

For Immediate Release

The Deduction Reduction
NACM gives credit managers the know how to combat
excessive deductions that threaten a company's profits

Columbia, MD: April 19, 2005—During tax season, deductions were on everyone's mind as we scrambled to find receipts that would either help us minimize our tax payment burden or maximize our refund. But for credit managers—who have to regularly sort through deductions from customer invoices—deductions are not just a once-a-year concern, they are an ongoing issue that can eat into a company's profits if not handled in an efficient manner.

"Deductions eat into company profits by taking up resources both in terms of manpower to follow up and clear up the deductions and reduced cash flow," said Dave Sayre, CCE, Credit Manager at BSN-JOBST, Inc. and an NACM member since 1996. "The manpower spent to solve deductions cuts across many departments including credit, cash application, sales, marketing, pricing, IT, customer service, shipping and others."

This creates a serious dilemma for credit managers—whether the company decides to investigate customer deductions or not, it is still taking money and resources away from its bottom line.

COMBATING DEDUCTIONS

In order to control the amount of deductions that customers attempt to write off from invoices, it is essential for a credit manager to have a solid policy in place. "When a discount is offered and the customer does not pay according to the terms stated, and still takes the discount, then it has taken an unearned discount," said Barb Klosterman, CCE, Senior Credit Representative for CEMEX. "An effective, efficient way to handle deductions is essential to maximize collections."

However, Klosterman noted that a credit manager must use good judgment when deciding whether or not to challenge a deduction. "The credit manager should know what the break-even amount is to research a deduction. If any fall below that amount, they should be allowed discretion to write off the deduction unless, of course, it is a repeating pricing issue. No pricing issues should be allowed to be written off, instead the computer system they use should be corrected for future billings or the sales person must explain and collect the pricing discrepancy."

Once a solid policy for handling deductions is in place, the next step a credit manager must take is to make sure that customers are aware of it—and aware of a company's intentions to enforce the terms.

"When a customer knows that a company will assertively, professionally and appropriately decline invalid claims, it helps to reduce future invalid claims," said long-time NACM member Kelly Simon, CCE, Supervisor of Credit and Collections at Cutter & Buck. "Also, when deductions are processed efficiently and timely, it helps the overall health of a company's aging."

NACM EXPERTISE

For over 100 years, NACM has been helping credit managers overcome all of the challenges associated with their jobs—the area of deductions is no exception.

Kelly Simon said that because her company sells apparel, she does business with several department stores. This is challenging because department stores have very specific rules that, if not followed to the letter, can result in numerous deductions.

Simon noted that her participation in an NACM credit group has given her invaluable information from industry peers, information that has helped her tackle the complexities of deductions and protect her company's bottom line.

"Our credit group has been very helpful in offering advice as to how they have dealt with particular department stores, and specific contacts that help us to better understand the processes of those stores," she said. "Because the group meets monthly, it is an excellent, ongoing source of information. In the past, our credit group had offered what seemed to be the smallest bit of information. However, it has saved us thousands of dollars in charges. Sometimes it's another vendor that has direct experience with a company that can offer the best advice."

BSN-JOBST, Inc.'s David Sayre said that he has learned a great deal about deductions from reading NACM's Business Credit magazine, as well as through his affiliation with the Credit and Financial Development Division (CFDD). "Through CFDD, I've been able to network with fellow credit professionals to ask for help and opinions in different situations I've encountered in my career. It is also at CFDD functions that I've been able to listen to different experts talk about a wide variety of subjects from bankruptcy, credit and collections issues, personnel matters and even deductions."

Knowledge is power, as the old adage goes. With NACM, a credit manager is armed with over a century of professional knowledge, giving the credit manager power. There is a high level of camaraderie that Sayre said has made him a strong and capable credit professional. "Probably the most important thing I have learned through NACM is that I am not alone in trying to combat the deduction issue," he said. "It is something that many credit professionals have to deal with—and deal with efficiently—so as not to eat into their company's profits."

Be knowledgeable. Be powerful. Be NACM.

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Media Contact: Norma Heim
Phone: 410-740-5560
E-mail: normah@nacm.org