

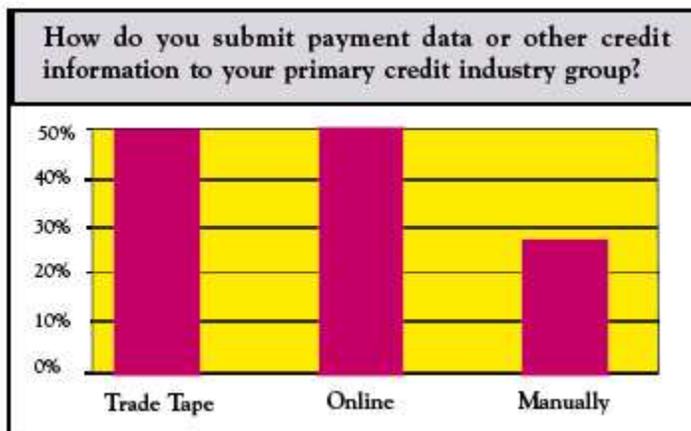
Credit Group Participation ROI Averages More Than 100 Percent Per Week (No, that's Not a Misprint)

According to Credit Today's most recent benchmarking survey, the average credit department spends \$3,600 to participate in their primary credit group and saves \$205,000 by avoiding bad debts and slow payments. This means that credit execs are getting a 50-fold return on their investment. Annual savings range as high as \$5 million, with many reporting over \$1 million. The majority also found credit group information more useful, as well as more economical, than credit bureau reports. The results measured just the savings from participants' primary credit group.

Of the 331 people responding to our survey, 82 percent indicated they are members of at least one credit industry group. The primary reason for not joining a group was the lack of an appropriate group (47%). Group membership also did not make sense if there were not enough common customers (29%) or if a company's customers were split between several industries (22%).

All three of these responses relate to the need for a credit industry group to provide value in the form of customer data. **Diane Patterson**, credit & collections manager with Thermo Fisher Scientific (Asheville) LLC, succinctly sums up the feelings of many of the respondents that currently are not involved in a group when she writes, "All I need are some companies with common customers."

There were also a sizeable number of respondents who indicated they do not participate in a credit industry group because they do not have the time in their schedule. To derive optimal value from a credit industry group requires a significant time commitment. As we shall see, the amount of time required by an individual group can vary depending upon the frequency of meetings and the amount of automation the group provides in terms of data sharing.



William Edgar, CCE, credit manager at Zippo Manufacturing Company, noted that, besides the need for common customers, he would like to find a group that made "more use of technology and had fewer face-to-face meetings."

There was a fairly wide disparity in terms of the frequency of credit industry group meetings. While the average was just over six meetings per year, most groups (77 percent) met only 2 (12 percent), 3 (23 percent), 4 (18 percent) or 12 (24 percent) times each year.

The deciding factor in determining whether a group met fewer or more times per year appears to be regionally proximity. Groups with a national or regional outlook tended to meet less frequently than local groups, such as ones serving electrical or HVAC distributors.

How data are submitted also affects the amount of time required for group participation. Nearly half reported that they can submit data via a trade tape (electronic batch file) or online. An electronic file is the most efficient method. In contrast, just over a quarter of our sample can submit data manually using a paper-based transmittal forms.

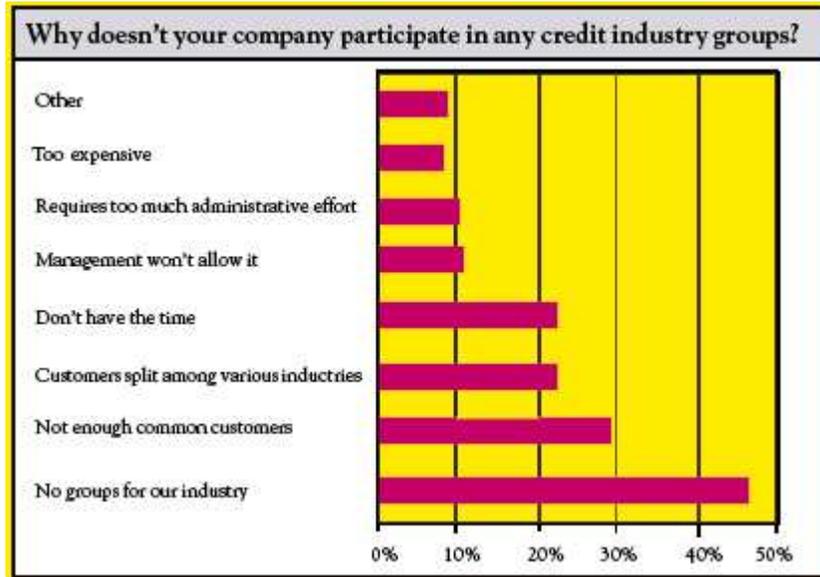
Relying on paper is the most time intensive data sharing method, even more so than online entry methods that require manual data entry. Since some groups facilitate multiple types of data submission methods, the percentages add up to more than 100 percent.

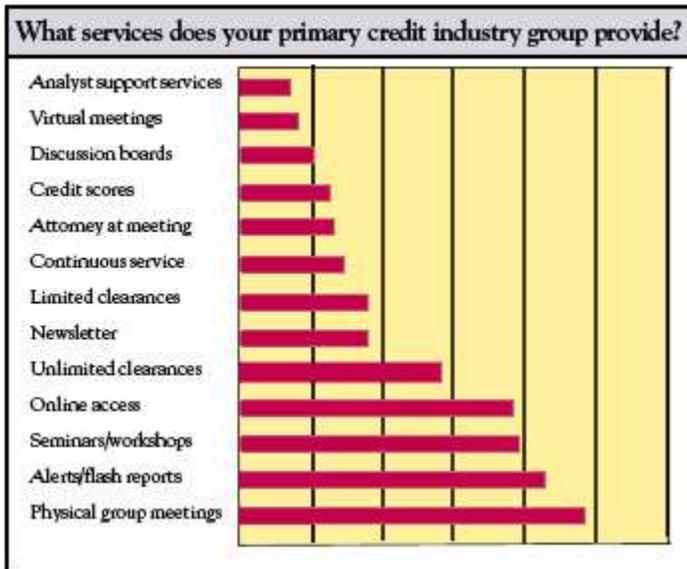
In terms of the services or activities offered by credit industry groups, the top three were physical group meetings (97 percent), Alerts/Flash Reports (86 percent) and Seminars/Workshops (78 percent). Online access to group data (76 percent) was also very common and is indicative of a significant amount of automation. That being the case, we were surprised that only 17 percent reported that their group held virtual meetings. Even discussion boards fared better at 20 percent. Likewise, only 25 percent reported their groups were providing credit scores. That is

roughly one out of every three reporting online access, and who should therefore have already collected the necessary data in an electronic database that could be used to generate credit scores.

It was also interesting to note that a majority of credit industry groups provide unlimited trade clearances (56 percent) to their members, with 35 percent putting limits on the number of clearances allowed. Another surprise was that over one fourth reported having an attorney in attendance at their meetings, ostensibly to ensure compliance with anti-trust and collusion statutes as well as to provide more traditional creditor's rights expertise. The number issuing group newsletters (36 percent) was also higher than expected.

Clearly, technology is still working its way through the credit group industry. To some extent this technology is providing a platform for adding value to both the data repository and the group experience. The productivity gains that accompany the implementation of automation tools also free up resources to provide other services such as education programs and other support services.





As credit industry groups add to their value proposition, it is expected that they will continue to compare favorably to traditional credit reporting services. In terms of trade clearances, payment trends & analysis, flash reports and change notifications, as well as overall value, at least 75 percent of survey participants favored credit industry groups over the credit bureaus. And when it came to credit reports, the key product offered by the bureaus, 62 percent still favored the credit industry groups. Only a relatively small minority (22 percent) favor credit bureau reports over credit industry group reports, and the numbers for all the other categories are under 10 percent.

It is therefore not surprising that many credit pros are passionate about their group participation.

Diana Tapelt, credit manager at Minvalco, Inc., remarks, "the credit group represents the pulse of the industry. Without it my credit decision effectiveness would be greatly hampered."

In comparison to your primary credit reporting bureau, how valuable is your membership in your primary or most significant credit industry group in each of the following categories?

Item	Much Less Valuable	Somewhat Less Valuable	About the Same Value	Somewhat More Valuable	Much More Valuable
Trade Clearances or Payment History	2%	4%	13%	25%	57%
Payment Trends & Analysis	3%	6%	16%	25%	50%
Credit Reports	6%	16%	16%	25%	37%
Alerts, Flash Reports, or Change Notifications	3%	6%	12%	27%	52%
Overall Value	1%	7%	12%	28%	52%

Charlie Hill, credit manager for Texas Instruments, concurs. Speaking of the two groups in which he is involved, he states that the "information sharing, best practice comparisons, and networking opportunities are invaluable to my company. To not participate in an industry credit group would be like traversing a dimly lit maze with no flashlight and millions of dollars riding on successfully reaching the exit."

The Value of Credit Groups: Views From the Trenches

One of the open-ended questions we asked was, "Please provide us with an anecdote that illustrates the value of participating in an industry credit group..."

One of the more interesting responses, from a credit manager who did not wish to be quoted, was to the effect that a new customer asked if this vendor participated in credit industry groups and since the answer

was in the affirmative chose on their own to pay by credit card in advance rather than submit a credit application. Now that's a powerful endorsement for the value of credit industry group membership.

Here are some of the other interesting anecdotes submitted by the survey participants.

"Recently our Group met in Kansas City where I found a couple of members were dealing with a common customer in Africa. Each of them reported prompt payments on orders of \$.5 Million, which had been backed up with a Letter of Credit. My invoices were 4 times that amount but because of a strong sales relationship with their US counterparts, I had not required a LC -- yet I had invoices 60 days past due. Right away I emailed the Buyer expressing my concern that my company, due to a strong relationship with their US companies, had provided his office with a good bid without requiring the additional expense of an LC, like some other companies might require (no names mentioned). The message also mentioned that, without immediate payment, my position would have to be different on future orders. Two days later, notification of full payment was received."

- **Allen Vickers**, Corporate Credit Manager, A&K Railroad Materials, Inc

"I attended my first UCC seminar at an NACM industry group meeting. The use of these filings has saved my company thousands of dollars over the years and has covered my membership and meeting expenses for the rest of my career."

- **David Feigenbaum**, Corporate Credit Manager, Kichler Lighting

Here's an example of immediate gratification: "Getting a flash report on a customer writing NSF checks, and they just applied for credit with our company."

- **James Clem**, National Credit Manager, Merchants Metals

Through our group, I "heard about a company that was starting to have problems paying one of the other companies in the group and avoided a bankruptcy claim because we were able to get out before they filed."

- **Marcia Burgasser**, Comptroller, American Douglas Metals, Inc.

"Daily flash reporting recently by several members alerted us to a major account who was holding checks. When we investigated, we found we were having a similar experience which was resulting in delayed receipts into our bank account, causing inaccurate Treasury forecasting, and unearned cash discounts being taken by the customer. We were able to discuss the problem with the customer's CFO, and resolved the issue."

- **Beverly Vasi**, Corporate Credit Manager, Ocean Spray Cranberries, Inc

"Many years ago, I had two accounts that I was the only one in the valley that got paid because I acted on the information I had received. I got paid on one through a lien and the other in small claims. Shortly after, one of the companies filed for bankruptcy. If it would not have been for the networking I received in my group meeting, I would have had quite a loss."

- **Sandy McConnell**, Credit Manager, Winroc Corp., Nevada

"I had a COD order that came up late in the day for \$10K. The customer wanted to pay with a company check. I pulled a credit report and saw that their terms had recently been changed to CIA by another company. I emailed that company, and even though there was a 3 hour time difference, and it was after 5:00 PM their time, I received an email right back saying the company had bounced a sizable check and they were turning over the account to collections. I refused to ship COD on a company check and truly believe that it saved our company a loss of \$10K."

- **Mary Lynn Jordan**, Credit Manager, Projections Unlimited Inc.

"Sitting down at dinner the night before a meeting and finding out your colleague visited one of your customers, and the customer is in trouble, thus being able to stop an open account shipment and saving a lot of money. Being able to get the name of the one person at a large customer that can really help you paid for the trip to the meeting!"

- **Elli Minert**, Credit Manager, Delphi Diesel Systems Corp

"It was the Friday afternoon before a 3 day week-end when one of our salesmen just received an order from a new customer. This new customer is going to give us all his future business but we have to ship his order immediately, today, on terms. The new customer will fill out the credit application next week. By looking at the notes from the previous month's credit group meeting, I quickly found the new customer listed and could see how he handled payment of purchases from other members of the credit group.

Based on our company policy for new accounts, I could have made an exception and released the order but because of the information in the credit group report, I decided to hold the order until I received a credit application and completed a credit review. We didn't receive a credit application, the order was cancelled and I didn't have a loss. In a few months this potential new customer filed Chapter 7 Bankruptcy."

- **Robert Simmons**, Credit Manager, Western Milling, LLC

"From my regular attendance and active participation in a group I was able to make an independent decision to reduce our exposure & possible preference liability with a customer which eventually went bankrupt. Benefit that year was about \$150,000."

- **Paul Bernardoni**, Director, Credit, Collections & Accounts Receivable, Robert Bosch LLC

Summing It Up

"There is a heightened level of trust and confidence in information that is gathered from Industry Members after meeting them face to face. Better information is acquired and a more in-depth type of information comes about from these Trade Groups' sharing of account data."

- **Myron E. Huffman**, National Financial Services Manager, Monrovia

"I like to idea of being able to pick up the phone if I have a question on an account and speak to a person that I know and trust. When you have met the person who you are speaking to it provides a much higher level of confidence in what they are saying."

- **Barbara DeGuire**, Credit Manager/Office Manager, ABC Nursery, Inc

"In this current economic we are all being faced with, every little bit helps. If my participating in an industry credit group puts me ahead of my competition because of factual and real time information being traded - then it puts me in a position to kick it up a notch and perform at a higher level. It allows me to be pro-active and engaged with our customers..."

- **Jill Escoto**, Corporate Credit Manager, Davis Wire Corporation

"Being connected with my peers helps me to see warning signs of financial stress more quickly than by watching public news. Several times recently we have then been able to reduce exposure and losses."

- **Anthony Garside**, Credit Manager, Otis Spunkmeyer, Inc

"Peer networking in transportation does not hold the same value as compared to the importance based on my prior credit career in manufacturing. However, that said, it appears a general malise by credit professionals to network and/or share customer account information which this writer feels is of greater weight than other sources - Appears to be a victim of email and credit staffs too busy to talk with each other."

- **Steve Seko**, Manager of Credit and Collections, Clipper Express