Dave Elmstrom / **Finance and Commerce**
Playing the Credit Game

CALIFORNIA CONSULTANT HELPS COMPANIES CONTROL THEIR CREDIT PORTFOLIOS

Eric Shaw says he and other credit managers are a bit like Rodney Dangerfield -- they get no respect. In fact, he said the credit management field is one of the most overlooked parts of many companies.

Shaw, who runs a California-based credit consulting firm, has developed The Credit Game -- a book and accompanying board game -- to help small businesses better manage their receivables. Shaw said management basically overlooks credit management, despite the fact that the credit department oversees a "portfolio" often worth millions of dollars.

In fact, in the book, Shaw dedicated The Game of Credit to "All credit managers for their undying devotion to an industry that get no respect. We manage a receivables portfolio just like a stock portfolio-but companies pay a lot more to have their pension funds and stock funds managed," Shaw said. "The owners haven't figured out that if they want to manage millions of dollars in a receivables portfolio, they've got to pay for it."

In calling credit a game, it's not that Shaw takes credit management lightly, though. On the contrary, he sees credit as vital to the success of businesses large and small. "In all businesses, you need to have a game plan," Shaw said. "This is just a game plan for the game or credit."

Shaw's overriding theme: credit managers need to think like bankers. That means checking things like tax returns, financial statements or checking account records for more information. "You're lending money," Shaw said You have the right to ask the company for financial statements if you need to. Don't be afraid to ask questions that will help you lessen your risk."

The Game of Credit might be a bit of a misnomer-it isn't played like a traditional board game such as Monopoly. But the credit board has individual squares related to credit management, and Shaw says that the "game" has definite winners and losers. "The credit department needs to stay focused-and that's what the book and game do," Shaw said. Each gameboard square corresponds to a chapter in Shaw's book. A company moves around the board during the 90-day playing time of the game, and on each square is asked to assess a specific credit department function. For instance, squares will focus on credit insurance, credit terms, how to pick credit personnel, and facing the problems of charge backs.

The game cycle is 90 days for a reason: 90 days is the time when an aging receivable is no longer considered an asset by banks. And, a quarter of a year is a good assessment period, Shaw said. As a credit department winds its way around the board, Shaw provides worksheets and formulas to determine how much the company has "won" during the course of playing the game.

Shaw is originally from New York-hence the company's name-and he founded the company in 1979 after moving to California. In addition to the credit consulting, Shaw operates several enterprises, including professional wrestling promotion through the International Wrestling Federation.

New York Credit manages the credit departments of companies ranging in size from about $3 million to $100 million in annual sales. Typically, he works with people who need his help -those without credit departments, or small companies with poor performance from their credit departments. But he's been surprised that many major corporations have sought help with credit management.

For companies large and small, he offers a few tips:

1. Keep a keen eye on 30-day and 60-day aging records. He offers this example: During the 1993 Midwest flooding, companies that began seeing increases in 30-day and 60-day agings could have taken early steps to prevent too many from going over 90 days.
2. In credit transactions with small entrepreneurs, Shaw recommends they provide a letter of credit on personal savings. Then, give them 5-month terms to allow them leeway within the 6-month life of the letter of credit. The technique-called an irrevocable letter of credit-is an option Shaw says many small banks don't even know about.
3. Ask small clients for three months of bank statements. That way, you can see how much they are bringing in each month, how much they are paying out each month, and if their credit request is out of line with other bills they have.
4. Make sure to get current financial statement. A year-end statement from December 1993 will do no good for a credit manager right now.
5. Insure receivables. Typically, credit insurance costs one quarter of one percent of the sales you insure. If you write off more than that each month, Shaw says buying insurance is "a no-brainer."