



# **Managing Your Company's Credit Score!**

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## **What is the TransCredit Score and how is it created?**

This is the question I get asked most, especially from brokers who have a low score. So I would like to begin today by defining what the TransCredit Score™ represents and how it is created. This will allow us all to be working from the same platform of understanding.

The TransCredit Score™ is a “risk based” calculation and its sole purpose is to lend protection to the extender of credit, whether that is a carrier hauling for a broker or a broker contracting with a shipper.

Let’s break that down for a better grip. What do we mean by risk, let’s take a carrier who is handling shipments for Anheiser-Busch out of St. Louis...I believe we all agree that not getting paid is a low risk. Now let’s move that beer through a two person start up brokerage....same freight but now at a much higher risk for the carrier.

Another example, a carrier handling a load for broker CH Robinson or Allen Lund or England Logistics...low risk for sure, put that same load with a \$500k annual revenue broker and the risk that something happens beyond their control that would affect payment to the carrier climbs dramatically.

That said, it doesn’t mean that you won’t get paid by the smaller company and it doesn’t mean that the giant can’t go bankrupt, but when we look at reality....47% of all business start-ups go under in the first 2 yrs and around 70% by 5 yrs. In 2009 2,430 brokers closed their doors; we estimate the loss to carriers at \$287 million. No I am not picking on brokers here, there were 3,047 truck lines that bankrupted and tens of thousands of shippers, a total of 59,608 for 12 months ending June 30, the most since 2005.

So how do we create the TransCredit Score™? We apply a numerical weight to ten financial properties that reflect how your business is operating. Of course one of the most important is your current Days-To-Pay™, and then there is a 2 yr look-back at that payment trend. Another prime factor is your “Years in business”. Admittedly it is one of the factors that make it difficult for a start up operation to have a great score. Suffice it to say that it is the one least understood by the new broker who pays in 30 days or less, but remember those earlier stats. Now think of your own employees...experience and time on the job counts for so much!

Other factors that make up the TransCredit Score™ is your annual revenue, how many references we have reporting, how long have they done business with you, the value of your accounts receivable, the average monthly credit extended by your reporting carriers, a two year look-back at your score and of course any collection activity creates a reduction in your score, the greater the collection amounts the greater the reduction.

By the way the TransCredit Score™ is the only risk score in the transportation industry based on how shippers and brokers pay freight bills. Yes, there are other credit companies and load boards with numbers or letters or both, but all are simply ratings not a score, some as simple as adding your payment trend to an average dollar amount and with A,B,C etc based on their limited input. They may make you look golden, but remember the score was created for the grantor of credit not the debtor. As a broker we know you play both rolls, to appreciate the TransCredit Score™ think about your customer base that owes you all that money...now you too would want the most discriminating financial assessment that you could buy.

### **Who is looking at my TransCredit Score and why should I care?**

There are currently three segments of the industry that are reviewing your credit score on a regular basis.

Let's begin with the obvious, the truck lines. This doesn't need much explanation! Except that it has never been more important that you do everything you can to maintain if not improve your credit score. Why so important now? As we recover from this recession the market has shifted, available freight now exceeds truck capacity. What this means to you is that the truck line can afford to be choosy. He will hold out for the better paying load – he will hold out for a preferred destination and he will choose the brokers with the better credit scores. I didn't say best here intentionally, you don't have to be the top, just in the top group. *(Every truck line draws their own "line in the sand", but my opinion is your number needs to start with an 8 to be in the top group)*

The Factoring industry is increasing its presence in the spot-market factoring of broker invoices. You may assume the carrier is billing you direct, but in many cases there will be a Factor involved. TransCredit within the last 30 days has introduced our newest product called Factor-Fast. The carrier logs into the factoring company's website, puts in the brokers name and freight bill amount. The data is transmitted to our Factor Fast program and instantly approved or disapproved based on a combination of the TransCredit Score™ and other known data about your company.

The last and perhaps least understood group that looks at your TransCredit Score™ is the Insurance industry. In fact, Insurance companies are the ones who invented the risk business, gathering money on a wager that the risk would be less than their income. And get this, transportation was the first known user of insurance, no I am not kidding. The Code of Hammurabi, circa 2100 BC was a policy paid by traders, (I guess we could call them brokers) in the form of a loan to guarantee the safe arrival of their goods by caravan. They faced of course the same kind of perils our transportation industry does today – breakdowns, theft, and bad weather. Now this would be a hoot! I wonder if they had double brokering back then.

So the Insurance industry uses what we call "risk-based pricing" in everything they do. The cost of your insurance is directly linked to your credit worthiness, which moves us

into the bonding market and the proposed increase from \$10,000 to \$100,000 for broker bonds due to the Motor Carrier Protection Act.

No doubt, there are few brokers today who can qualify for that large of a jump in risk; However, don't despair the insurance industry are pretty savvy folks and they are not going to just drop some \*20,000 outstanding bonds like a hot potato. But you can bet they will more closely scrutinize each policy issued. They have to, because their risk will be increasing ten-fold, from \$200 mill to a \$2 billion exposure. You will need to prove more liquidity, aka cash is King here. A sound accounts receivable...that means anything over 60 days most likely will be disallowed. They will review the experience and professionalism of the owners and last but not least of course is your company's credit score and credit history from two or more sources and that may well include personal credit history on startup companies or companies who are weak in the aforementioned financial areas.

\*(20,533 as of 8-1-10)

### **What can I do to improve my credit score?**

For insights into improving your credit score we need to revisit where we began today essentially "how the TransCredit Score is created" will give you areas that are within your control and are certainly worthy of improving.

Let's start with one of the most crucial segments of your score and that of course will be your payment trend. I think everyone understand this part pretty well, got to pay your carrier debts on a timely basis. The TransCredit Score gives you a bonus rating for 30 days or less, but you can remain in the top tier provided you pay in 40 days or less. Carriers have told us that 45 days is their maximum window, so after 45 the ratings fall off sharply.

One of the areas that causes a poor payment record comes when the truck line has factored their invoice and you make payment directly to the truck line instead of the factoring company. You may think the bill is paid, trust me it isn't. A frequent occurrence is the truck line takes in your check and fails to timely submit the funds back to the factor. The factoring company then reports your invoice to TransCredit as past due. I have seen numerous times this has reached 120 + days; which of course severely affects your score. Even though it may be an extra burden on your payable department it will be to your benefit to make sure the check goes to the factoring company...on a timely basis of course.

Another cause of past-due reports is with-holding payment to the carrier because they didn't have your load number on their invoice and a myriad of other reasons for deductions, including cargo claims. I am not saying the deductions are not legitimate, but here is the pitfall, you make your claim known to the truck line's operational staff, but fail to make notification to their accounts receivable department, therefore you just lost control by assuming they will take the time to explain to the AR department, most likely you will end up on the past due list they report to TransCredit.

Other areas of the TransCredit Score that you can improve, such as increasing your carrier references, making sure your best carrier partners are shown and that your annual revenues are correct and is available to you by reviewing your credit report online. This service is absolutely FREE and we will send you an email twice a year just to remind you to review that report. To get access, all you have to do is email or call customer service at TransCredit and ask for your TransID and password. It's that simple!

### **How can I monitor my credit score?**

TransCredit has a super program called Credit Protection. We monitor your company's credit score, if we receive negative data that reduces your credit score by 3 points or more you are immediately notified with an email Alert. You can then access your credit report at no charge to see what has caused the drop in score. Our customer service department will help you resolve any disputed claim by the carrier. This Credit Protection is available to you at a moderate cost along with a discount for being a TIA member.

### **How can I monitor my shipper's credit score?**

I believe we have now established that each of you recognizes the value of your credit score, so my question to you is this "why shouldn't you be placing an equal emphasis on the credit score of your shippers?" Obviously you should! "risk-based" pricing is already the buy-word in consumer credit and is quickly taking hold in all areas of the business world.

In the open market place that now exists in transportation where carriers, brokers, forwarders - all competing for the same freight. That "shipper score" can translate into important benefits.

Let's look at how knowing the score can add more business for your company. If the shipper's credit score is high, indicating that their assets are substantial, payment trends are prompt, a proven track record of years in business. Once you know the turn of your money is assured ...this offers your sales department a great opportunity to negotiate better rates. **Hence more business for your company.**

Can knowing the score improve your cash flow, sure it can! Instead of just shooting in the dark for accounts -- concentrate on Shippers with the best scores and payment trends. That will reduce your DSO, (day's sales outstanding). **Therefore improving your cash flow.**

Will knowing the score increase your profitability, absolutely yes! Admittedly there will be times when the shipper doesn't have the highest score; now what do you do. The prudent businessperson knows that it costs them money to carry receivables beyond terms. A shipper with a lower score who exposes you to higher risk with slow payments suggests you need a higher freight rate to offset your added cost. Now combine this

prudent marketing with improved cash flow from higher scoring shippers and without any doubt you just **increased your profitability**.

Where are we now! We've got more business, we've improved cash flow, and we've increased our gross profits. Let's look at how knowing the score can reduce the costs in your credit department. First you benefit from quicker decision making, your personnel spend less time on paperwork needed to prove credit worthiness, therefore you reduce the number of credit reports you would have otherwise purchased. Using the score results in increased efficiency and "**lower operating costs**".

If you will contact TransCredit and ask us about Credit-Trac, we will show you how to place an icon on your desktop and receive credit scores and payment trends plus alerts on declining scores on all of your current shippers at a low cost flat rate.

I believe you would agree that there are an amazing amount of benefits by knowing the shippers score. As a closing thought for today, let's now take those same credit score benefits for improving your business and place them into the hands of a truck line that's looking at your company.

When you have a favorable TransCredit score-- you offer the same advantages to the truck line; and that my friends adds one more crucial benefit to you - it increases your potential for more trucks to move your freight.

Thank you all for joining me today and thank you TIA for sponsoring this webinar on the benefits of your TransCredit score.



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