50 shades OF RED

By Kirk Cheesman*

If there was a movie for the credit management industry, what might be the most embarrassing and awkward moments it could depict?

Unfortunately, due to the nature of our industry, we are going to have circumstances where, despite our best checks, analysis and good credit management, we will meet characters who, from the debtor's side, are not always going to tell the truth (hard to believe, I know!).

The following, in no particular order, is a non-comprehensive listing of 50 scenarios we can associate with being 'caught out' with non-payment or a bad debt.

1. Not knowing who you are dealing with.

2. Not obtaining a signed credit application.

3. Not registering your security interests on the PPSR.

4. Not invoicing the correct entity.

5. The debtor changing their name and not notifying you.

6. Collection action not taken promptly enough.

7. Allowing deliveries to continue while the account is overdue.

8. Accepting repayment plans without getting confirmation in writing.

9. General/Sales Managers over-riding your decision to put an account on stop.

10. Not obtaining trade references.

11. Not gathering information to assess credit-worthiness.

12. Being put under pressure to open an account for an urgent sale.

13. Not writing to customers to confirm their credit limit and terms of payment when opening their account.

14. A preference claim by a Liquidator – after you have collected the account in full.

15. Personal guarantees not being correctly structured or signed.

16. Debtors skipping and disappearing.

17. Phantom companies being established.

18. Promises of additional capital injections.

19. Sale of business just prior to becoming insolvent.

20. Administrators challenging retention of title and your right to make recoveries.

21. Opening multiple accounts on the same debtor.

22. Reconciliation and on-going credit and dispute queries.

23. Changes in insolvency law.

24. Debtors entering Deed of Company Arrangements then failing to pay dividends in line with those arrangements.

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25. Post-dated cheques/bounced cheques.

26. Tax office issues wind up notices without warning.

27. Voluntary administration just after a delivery has been made.

28. Political risks interfering with export trade.

29. Poor, or inadequate, communication from the sales team to the credit department.

30. Non-compliance with Privacy legislation.

31. Putting an account on stop and being asked (or told!) to take it off to supply more goods.

32. Advertising credit rebates automatically deducted by debtors.

33. Non-disclosure of financial information.

34. The "I haven't been paid, so I can't pay you" excuse.

35. Inadequate or insufficient credit agreement.

36. Poor credit history of directors.

37. Not knowing the company is trading while insolvent.

38. Being lulled into a false sense of security – "they have always come good with payment in the past".

39. Inability to pass on legal/ collection costs so you are not 'out of pocket'.

40. Insufficient 'paper trail' – a 'he said, she said' scenario.

41. Not wanting to 'upset' the customer, sales are hard enough to come by!

42. Another creditor taking action when you are getting paid.

43. Key personnel leaving (jumping ship).

44. The debtor is going through a 'restructuring exercise'.

45. The debtor is taking on a large project, out of scale with the size of their operation.

46. Increasingly being approached for a trade reference as your debtor shops around for alternative suppliers.

47. Being asked to discharge your PPSR registration as the debtor tries to maximise collateral for new borrowings.

48. The debtor appears to be 'shopping around' their accounts receivable book to 'alternative' financiers.

49. It becomes more difficult to speak to key officers of the debtor.

50. The debtor makes poor management decisions.

Whilst all the above are frustrations, many can be avoided by implementing clear guidelines on the account management set up process for new and existing accounts. NCI recommend building a credit analysis matrix to highlight the information required to assess a credit limit based on the size and terms being offered.

After the establishment of a credit limit, a checklist should be established to ensure nothing is missed in advising the client of their terms and conditions and credit limit, as well as other external factors such as confirming the correct legal entity and registering any applicable security interests on the PPSR.

Ensure the documentation is appropriately signed by the debtor and securely stored where they can be readily retrieved in the event they need to be referred to. Regularly review your terms and conditions to ensure they are up to date and take into account appropriate legislation.

Make sure your staff are well trained and clear as to how your business will deal with an overdue account. A specific action plan should be established for sending demand letters, using external parties to support your practices, and being vigilant in applying the guidelines as to what would be acceptable in the event a repayment plan is agreed.

If your business would suffer significant loss and cashflow pressure should one of your customers become insolvent, an analysis should be undertaken to identify if additional security or credit insurance could provide a safety net.

There are many on-going new factors which are affecting the economy and the credit environment as we speak. Significant shifts in currencies, oil prices, interest rates and pressure in the mining and food service industries are only a few factors which have played a part in a number of insolvencies and payment pressures over the past 3 months.

As one of the most important assets within a business, the debtor's ledger and the processes surrounding the provision of credit should be given the appropriate level of focus and resources to ensure you limit the number of shades of red you may experience. ◆

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*NCI's new Credit Consultancy Report can provide a full credit review and assessment of your top risks.

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