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Appendix D

Suggestions for Improvement in Data

Mechanization of Quality Control

The mechanization of the credit departments of nonfinancial firms, already begun, promises to increase the efficiency of credit analysis. The computer, programmed for the desired minimum quality characteristics commensurate with the firm's acceptable risk exposure, calls attention only to accounts of marginal quality. Thus by feeding the computer the latest credit information, the creditor has only to deal with "negative" or rejected accounts. The relatively crude credit ratings are thereby replaced by more rigorous and detailed qualitative information. It is not unreasonable to expect that computers will eventually be used in conjunction with a central data-collecting center. Credit information would then be immediately and continuously channeled into the firm's own computer, thereby providing maximum quality control.

The economist, too, can look forward to the aid of computers in analysis of credit quality. Business firms will be able to store considerably more information for longer periods through the use of tapes. Laborious data collecting and summarizing will be considerably reduced as a result.

Despite this promising outlook, however, certain sectors are not likely to adopt automated credit analysis since the scale of their operations is too small. This problem applies to the trade and service sectors in particular, as well as to small and medium-size firms in all sectors.

Recommendations for improvement in the reporting of qualitative, financial, and operating data for the business sector follow. They call for betterment of existing reporting facilities, principally through the publication of data currently obtainable but not now being made available.

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Statistics of Income (IRS)

A distinction should be made on corporate tax reports between actual credit losses incurred and credits to bad-debt loss reserves. A special category for "expenses incurred in bad-debt collections" should be added to the form. There is also need for current data of the financial and operating condition of businesses other than those in the manufacturing sector. The *Statistics of Income*, the main source of these data, is published with a two-year lag. Publication of preliminary balance-sheet and operating data by sector and for broad size groups within these sectors, based on random samples of tax reports, would fill a large gap in current business information.

Quarterly Financial Report of Manufacturers (FTC, SEC)

Information on the aging of accounts receivable should be presented for industry and size breakdowns and financial data should be reported for size breakdowns within industries. The working capital ratio should be added to the three key ratios already being reported.

Credit Research Foundation Surveys

The aging of accounts receivable, now being reported only for over ninety days past due, should be shown on a thirty-day basis, i.e., less than thirty days past due, thirty to sixty days, sixty to ninety days, and over ninety days past due. The reporting method already used by the CRF in a spot survey conducted in 1951 to show the source of delinquencies—i.e., past due from manufacturers, from retailers, etc.—should be reintroduced. The proportion of trade debtors discounting their trade debt should be added to these surveys.

Dun & Bradstreet

Periodic summarizations of the "6X tickets," which report the experience of suppliers in collecting trade credit, would be highly desirable. Samplings of credit ratings for broad groups of firms should be made of each bimonthly reference book. Dun & Bradstreet ratios should be based on larger, randomly selected samples.

Appendix D

National Commercial Finance Conference, Inc.

The collection experience of factors and commercial finance companies would be a considerable contribution, as would be information describing the source of the trade credit which they discount.

Commercial Law Lists and Commercial Collection Agencies

With only thirteen "law lists" and about forty-five commercial collection agencies specializing in commercial receivables, their trade associations could contribute greatly to the knowledge of credit quality. Preliminary investigation has shown that changes in the volume of the hard-to-collect receivables in which they specialize are coordinated with the business cycle. Publication of the number and value of accounts receivable submitted to commercial collection agencies and lawyers would be a major contribution to our knowledge of credit quality.