

EDUCATION



NAWLA Webinar Program

Trade Credit 101

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Trade Credit 101 – What is the new reality? A credit manager's perspective

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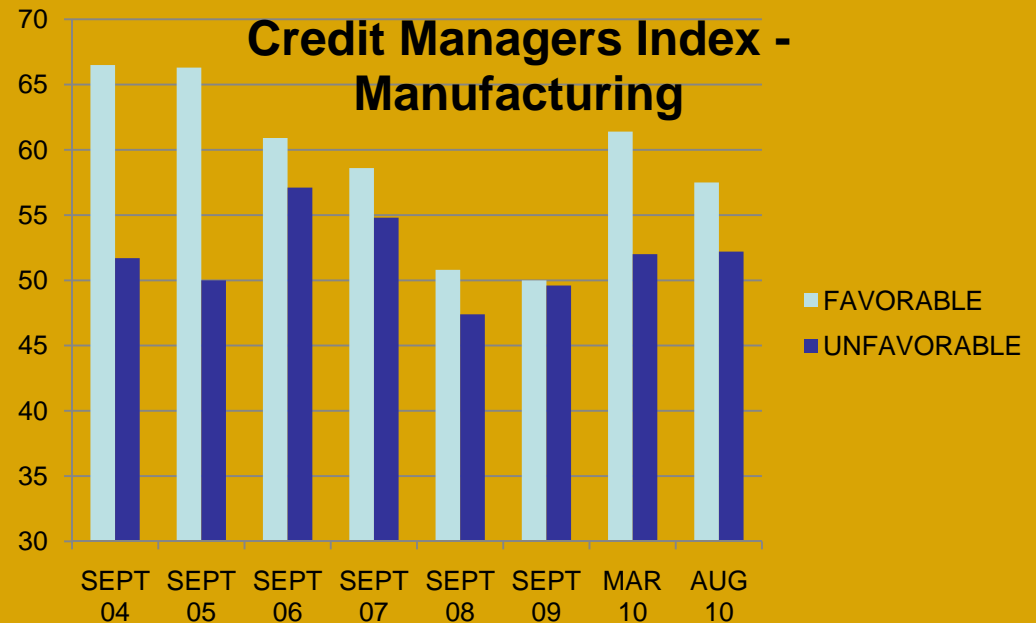
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National Association of Credit Management's Credit Manager's Index "CMI"

Favorable factors: New applications, dollar value of credit extended

Unfavorable factors: Rejected applications, collections, bankruptcies

The Credit Manager's Index is created from a monthly survey of credit and collection professionals. The CMI survey asks NACM members to rate favorable and unfavorable factors in their monthly business cycle.



Source: NACM – National Association of Credit Managers

What are Credit Managers thinking about the current economy

- ❖ We continue to be in the middle of a credit crisis
- ❖ Impacts of credit crisis
- ❖ The only certainty is the uncertainty
- ❖ Gloom but not doom



Relationship between Customers, Sales, and Credit

“the best teams make the best decisions”

- ❖ Manage Relationships by Managing Expectations
- ❖ Understand the business you support, understand your role that you play in the business, and understand the expectations and limitation of each others business
- ❖ Keep communication channels open
- ❖ Respect customer confidentiality



How does credit evaluate customers?

Reports don't tell the whole story! We rely on customers to tell us more about what makes them unique in the marketplace.

Tools used to evaluate credit

Credit Reporting Agencies

Website – Published Info

Trade Groups

Bank References

Disbursement Accounts

Lines of credit – Revolvers



How does credit evaluate customers?

Financial Statements

Liquidity & positive cash flow from operations

Financial ratios such as DSO, DPO, Inventory Turns

Highlight areas of improvement

Sales department assessment

Know your customer



How do credit professionals evaluate customers?

In summary, credit relies on:

- Published reports (credit reports, websites, etc.)
- Payment habits & banking information
- Financial information, including discussions with CFO/Controller
- Sales – to make sure we know who our customers are and what makes them unique

What to do during this economic downturn?

- ❖ Review Credit Philosophy and Credit Policy
- ❖ Review Customers targets
- ❖ Streamline Customer base and work on relationship
- ❖ Understand basic rules around trade credit decisions
- ❖ Be mindful of credit decisions' impact



Take away points

- ❖ Stay focused on Balance Sheet
- ❖ Strengthen relationship with suppliers, customers and banks



What does it mean to “manage” credit risk?

Risk – a relative term that varies by company

- Credit risk is most simply defined as:
“the potential that a customer will fail to meet its obligations in accordance with agreed terms.”
- The **general goal** of credit risk management is to **maximize a company’s profit return by maintaining credit risk exposure within acceptable tolerance levels.**
- To stay within bound of credit policies and procedures
- To create a value for risk tolerance
- To take a balanced risk approach to overall aspect of business

How can customers increase credit lines with their suppliers?



Consider payment history

Discounts earned

Timely dispute/error resolution

Keep suppliers informed

Up to date info on company

Entity identified and aligned with
application & invoices/POs

Provide Current trade credit reference
information and monitor credit reports

How can customers increase credit lines with their suppliers?

Provide comparative financial statements

Consider relative position with suppliers

Discuss financials with supplier

 Explain unusual items

 Explain differences between periods

Consider collateral

Discuss credit line with supplier if not what was expected

How can customers increase credit lines with their suppliers?

In summary, it's easier to increase your line of credit when:

- Credit knows their customers well and understands the need for the increase
- The account has been well managed
- Information in published sources (including customer-supplied trade credit references) is current and accurate
- Customer s are willing to share financial information with suppliers

In the current market, what are customers doing 'right' to maintain favorable credit ratings with their suppliers?

TOP 5

- On time payments
- Improved communication
- Sharing company financial performance
- Better understanding of the importance of credit
- Maintaining financial discipline



Other areas of improvement

- ✓ Increasing relationship with Credit personnel
- ✓ Managing their purchasing against their credit line
- ✓ Becoming aware of their credit facilities with trader suppliers
- ✓ Understanding the importance of cash flow both from a buyer and sellers perspective
- ✓ Improved inventory management
- ✓ Reducing leverage positions
- ✓ Maintaining or increasing margin



Take away points

- ✓ Establish and support sound credit practices and policies
- ✓ Increasing relationship with Credit personnel
- ✓ Keep communication lines open
- ✓ Keep doing what you are doing right today!
- ✓ Keep your Credit Manager happy
 - ❖ - clean sales, deliver on commitments, and communicate problems when they arise.





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QUESTIONS?

