

# E~Credit News

The Business Credit  
Management Association  
Wisconsin

December 2018

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## ANATOMY OF A PREFERENCE LITIGATION WEBINAR

JANUARY 15, 2019

3:00 PM - 4:00PM

You may or may not have known that the new debtor was in trouble. However, you provided goods or services anyway, and were paid for that. In addition, maybe you provided more and were not paid for them. Now the debtor-in-possession, committee, chapter 7 trustee or liquidation trustee wants you to pay back funds you justly received? **Yes, that is what happens.** What to do?

Click [here](#) for the meeting announcement or register [online](#).



## International Credit Executives Group

*Administered by Wisconsin Credit Association, Inc.*

[www.icewi.org](http://www.icewi.org)

### CHRIS KUEHL...

returns to deliver for ICE this important, informative & enlightening  
2019 Economic Update!

**"LULL BEFORE THE STORM?"**

**2019 WILL BE IN A TRANSITION YEAR"**

**JANUARY 23**

**9:00 AM - 2:30PM**

**COME JOIN OUR DISCUSSION!**

The question is where it is transitioning to and from what. The consensus view is that 2018 was a good year for the majority of the global economy but as it was winding down the warning signals were starting to sound. The threats include inflation, high interest rates, protectionism, emerging Cold Wars, radical political transformation and big swings in how technology is affecting growth. We will look at the doomsday predictions as well as those that are not as likely to cause anyone to panic.

Following Chris' presentation, each attendee will receive a ticket (included in your ICE meeting fee) to visit the **Harley-Davidson Museum**®. You may choose to use this ticket for the self-guided tour following our meeting or use it at a later date. The ticket is valid up to 90 days.

Register [here](#)! View meeting details [here](#)! **PLEASE RESERVE AS SOON AS POSSIBLE. WE EXPECT A FULL HOUSE. BE SURE TO INVITE OTHERS FROM YOUR COMPANY!**

[Download Announcement & Registration](#)

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**Wisconsin  
Credit  
Association**

**NEW MEMBERS****NEW ASSOCIATION & INTERNATIONAL  
CREDIT EXECUTIVE GROUP****MEMBER**

Patricia Schwechel  
Cielo

**NEW ASSOCIATION REPRESENTATIVE**

Alyssa Bartel  
Phoenix Products LLC  
Lisa Fenhaus Johnson  
L&S Electric Inc  
James Rennes  
Werner Electric Supply Company

**NEW GROUP REPRESENTATIVES****INTERNATIONAL CREDIT EXECUTIVE GROUP**

Alyssa Bartel  
Phoenix Products LLC  
Lisa Fenhaus Johnson  
L&S Electric Inc

**CONSTRUCTION, MILWAUKEE & WESTERN WISCONSIN  
ELECTRICAL SUPPLIERS INDUSTRY CREDIT GROUPS**

James Rennes  
Werner Electric Supply Company

## Dr. Credit: Five Factors to Look For When Examining an Annual Report

Dear Dr. Credit,

I have a job interview coming up in which I will be given an annual report and tested on extending credit based upon the information. What do you think are the 5 most important factors to focus on? I have strong skills in credit analysis, but not a lot of experience analyzing annual reports.

-Looking for work in the S.F. Bay Area

Dear Looking,

What a great question. First, we should note to our readers who might be hiring analysts that this is a great technique for job interviewing.

Now, on to your question. Since you will be in a job interview, we will assume that time is of the essence (as it will be on the job as well). So our answer is based on an eyeballing of the annual report, rather than a lengthy spreadsheet analysis. Nonetheless, the same principles apply. Here are things you should look for:

**The Integrity and Focus of the Business**

You should start by reading the Chairman's letter. Here, you are looking for the intangibles, and if possible, you would like clues into his integrity. Is the letter clear, or is it filled with mumbo-jumbo and jargon? Is the focus of the business clear or does it just confuse you and make you want to go to sleep? Does the Chairman seem to have a huge ego? Only with experience will you be able to spot problems clearly. In general, you are less likely to have integrity issues if a chairperson's letter points out an occasional problem.

Secondly, look for the section on 'related party' transactions. You do not want to see too much, or too confusing of a picture painted here. Of course, these footnotes will always say that the transactions are 'arm's length,' or were reviewed by their auditor. However, keep in mind who pays the auditors.

**The Overall Trend**

For every number or ratio you examine, the trend is more important than the actual current figure.

## Dr. Credit: Five Factors to Look For When Examining an Annual Report (Continued)

### The Cash Flow Statement

Look first at the cash flow from operations. If this is positive, great. You should then also eyeball the rest of the components of the cash flow statement to see where cash is coming from and going to. Modestly negative cash flow is not always a bad thing if they have made good investments with it or paid off substantial portions of debt.

### The Components of Current Assets & Liabilities

The Doctor will justifiably get in trouble if he says to check the current ratio. However, the fact of the matter is it is a good first check if you use it as a starting point. Check its trend. In addition, make sure you look at what it is comprised of. The current ratio by itself can be a real trap if you do not examine its components. Look at cash, A/R, inventory, A/P, and notes payable, and their direction. A proportional rise in cash is great. A significant rise of any of the other numbers (yes-even A/R and inventory) needs to be examined in context.

You can make a quick calculation of the inventory and A/R turns by simply dividing both of those into the sales figure. Slowing turns (reflected in higher inventory or A/R) is bad. Faster turns are better. A slowing trend is a warning sign that might reflect poor quality of either inventory or A/R.

### Debt to Worth Ratio

Check out the overall leverage of the company. The higher the overall debt levels relative to their equity, the more risky. For added perspective, you should eyeball how much of the debt is short term, and how much is long term. Look at how much the leverage is increasing or decreasing. If they are continually borrowing more, will they soon be reaching the breaking point?

### Hidden Liabilities

Finally, you will of course want to look for hidden, or "off balance sheet" obligations. Now this is a tough one, because a company is not going to make it obvious for you. You will probably be looking at a very long and detailed annual report. In addition, it will be easy to get bogged down in minutia that will not tell you anything. So, be careful about trying to look like a hero. If you have time to read carefully, the place to find this information is in the footnotes.

### Preparation Could Get You the Job

Probably more important than what you do in the actual interview is how you prepare yourself beforehand. You will want to bone up on the financial and operational details of the customer base of your potential employer. Get a handle on what is normal. The more in depth, your knowledge of what's "normal," the more effective you will be at quickly spotting problems that merit deeper analysis.

Because of the wide range of customers at some businesses, it may not be possible to know what industry the annual report will be on prior to your interview. If you do not have an in-depth knowledge of the exact industry, do not fake it. I would emphasize to your possible future employer that an integral part of any analysis comes from a deep knowledge of the industry. Tell them you like to compare liquidity and balance sheet ratios against industry averages to get the best sense of what is going on.

Now, the Doctor may be smart, but the smartest thing for you to do is to find out exactly how your potential employer does things and do it that way! If you cannot determine what is important to them in advance, tell them at the time of the interview that you will do it their way. We are confident a candidate smart enough to check here will have a real advantage in the interview. Good luck!

Thanks, to Credit Today's Doctor Credit.

## Key Principles to Follow When Setting up a Credit Department Policy

Procedures are the operational processes required to implement credit department policy. Operating practices can be formal or informal, detailed or general, specific to an individual or a specific function, or applicable across the entire department. If the credit policy describes what the department does operationally, then procedures describe how the department carries out its operating policies.

Here is an example of a credit policy and one of the procedures that would relate to it:

**Policy:** The credit department shall endeavor to find a way to safely sell to every customer that the sales department presents for consideration; and, in an effort to maximize sales and profits, the credit department will work with that applicant/customer to try to offer as much credit as the customer may need.

**Procedure:** For reviewing new credit applications:

The sales department will arrange for the applicant to submit a signed credit application to the credit department.

- ◆ Once it is received, a credit file will be established.
- ◆ At least three trade references will be contacted by telephone (or fax if required).
- ◆ The trade reference will be asked the questions on Form 123.
- ◆ The bank reference will be contacted and asked the questions on Form 456.
- ◆ A Business Information Report will be ordered from Dun & Bradstreet.
- ◆ Time is of the essence. The new credit file will be forwarded to the credit manager within three days of receipt of the application—or sooner if the above referenced information can be collected more quickly.

There would also be a secondary procedure describing, among other things:

- ◆ How quickly a credit decision must be made,
- ◆ How that decision will be communicated to the customer and to the sales department,
- ◆ Whether or not the credit limit will be communicated to the customer,
- ◆ What steps the credit manager will take if he or she is unable to approve the customer or the credit limit requested or the terms of sale requested,
- ◆ How marginal accounts will be flagged for more frequent credit review,
- ◆ When and how collateral will be used as additional security against payment default, and
- ◆ Who will create and maintain the customer's credit file.

Thanks to Credit Today's Special Report, "Building the Foundation of Your Future Cash Flow."

## Hypothetical Account Review Schedule

Do you have a schedule to review accounts? It is important, of course, and most have a hard time keeping up with everything. Therefore, it is also important to prioritize HOW you are to be doing this to make sure you review the highest risk and/or highest dollar accounts more frequently. Here is a sample template you can work from to create your own Account Review Schedule:

Unless conditions dictate that accounts shall be reviewed more frequently, credit files should be reviewed by you or your appointee on the following schedule:

## Hypothetical Account Review Schedule (continued)

- ◆ Customers with credit limits in excess of \$1 million are to be comprehensively reviewed no less frequently than once every six months.
- ◆ Accounts with credit limits of \$500,000 to \$1 million will be reviewed at least once every nine months.
- ◆ Active customers with credit limits of less than \$500,000 will be reviewed at least once every 12 months.
- ◆ Customers classified as high risk must be reviewed every three months irrespective of their credit limit.
- ◆ Customers classified as significant risk must be reviewed no less frequently than once every six months, irrespective of their credit limit.
- ◆ Accounts categorized as moderate to low risk will be reviewed at least once a year unless they are scheduled for review more frequently based on the size of their credit limit.
- ◆ Any customer with an unpaid balance of more than \$1,000 that is not disputed and that is more than 60 days past due must have its credit status reviewed before additional orders are released on open account terms.
- ◆ If an extension of credit is based in total or in part on a personal guarantee, the credit department must perform due diligence by reviewing the financial status of the guarantor at least once a year even if the guarantor is a "pillar of the financial community."

**Note:** It may be difficult to obtain financial statements from smaller customers. Smaller companies normally do not normally have their financial statements audited by an outside CPA firm.

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## ASSOCIATION DECEMBER HOLIDAY HOURS

**We at The Association are committed to serving all your needs this holiday season. When making plans this month, please note our altered Christmas and New Year's hours below. It is a privilege partnering with you to achieve your goals year-round, and we hope your holidays are full of quality time spent with those you love most.**

**Monday, December 24 (Christmas Eve)**  
**CLOSED ALL DAY**

**Tuesday, December 25 (Christmas Day)**  
**CLOSED ALL DAY**

**Monday, December 31 (New Year's Eve)**  
**Open All Day**

**Tuesday, January 1, 2019 (New Year's Day)**  
**CLOSED ALL DAY**



# TSYS Merchant Solutions<sup>SM</sup> (Partners)

Need credit card payment solutions for your business? Whether large or small, TSYS has the customized solutions to fit your business needs. BCMA partners with TSYS because they are focused on creating more value in our client relationships than ever before, and their voice has emerged as one of the most trusted in the payments industry. This true spirit of partnership, and the accompanying understanding that our success is determined by our clients' success, infuse everything we do. Whether you're LOOKING TO BEGIN ACCEPTING CREDIT CARDS, or LOOKING TO LOWER YOUR

CREDIT CARD SURCHARGE FEES...TSYS will help. Contact the Association at 262.827.2880. We'll put you in touch with a representative that will assist you. TSYS was named to Ethisphere's 2013 World's Most Ethical Companies List!

\*NACS Credit Services, Inc

\*Pennsylvania Association of Credit Management

\*The Business Credit Management Association Wisconsin

## Contact Us

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## GOT AN IDEA?

Would you like to contribute to the BCMA Newsletter? The most important part is your idea. We can handle the polishing. Just write to us at [BCMAEditor@CreditToday.net](mailto:BCMAEditor@CreditToday.net) with your idea!

## 2017-18 Board of Directors

### Executive Committee:

Chairperson  
Penny Conaty CCP, CPC, CBA  
President  
Darryl Rowinski CCP, CPC  
Counselor  
Adriana Sertich CCP, CPC  
Director Emeritus  
Wayne Crosby, CCP, CPC

### Directors:

Abe WalkingBear Sanchez  
Davy J. Tyburski  
Rob Lawson  
Stu Sturzl, CCP, CPC  
Barry Elms

So Many ways that you  
connect to The Association

Website

Find us on  
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## UPCOMING INDUSTRY CREDIT GROUP MEETINGS

### **DECEMBER 11, 2018**

Regional Paper & Packaging Industry Credit Group  
Book of Reports Only  
Fine Paper/Graphic Arts Industry Credit Group  
Teleconference Call

### **DECEMBER 12, 2018**

Plumbing & Heating Industry Credit Group  
Delafield, WI

### **DECEMBER 13, 2018**

Food Suppliers Industry Credit Group  
Madison, WI  
Metals & Industrial Suppliers Credit Group  
Brookfield, WI

### **DECEMBER 14, 2018**

Electrical Suppliers Industry Credit Group,  
Pewaukee, WI

### **DECEMBER 17, 2018**

Western Electrical Suppliers Industry Credit Group  
Book of Reports Only



### **DECEMBER 18, 2018**

Building & Construction Materials Credit Group  
Milwaukee, WI  
WI/IL HVAC Industry Credit Group  
Rockford, IL

### **DECEMBER 19, 2018**

Food Service Supply Hospitality Industry Credit Group  
Delafield, WI  
Minnesota Electrical Product Suppliers Group  
Brooklyn Park, MN

### **DECEMBER 20, 2018**

Construction Industries Credit Group  
Appleton, WI

### **TBD**

IL Fine Paper Industry Credit Group  
Date & Location TBD



## 2019 Education Events

**January 15**

"Anatomy Of A Preference Litigation" Webinar

**January 23**

"Lull Before The Storm? ~ 2019 Will be in a Transition Year" ICE Meeting

**March 26**

"Anatomy Of A Fraudulent Transfer Litigation" Webinar

**April 11**

"The Art Of Getting Paid—Quickly!" Barry Elms full-day Seminar

**April 16**

"Proofs of Claim & Trading Claims" Webinar

**June 18**

"Equipment Finance Issues & Bankruptcy" Webinar

CHECK OUT OUR [CALENDAR](#) FOR MORE UPCOMING EVENTS.  
YOU CAN TRUST THE ASSOCIATION TO ASSIST IN [RECOVERY](#) FROM YOUR DEBTORS ANYWHERE  
IN THE WORLD.

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