

# Value Creation in the Credit Process

**Hungarian Credit Association Credit Summit**

**Budapest, Hungary**

**June 8, 2017**

**Prof. Patrick O. Connelly**

# Credit Management Organization Generally Perceived Value

Historically, the credit organization has been expected to contribute:

- A. Timely analysis and line recommendation for new sales accounts
- B. Credit line increases as requested by sales for existing accounts
- C. Organizational performance consistent with minimum expense
- D. Support for sales effort (from a distance) or as requested
- E. Consistent and timely reconciliation of open items to facilitate maximum selling potential/credit line availability
- F. Recognized resources to demonstrate attention to the quality of the accounts receivable asset
- G. Serve as gateway to identify risk in the portfolio and escalate

# Actually – So Much More to Offer

Assure strong Enterprise **Reputational Capital** through **Asset Quality**:

- a) Maximize **Invoice conversion**
- b) Contribute to a **prudent but conservative bad debt reserve**
- c) **Consistently reconcile and resolve** open, unpaid items
- d) **Extend Root Cause Analysis to mitigate risk in the asset portfolio**
- e) **Assure A/R Asset Quality**
- f) **Remain Diligent** to identify customer relationship pattern deviation
- g) **Alert to signs of trending towards bankruptcy**
- h) **Portfolio Management Assures fiscal sales goals NEVER missed !?**

# Partner With Sales

To enable a True Partnership:

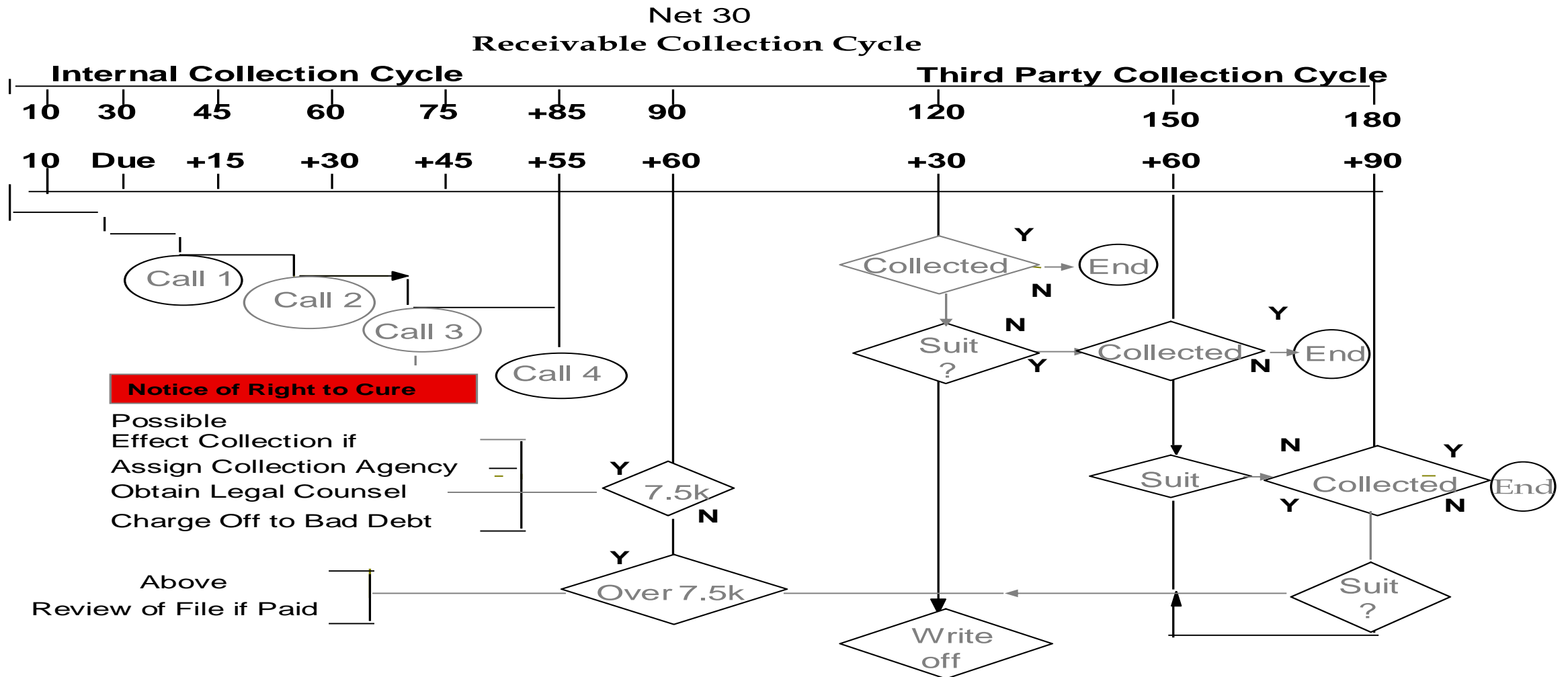
- a) **Timely new account** establishment and initial order flow
- b) **Portfolio Tier Analysis** to assure best utility of customer asset
- c) **Communication - Catalyst for Fiscal Sales Achievement**
- d) **Experienced resource** support for customer development
- e) **Timely Communication and escalation of identified risk**
- f) **Executive Credit Committee** process management

# Execution

- ▶ Assure strong Enterprise **Reputational Capital** through **Asset Quality**:
  - a) Maximize **Invoice conversion**
  - b) Contribute to a **prudent but conservative** bad debt **reserve**
  - c) **Consistently reconcile and resolve** open, unpaid items
  - d) **Extend** Root Cause Analysis to **mitigate risk in the asset portfolio**
  - e) Assure **A/R Integrity**
  - f) **Due diligence** support
  - g) Identify customer relationship pattern deviation
  - h) **Alert to signs** of trending towards **bankruptcy**
  - i) **Portfolio Management Assures** fiscal sales goals **NEVER** missed !?

# Execute on the Fundamentals

- Sustain sales and manage risk through evaluation and performance management of the customer portfolio – DISCIPLINE IS KEY



# Increase Reputational Capital and Asset Quality

## Detailed ATB Assessment and Strategy

	Total	Current	1-30	31-60	61-90	90+
<b>A/R Balance</b>	<b>237.0</b>	<b>165.9</b>	<b>52.1</b>	<b>16.4</b>	<b>2.1</b>	<b>.5</b>
Invoices Dr.	250.0	171.4	48.1	15.4	1.1	14.0
Unappl.Cash Cr	- 6.5	-1.5	-2.5	-1.5	-.5	-.5
Unappl.C.M. Cr	-22.5	-4.0	-2.5	-1.0	-2.0	-13.0
Unappl.D.M. Dr	16.0	--	9.0	1.5	3.5	--
Net value	237.0	165.9	52.1	16.4	2.1	.5
<b>Absolute value</b>	<b>295.0</b>	<b>176.9</b>	<b>62.1</b>	<b>19.4</b>	<b>7.1</b>	<b>27.5</b>

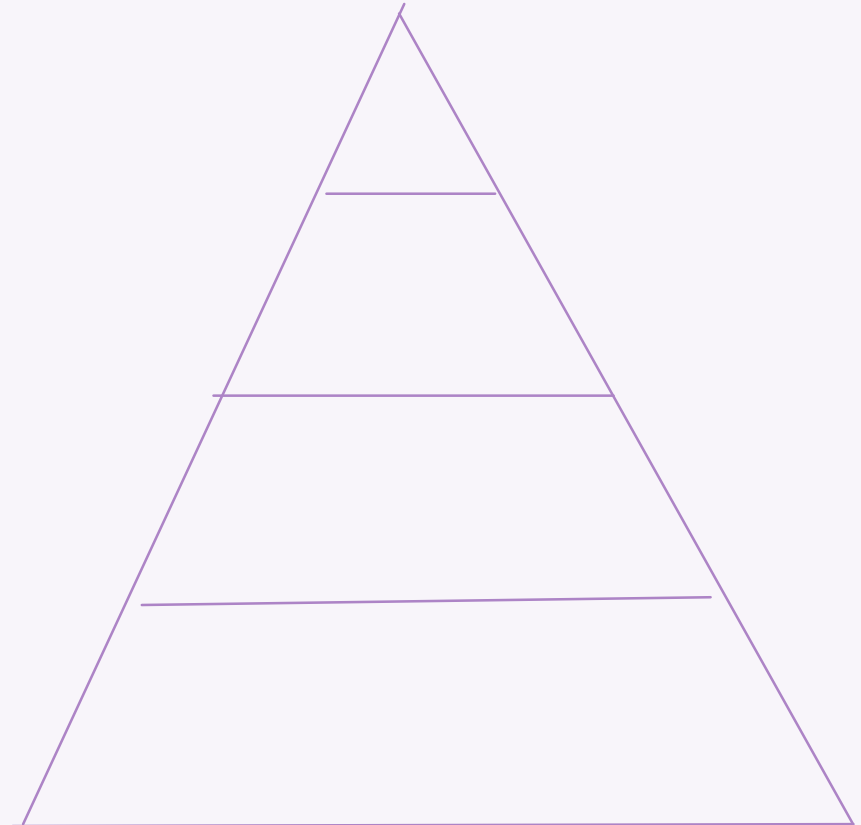
# Consistent Sales Achievement Communication and Portfolio Management

Tier 1 - Greatest Risk and OPPORTUNITY

Tier 2 – High Performance Development base

Tier 3 - Incubator

Tier 4 - General accounts Pool





# In Summary

Increased VALUE for the enterprise may be introduced through:

- A. Disciplined pursuit of open, undisputed invoices
- B. Attention to status and condition of past due invoices and **TIMELY ACTION**
- C. Regular periodic analysis of aging receivables
- D. Establishment of a Root Cause Analysis process to assure **ASSET QUALITY**
- E. Regular portfolio analysis and constant **COMMUNICATION** to assure sustainable achievement of sales commitments against sales targets
- F. Policy and Procedures that continuously reflect the actual key success factors of the enterprise Credit Risk Management organization
- G. Demonstrated **RELEVANCE** of the Credit Organization

Questions ?????

# Thank You



Prof. Patrick O. Connelly

[Pconnelly@taoicrm.com](mailto:Pconnelly@taoicrm.com)