



## 2009 CTDA Management Conference

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# Credit Management in Trying Times (and In Good Times, Too!)



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# Now, Meet My “Twins”

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# Small Business News

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## In 2008

- 627,200 “new” small businesses opened their doors.
- 595,600 small businesses closed their doors.
- 43,546 small businesses declared bankruptcy.



## In general for small businesses,

- 7 out of 10 small businesses survive 2 years.
- 5 out of 10 small businesses survive 5 years.
- Small businesses employ **50%+** of the work force in the U.S.

(Source: U.S. Small Business Administration Office of Advocacy, September, 2009)



# News from the Fed

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“Even though from a technical perspective the recession is very likely over at this point, it’s still going to feel like a very weak economy for some time...”

Ben S. Bernanke, Federal Reserve Chairman  
September 15, 2009



# Laughing at the Economy

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*“The economy is so bad I got a pre-declined credit card in the mail...”*

*“Things are so bad that CEO’s are now playing miniature golf...”*

*“Now, when the bank returns your check marked ‘Insufficient Funds’ you have to call and ask it they meant you or them...”*



# Laughing at the Economy

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*“Things are so bad that Hot Wheels and Matchbox stocks are trading higher than GM....”*

*“The economy is so bad Motel Six won’t be leaving a light on anymore...”*

*“It’s gotten so bad, when I ordered a burger at McDonalds’s the kid behind the counter asked me, ‘Can you afford fries with that?’ “*



# Laughing at the Economy

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*Finally, Congress says they are going to be looking into the Bernie Madoff scandal.*

*Just great...*

*The guy who made \$50 billion disappear is going to be investigated by the people who made \$1.5 trillion disappear!!!*

*Now back to our regularly scheduled programming.....*



# Today's Discussion Points

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- Credit Management and what it means to you and your business.
- Financial performance of your business.
- The credit provider's perspective.
- Providing credit to your customers.
- “Do’s” and “Don’ts” of financing in your business.
- Summary.







# Typical CTDA Member\*



- Net Sales \$11,400,876
- Gross Margin \$ 4,070,113
- Operating Profit \$ 193,815
- Cash \$ 264,500
- Inventory \$ 1,873,417
- Return on Assets 2.75%

How many of you feel this is a close approximation / depiction of your business?



# Credit Management

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“Credit Management” means a lot of different things to different people:

- Could it mean how well you manage your receivables and how they are collected?
- Could it mean how well you manage your inventory and how often it turns?
- Could it mean how well you manage your payables and stay current on your obligations?
- Could it mean simply how well you manage the cash flow cycle of your business?





# Straight from the Horse's Mouth

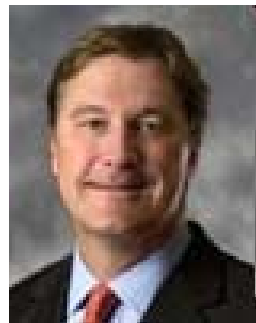
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James Graham  
PNC Financial Services Group  
Executive Vice President



James DeNaut  
Deutsche Bank  
Head of Global Banking, Americas



Todd Maclin  
JPMorgan Chase  
Head of Commercial Banking



# Straight From the Horse's Mouth

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## What they said:

- Make sure you have a “personal” relationship with your banker and that you communicate regularly.
- “Over prepare” for any meeting you have with your banker when you’re going to be talking about your credit line or a loan.
- Be ready for any credit you get (or that you are renewing) to be more expensive than in the past.
- Be ready to work harder in managing the financial aspects of your business to meet your banker’s need for timely and accurate information about your operation.
- And lastly, be ready for this economic situation to last for at least 24 to 36 months....



# Financial Performance

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How to measure?

- Changes in financial statements

What to measure?

- Ratio analysis (operating and financial)

When to measure?

- At least quarterly



*This is information your lender  
wants to see on a “regular” basis...*



# Financial Performance

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## How to measure?

- Changes in financial statements
  - Increase or decrease in balance sheet line items
  - Increase or decrease in income statement line items
  - Track your cash flow with a cash flow statement





# Financial Performance

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## What to measure?

### – Ratio analysis (operating and financial)

- Current Ratio
- Quick Ratio
- Debt-to-Worth Ratio (aka “Safety” ratio)
- Gross Profit Margin Ratio
- Sales to Fixed Assets Ratio
- Inventory Turnover
- Inventory Turn Days
- Accounts Receivable Turnover
- Accounts Payable Turnover
- Working Capital Turnover Ratio





# Financial Performance Ratio Analysis

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## Current Ratio

Measures your company's solvency/bill-paying ability by identifying whether there are sufficient current assets to pay current liabilities.

$$\text{Total Current Assets} / \text{Total Current Liabilities}$$

The general rule of thumb for any industry is for this ratio to be at least 2+ - the higher this ratio the better as there will be a greater cushion between current obligations and your company's ability to pay them.





# Financial Performance Ratio Analysis



## Debt to Worth Ratio

Indicates the amount of risk/leverage your company has by comparing investment creditors have made in your company (debts and liabilities) with the investment made by the owners of your company (net worth or equity.)

$$\text{Total Liabilities} / \text{Net Worth}$$

The general rule of thumb for any industry is for this ratio to be no more than 2.0. A higher ratio means greater risk is being assumed by creditors. A highly “leveraged” firm has limited or no ability to borrow money if cash is needed.



# Financial Performance Ratio Analysis

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## Inventory Turn Ratio

Identifies how many times a year you turn your inventory in your company.

$$\text{Cost of Goods Sold} / \text{Inventory}$$

There is no general rule of thumb for this ratio as it is industry specific. However, the faster you turn your inventory, generally the better. Inventory sitting in the back room or on the shelf does not make any money for your company.



# Financial Performance Ratio Analysis

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## Inventory Turn Days

Identifies the average number of days your company holds its inventory.

$$365 / \text{Inventory Turn Ratio}$$

Like the Inventory Turn Ratio, there is no general rule of thumb for this ratio as it is industry specific.





# The Credit Provider's Perspective

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- What YOU need to look for in a banker / credit provider:
  - Are they interested in you and your success in your business venture?
  - Do they understand how your business works?
  - Can they deliver the funds you need when you need them?





# The Credit Provider's Perspective

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- What a bank looks for in making a loan:
  - The 5 C's of credit
    - Character (are you honest?)
    - Capacity (primary means of repayment)
    - Capital (down payment)
    - Collateral (secondary source of repayment)
    - Conditions (company ratios, economy, bank policies, etc.)





# The Credit Provider's Perspective

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- What a bank looks for in making a loan:
  - Loan Purpose
    - Is it to buy assets, pay off liabilities?
    - Invest in an equity position?
  - Repayment Sources
    - Cash flow?
    - Net profits?
    - Collateral?
    - Guarantees?
    - Additional capital?
    - Another creditor?





# The Credit Provider's Perspective

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- What a bank looks for in making a loan:
  - The loan type
    - Is it unsecured?
    - Is it secured?
    - Is it short term / line of credit (seasonal?)
    - Is it long term (fixed asset purchases?)
    - Is it interim financing (construction loans?)
  - Interest rate factors
    - Cost of money
    - Perceived risk
    - Customer relationship
    - Type of collateral
    - Term of the loan
    - Supply and demand
    - Competition





# Providing Credit to Customers

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There are valid reasons to extend credit to your customers. The question is, how do you do this and protect your company as well?

- Develop credit standards.
- Develop credit terms.
- Determine credit limits.
- Institute collection procedures.



*Guess what? In deciding to extend credit to your customers you have just become their banker, so think like one...*





# Do's and Don'ts

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## DON'T:

- Make promises you can't keep.
- Ever surprise your banker (good news or bad!)
- Be impatient or lose your temper.
- Ask "how much" you can borrow.
- Negotiate rates/loans over the phone.
- Spend the money before you have it.
- Be a "rate hopper" (changing banks ONLY for a better rate.)
- Assume your banker knows your business.
- *FINANCE FIXED/LONG TERM ASSETS WITH SHORT TERM DEBT/LINE OF CREDIT.*





# Do's and Don'ts

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## DO:

- Get to know a good banker before you NEED one.
- Apply for the loan early, waaaaay before you NEED it.
- Be prepared with a plan, but be flexible.
- Tell EVERYTHING, bad as well as the good.
- Ask questions if you don't understand.
- Negotiate rates AFTER you have gotten a commitment and be willing to “shop” rates.
- Invite your banker to visit your business often.
- Do most of your “banking” business with your banker.
- Keep your banker INFORMED on a regular basis.
- Develop a second lender relationship.
- Refer business to your banker.
- Very carefully guard your reputation for “character.”
- Pay down your line for at least 30 days in the year.





# Oklahoma's Favorite Son

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Will Rogers was a noted actor, humorist, stage performer in vaudeville and a very observant political commentator of his time in the early part of the 20<sup>th</sup> century.

Many of his comments and columns about politics and the role of government in this country at that time are as true today as they were when he first wrote them.

Let's see what he might say about the way things are these days....





# Will Rogers Observations

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*About all I can say for the United States Senate is that it opens with a prayer and closes with an investigation....*

*Be thankful we're not getting all the government we're paying for....*

*I have a scheme for stopping war. It's this - no nation is allowed to enter a war till they have paid for the last one....*



# Will Rogers Observations

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*It's easy being a humorist when you've got the whole government working for you....*

*A holding company is a thing where you hand an accomplice the goods while the policeman searches you....*

*Last year we said, 'Things can't go on like this', and they didn't, they got worse...*



# Contact Information

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