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Recession-Proof: How to Ensure You Survive an Economic Slowdown

By: Keith Cowart, FIS

We have been hovering around the dreaded “R” word for some time with many of the world’s governments attempting to shorten the potential impact to the global and local economies by taking a hardline approach to fighting off inflation. Most global economists are predicting a contraction of Global GDP in 2023. The contraction predictions vary widely amongst the same group. Overall, it seems that inflation is starting to reduce and is projected to continue to decline over the next few quarters. While we all hate to see the Federal Reserve continue to increase interest rates, it appears to be having the desired effect on inflation. With all this economic uncertainty comes a heightened demand for cash flow and an increased focus on profitability. In simple terms, we are once again being asked to do more with less resources. The question on top of everyone’s mind is “how can I get more out of my already overworked team?” There are a few key factors you should be focused on to recession-proof your organization.

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September Dates To Remember:

4th: Labor Day
10th: Grandparents Day
11th: Patriot Day
23rd: Autumn Begins

People vs Process

Inevitably, when times are tough, companies begin to look for cost saving opportunities. During economic growth, companies look to quickly hire employees to fill gaps in hopes of increasing revenue and riding the wave of increased demand. However, when faced with a declining economy or a recession, the excess hirings become a drain on profitability. Often, companies identify redundancies and cut swiftly and deep – all for the cycle to begin again as the economy recovers. We see this pendulum swing wildly back and forth, because companies are focusing their efforts on the here and now, versus taking a step back and looking strategically at what makes the most sense.

If companies were to spend time reviewing their processes and asking the question “is this the best, most efficient way to do this?”, they would quickly realize increasing resources during the good years is setting them up for very real and difficult decisions in the future. Rather than hire more people to deal with increased volume, identify solutions that allow you to scale and increase efficiency without adding additional human capital.

Automation provides capacity for your teams. It eliminates wasteful, manual activities and focuses your team on what matters most – bringing cash in the door. This is not to say that automation is right in every situation or that it is as simple as flipping a switch. It comes with careful consideration of what the right application is, and what level of returns you can achieve.

In my past life as a former practitioner of Credit and Collections, I saw firsthand what benefits automation can provide. We conducted time and motion studies with our team of Credit Analysts and Collectors to determine where there was waste in our processes. This included desk sits where we walked through each person’s day to track where they spent most of their time. In our manual world, time was wasted on simply organizing activities for the day. Collectors would spend an hour or more printing (yes, physically printing) an aging report and handwriting notes on the paper that included what time of day they should call/email, which invoices they wanted to talk about, and adding phone numbers and email addresses to make the process easier. Not only did this waste a lot of time, but it was also entirely dependent on each collector deciding who was the most important customer to contact and when. There was zero intelligence built into the approach and even less visibility to management as to what work was being performed. To understand what was happening with a given customer, the management team would call a meeting where the collector would inform them of progress with the account. This, of course, created more waste by pulling the collectors off the phone/email to provide this update.

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Credit analysts spent most of their time looking up information on new and current customers to then populate that information into a spreadsheet template with their recommendations for credit lines and protection measures to mitigate risk. They spent so much time locating the information and populating spreadsheets that they had very little time to perform their analysis. This turned a valuable activity into a monotonous wasteful exercise.

I share these examples, of which there are many more, to demonstrate how automation can help recession-proof your organization. Leveraging automation for the collections team meant collectors no longer had to plan and organize their day. When they arrived in the morning, their work queues were already established with the appropriate strategies applied to determine which customers they should email or call and what priority should be applied to specific accounts. In addition to that, applying risk analysis to set strategies and priorities meant that lower risk accounts could be contacted through automated emails, creating capacity for collectors to focus their time on more risky accounts. Management gained visibility to productivity measurements to know what work was assigned versus what was completed. They no longer had to pull collectors off the phone to get a status update; they could view all notes and activities on their own. Managers could actually manage their people rather than just trying to understand what work was being done.

Credit analysts leveraged automation by creating scorecards that were automatically populated with all the information they were looking up manually. These data elements were weighted to fit the risk tolerance of our industry and company to provide a very specific analysis of each customer. This afforded credit analysts time to perform a true analysis and recommend measures (if necessary) to protect the company from potential bad debt and delinquency. Credit analysis is a true artform more than a science. I have tremendous respect for those who perform this work. Automation will not replace the insight they bring to the table; it will simply give them the capacity to focus on what matters most.

Intelligence vs Amount

I mentioned above leveraging a risk-based approach to collections. In terms of recession proofing your organization, this is an incredibly important step. In a manual world, human nature focuses on the largest value invoices and the oldest invoices first. This approach produces cyclical results. When you collect a large value overdue invoice, it reduces your overdue accounts receivable. This creates an illusion that your processes are working well. The time and effort spent collecting on that invoice prevented your collector(s) from giving appropriate attention to the smaller invoices of much riskier customers. Over time, these smaller invoices add up and are at a much higher risk of becoming severely delinquent and/or becoming bad debt. When you layer an artificial intelligence (AI) driven risk assessment into your collection strategies, you remove the distortion provided by the invoice dollar value. Of course, value still plays a role, but leveraging the risk of each customer ensures your team is focusing on the accounts that will make the biggest impact over time and also increasing their efficiency.

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Let us look at an oversimplified example of how this plays out. If you have customer A who owes $75,000 and is 5 days overdue and customer B who owes $2,500 and is 2 days overdue, who would you contact first? Human nature tells you to contact customer A first. However, when applying a risk assessment of each customer, you learn that customer A is a low risk of going beyond your threshold for acceptable delinquency and customer B is a high risk. Digging into what is analyzed with the AI risk assessment, you will find that one of the factors is a historical experience. Customer A historically pays once per month on the first Thursday of every month. Even though the invoice for customer A is 5 days overdue, you see that if they follow their typical pattern, customer A will pay you on Thursday (2 days from now). Customer B historically misses payments and has always been a struggle to get any payment commitments. You also find that customer B has dramatically decreased their orders from you and their revenue figures last fiscal year declined at an alarming rate. Even with this information, you may be tempted to think about putting a priority on customer A as still being the best approach given the vast difference in amount owed.

Now expand your view beyond these two customers. What if I told you there are another 200 customers with a risk profile just like customer B in your portfolio? Does that change your view of how your collectors should prioritize their time? Customer A owes $75,000 but will pay you in two days. Two hundred other customer Bs owe you a total of $500,000 and are at risk of going severely delinquent. Individually, they do not add up to much, however collectively they can derail your cash flow and wreak havoc on your operations. In a perfect world, you want your collectors to contact all of your customers. However, without automation and applying an AI driven risk-based approach to prioritization, you are setting yourself up for a major crash during a recession.

Applying automation and artificial intelligence (AI) to identify and protect you against risk allows you to be more efficient and effective. You can create capacity for employees to focus on what will impact cash flow the most by eliminating waste in their daily routines. AI driven risk assessment considers the changing economic environment and allows you to stay ahead of potential macroeconomic factors that you may not see coming until it is too late. Step out of the wide swings of the pendulum and take a strategic approach to recession proof your organization.

About the Author:
Keith Cowart is the Global Market Owner for Receivables within FIS' B2B Division, which features the award-winning Credit-to-Cash products, GETPAID and Integrated Receivables. He has over 22 years of professional experience in various accounting and finance leadership roles including Accounts Payable, G/L Accounting, as well as Credit and Collections in large global companies with shared service centers. Keith's focus has always been in continuous improvement and leveraging technology to automate processes which drive results.

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SEPTEMBER WEBINARS

Credit Professionals Alliance has been working hard to provide our clients with the most up-to-date webinars concerning today's challenges in the credit field. Watch your email for upcoming registration information on all of the following webinars.

September 19th: **Credit Cards—Are They Part of Your Operating Model?**

September 20th: **Legal Aspects of Credit and Collections**

September 27th: **Are Your Customers Driving your DSO Up with Extended Terms?**

Be sure to check out our website www.nacskc.com/education.html for additional educational opportunities as these are constantly being updated.

Are you looking for Certification and Certificate opportunities? Credit Professionals Alliance can lead you in the right direction, contact Rhonda Ross for additional information at rross@nacskc.com or (913) 383-9300.

Educational Update:
Credit Research Foundation Webinars

September 2023

CRF offers a variety of educational programs: Proctored Courses, On-Demand Courses as well as webinars.

November 6-8, 2023	November Forum—Mission Hills, CA
March 18-20, 2024	March Forum—Charleston, SC

It is very simple to participate: Go to http://www.crfonline.org and click on the Education.

Now offering a Certificate Program!

For additional information go to http://www.crfonline.org/events/current.asp

The following webinars are being offered by NCS Credit
to register for these go to: www.ncscredit.com/education-center/webinars

September 12, 2023
Webinar: States Offering Additional Remedy Through An Optional Notice

September 26, 2023
Webinar: Mechanic's Lien Foreclosure

October 10, 2023
Webinar: Secured Transactions in the U.S. and Canada

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