become a creepy exercise in enforced cheer. Intended or otherwise, this seems to be the murky subtext of Sarah McCarthy's *The Sound of Mumbai: A Musical*, airing on HBO2, a fascinating if unsatisfying documentary that profiles some Indian street children who are chosen to sing songs from *The Sound of Music* with an orchestra for a one-night performance at an elite Mumbai concert hall.
- ▶ [David Hinckley](#)
As an American master of the one-liner, Woody Allen knows the old truth that half as long is often twice as good. At too many points in the PBS's *Woody Allen: A Documentary* that thought comes to mind. That's a shame, too, because it's a solid production, funny and informative with plenty of good stuff. For hard-core Woody Allen fans, *A Documentary* won't feel excessive. It will feel fascinating and insightful. Those with a little less devotion may occasionally glance at their watches.
- ▶ [Mike Hale](#)
All-American Muslim, TLC's new eight-part reality series, chronicles the doings of some Arab-American families in Dearborn, Mich. All those profiled are on their best behavior, and the show is so focused on teaching that it goes for long stretches without entertaining. It's also noticeable that through the first two episodes, while there's abundant discussion of differences and discrimination, there's none at all of war and politics and terrorism, leaving you to wonder whether that's a reflection of reality or another part of the producers' bid to tamp down possible controversy.