Baker Ing

Collecting in a Crisis

White Paper

BAKERING.GLOBAL

Baker Ing

White Paper

Collecting in a Crisis

Introduction

Successful credit management is the science/art of balancing, and mitigating, Risk while assisting a business to optimise its profit and growth.

As with any skill, you can improve your collections success with constant learning. Thankfully, the most respected International credit professionals are often very 'open' people; they share their success stories and are not afraid to discuss difficult situations or their past challenging experiences.

Recognising this, Baker Ing International invest significantly in learning, personal growth programmes and networking to inspire credit professionals, encourage service improvements and drive innovation. We share our learnings to help our network get ahead of the curve when it comes to best practice.

This paper explores just how we can help our businesses survive the COVID-19 crisis by doing what we do best – collecting revenues and protecting cashflows. We have taken great care to approach this paper with the level of respect, sensitivity and practicality the subject deserves. We hope it will provide practical advice which can be immediately applied and, in turn, help to support credit professionals in the fundamentally important role you play, especially in these uncertain times.

"Every morning in Africa, a gazelle wakes up. It knows it must run faster than the fastest lion or it will be killed. Every morning a lion wakes up. It knows it must outrun the slowest gazelle or it will starve to death. It doesn't matter whether you are a lion or a gazelle: when the sun comes up, you'd better be running..."

- Dan Montano

EMAIL
admin@bakering.global

TELEPHONE
+44 (0) 0207 871 1790

WEBSITE
bakering.global

REGISTERED OFFICE
Office 7, 35 Ludgate Hill, London EC4M 7JN, UK

REGISTERED COMPANY
09787114

Baker Ing

EMAIL
admin@bakering.global

TELEPHONE
+44 (0) 0207 871 1790

WEBSITE
bakering.global

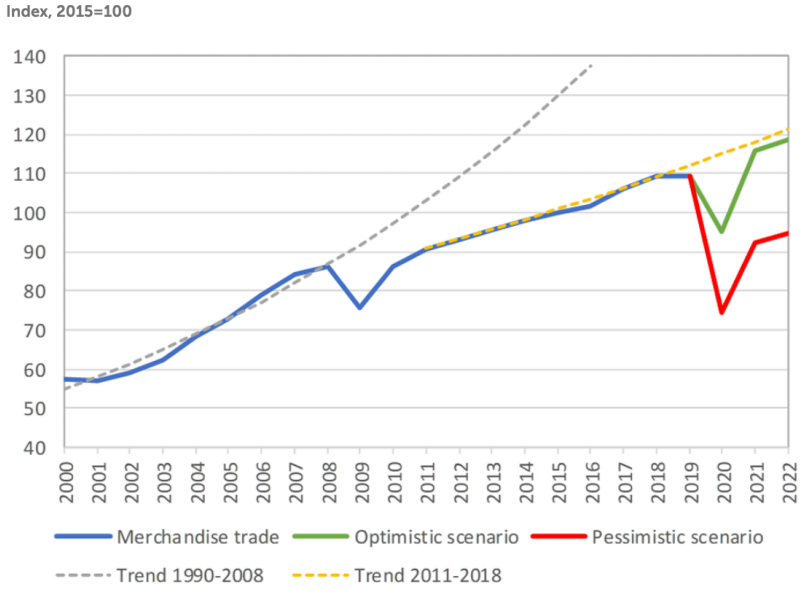
REGISTERED OFFICE
Office 7, 35 Ludgate Hill, London EC4M 7JN, UK

REGISTERED COMPANY
09787114

Context

By now, everyone is well aware of the economic turmoil COVID-19 is causing and will cause. We will, therefore, forego recounting what brought us to this point. It may, however, be helpful to summarise the scale of the problem we face briefly;

- The IMF has predicted (statement released April 14th) that the global economy will shrink by 3%
- The WTO projects global trade will fall in 2020 by 11.0%
- Nearly all regions will suffer double-digit declines in trade volumes in 2020, with exports from North America and Asia hit hardest



World merchandise trade volume, 2000-2022. Source: WTO Secretariat.

We can agree, this is bad. What does it mean for credit management specifically though? In summary, it means we face a spike in insolvencies, liquidations, aggressive M&As and, consequently, more bad debt.

There have been many documents released since the beginning of the crisis (indeed, we have published papers ourselves here). Now we are aware this will be a protracted recovery however, so the time has come to address the practical matter of getting paid in such an adverse economic environment.

The first step, of course, is to review your Accounts Receivable (AR) and client base according to Risk and re-evaluate. What determines success or failure, however, is the continuity of cash collection. Credit risk is undoubtedly a significant factor, but there are other variables which, collectively, are just as important.

Baker Ing

Credit Risk

As mentioned, this is a critical differentiator in performance, as the company's status determines its ability to pay (i.e., Chapter 11, Non-Trading, Administration and Liquidation will 'stop' payments almost immediately).

"In many cases, you may no longer be able to rely on previous payment behaviour as the parameters in which they previously operated have shifted so significantly; Many are sailing in unchartered territory".

- Sam Godwin, Credit Manager EMEA, Deckers Brands

The drastic change in Risk for some clients will be the result of their inability to sell product and services due to 'lockdown' restrictions. Factors that will determine their ability to 'weather the storm' and continue trading will be;

- The speed at which they can return to trade at full capacity.
- Reductions in profit margins they may face. The impact on some commodities (e.g. dairy, oil, gas and others) will be significant to the point they are surplus to demand.
- Seasonal sectors, such as retail, will be unable to sell their non-returnable stock. In turn, this means they will have less cash to purchase next season's goods.

You can measure the impact of COVID-19 on your client's Risk by analysing their routes to market and client base. For example, if a company is reliant on high-value orders and small volume sales, it will be more vulnerable when *their* clients are, in turn, susceptible to liquidation or reduction in demand for their goods.

"It is important to consider consumer spending behaviours in your credit risk management. Highlight your high-risk customers and the channels in which they operate. Most of our online partners with the capacity to operate safely have seen brick and mortar sales shift to online and are experiencing an unforeseen surge in revenues, particularly in Sports & Leisure and Loungewear".

- Sam Godwin, Credit Manager EMEA, Deckers Brands

EMAIL
admin@bakering.global

TELEPHONE
+44 (0) 0207 871 1790

WEBSITE
bakering.global

REGISTERED OFFICE
Office 7, 35 Ludgate Hill, London EC4M 7JN, UK

REGISTERED COMPANY
09787114

Baker Ing

EMAIL
admin@bakering.global

TELEPHONE
+44 (0) 0207 871 1790

WEBSITE
bakering.global

REGISTERED OFFICE
Office 7, 35 Ludgate Hill, London EC4M 7JN, UK

REGISTERED COMPANY
09787114

Credit Managers often analyse a client's AR carefully and can determine profit and loss based on their client base, in addition to their financials.

Engage a company which enables you to model cashflow and create forecasts by inputting their financials which you can adjust based on different scenarios. Doing this will allow you to forecast the client's Risk. Company Watch is one such provider that offers this functionality.

"In a crisis that is hitting some industries harder than other, it was essential to understand what exposure we have. What came out of this exercise is an initiative to link external data from our credit referencing agency to our system".

- Baiba Gaigra, Credit Manager, EMEA Ivanti

You need not be a mathematician and, most certainly, nobody expects a credit professional to be able to predict the future when it comes to COVID-19. There are ways however that you can leverage your own company experience, industry and colleagues to ascribe a very 'Raw Score' of negative impact percentage to your clients.

We recommend composing a document that maps the commercial operation of your client and then applying a negative impact percentage against each point you determine COVID-19 will affect trading conditions. For example;

- Supply chain: 0- 100% negative percentage? Or categorise from 1-3.
- Continuity of operations: 0- 100% negative percentage? Or categorise from 1-3.
- Sales and profit margin: 0- 100% negative percentage? Or categorise from 1-3.

Determine an overall 'Impact Score' for each key client by breaking down how COVID-19 impacts all critical elements of its business. This will necessarily be a score based on anticipation and personal experience, not necessarily facts and figures. It will, however, be the most tailored 'Impact Score' that anyone can provide.

Try to create a score card that is takes account of different client sectors, focusing on the core metrics in their accounts, such as stock holding for retail. Given that many accounts (especially in Europe) now have out-of-date information, you may want to look at the increase in disputes and trends in payment behaviour just prior-to and during the last few months, to derive a more accurate indication. It is also important to pay attention to the news and

Baker Ing

read stories which impact your clients' sectors. This will provide you with an earlier awareness of potential failures.

"Balancing the financial health of our organisation and the best interests of the customer and our future trading relationships has been challenging. On one hand we have granted a significant support mechanism in extended terms, on the other we are working hard to collect what debts we can before the likely surge of insolvencies at the tail end of H2. If cash flow and working capital are of concern during the pandemic, you may need to sacrifice some existing trade relationships and endorse a firmer stance on timely payment to protect the long-term financial health of your business".

- Sam Godwin, Credit Manager EMEA, Deckers Brands

There will usually be three critical elements for you to consider;

- Supply Chain

  Measure the effect of COVID-19 on their ability to produce, obtain and source their service and products.

  Understand who manufactures their products and where they do so. Include 'Sovereign Country Risk' in their supply chain. You can obtain these reports from Dun and Bradstreet.

  You could also include some freely available sources or utilise 'Country Risk Scoring' from underwriters such HCC Tokio Marine, Coface and Euler Hermes.

  Determine a 'Risk Percentage' based on how you think the crisis will impact the supply chain and the ability to physically source materials and produce that is the basis of their operation. For example; Delicatessens providing European sourced foods in the UK will have their supply chains more impacted than a general UK Grocer who has utilised UK suppliers.

- Operational Liability

  Assign a secondary percentage score based on the degree to which you envisage a negative impact on a company's operational ability.

  If a client or business has had to furlough staff, then their services and manufacturing capability will be affected; it is crucial to assess how much

EMAIL
admin@bakering.global

TELEPHONE
+44 (0) 0207 871 1790

WEBSITE
bakering.global

REGISTERED OFFICE
Office 7, 35 Ludgate Hill, London EC4M 7JN, UK

REGISTERED COMPANY
09787114

Baker Ing

so. Such disruption will impact cash generation regardless of any Government assistance.

Continuity of business is vital; all companies will be in 'survival mode' and they will be cutting back in many aspects of their entire operation.

- Route to Market and Sales

Determine how quickly the company can 'bounce back' by assessing the sales process. For example; their retail outlets may be closed but online sales may have seen an increase.

Companies are innovative and will seek other means to distribute and sell their products. It's essential to keep abreast of their activity and the message they are sending to market.

Assess how the company's sales have been impacts by the past three months and forecast how you think they are likely to perform over the next 3-6 months.. It is important not rely solely on the information clients are giving you. It is imperative to examine the Group Structure or 'Family Tree' of a company to assess if they deliver goods and assets through more profitable and creditworthy companies. Always be mindful of ownership structures, subsidiary trading companies, and their international assets.

In some countries, such as China and the USA, financial filing laws are more relaxed than the UK, which can make it difficult to determine who is the beneficial owner of a business and owns the proprietary trading marks and rights. Also, be aware that Group Structure's often transfer assets. If they choose to, they could impact your ability to recover monies within the trading company in this way.

"General advice is look carefully at your key suppliers, usually a handful of large customers make up majority of revenue/AR. From a cash perspective, it is far worse to miss one 1 million Euro payment from your largest client than successfully collect 200K from 10 smaller companies. Break your customers up in groups, focus on major ones and assess upfront how far you can go supporting their request for extended terms. Review your weak customers, assess the risk of them going under, start building bad debt provision and/or discuss with your credit insurer if applicable".

- Peter Van Hanegem, Managing Director/Credit Manager, EMEA Belkin

EMAIL
admin@bakering.global

TELEPHONE
+44 (0) 0207 871 1790

WEBSITE
bakering.global

REGISTERED OFFICE
Office 7, 35 Ludgate Hill, London EC4M 7JN, UK

REGISTERED COMPANY
09787114

Baker Ing

Liquidity & Working Capital

Company size does not always determine propensity to pay. Household brand names and global companies have taken everyone by surprise by going into administration.

Some failed due to inadequate working capital and their inability to react to unexpected circumstances. With this in mind, one should take a holistic view of clients' financials. We recommend strength-testing or 'shock modelling' some of their key financials. If you reduced or increased figures by 2%, 5% or even 10%, what impact would that have on their working capital?

"If companies are asset-rich but cash-poor, you can expect a request for extended payment terms".

- Lisa Baker-Reynolds, CEO, Baker Ing

Lack of interest in 'on-time payment discount' could also indicate working capital issues. Those businesses that have been fast growing in previous years (e.g. investing in physical growth that involved significant cash investment via country expansion, new product development, or merger and acquisition) are potentially now going to find themselves overstretched in response to COVID-19. Essentially any project which involved capital investment could now affect a company's ability to pay your invoices.

"The cashflow problems of our customers are often passed on to their suppliers, like us. The largest challenge is to come up with a fair and effective strategy for customers asking for extended terms. If we accept all these requests, we end up in similar position, where we come up short. On the flipside, you need to work with your channel to keep business going, or else we both have a future cashflow issue. Finding a balance has been a real challenge so far".

- Peter Van Hanegem, Managing Director/Credit Manager, EMEA Belkin

EMAIL
admin@bakering.global

TELEPHONE
+44 (0) 0207 871 1790

WEBSITE
bakering.global

REGISTERED OFFICE
Office 7, 35 Ludgate Hill, London EC4M 7JN, UK

REGISTERED COMPANY
09787114

Baker Ing

Key is to run an in-depth analysis of your customers to forecast pending problems. Accounting for 'Risk' is important but, measuring the difference this makes in conjunction with 'Propensity to Pay' within 1, 3, 6, 12 months and beyond should influence your cash flow prediction.

"Use a request for delayed payment to negotiate. One example is do not accept delay on outstanding balances but offer extended terms on new orders. New business is your future cashflow and it helps your customers making money too, so ideally this turns out win/win. Another thing to do: offer cash discount for balances due in near future. It will hurt your profitability short term (don't do it if your margins are too small) but protects your cashflow which is more important at this stage".

- Peter Van Hanegem, Managing Director/Credit Manager, EMEA Belkin

The first thing is to prepare for bargaining in order to have an agreed, fair and considered response. You are likely to be asked for extended payment terms, for example. These may be unprecedented times but, but the relationship between suppliers and customers should not be. Suppliers cannot be the first source of finance for customers experiencing financial difficulties and it is not reasonable for your company to be expected to contribute towards your customers' working capital. Formulate an appropriate empathetic but firm response in preparation for this request. You will need to explain to clients that your company is just the same as theirs and as such, you can no ore agree to such a request at this moment than they could. While we are all committed to helping our customers in their Order to Cash process and commercial operation, you must nonetheless stand firm that are a supplier, not a funder or stakeholder. It can however be helpful to both parties if you are knowledgeable about Government assistance your customers may be able to access and able to provide tangible advice to your clients on how and where they can access it.

"We are analysing requests and payment issues with as much information as possible to ensure we have that clarity on our debt, who it sits with and what their position is, so we can come to the fairest decisions for both our customers and our business".

- Danielle Fotheringham, Credit Manager, Pentland Brands

Baker Ing International can provide you with such detail, by country, for you to relay to your client base by country. Please email lisa@bakering.global to request this information, which you are free to use and brand with your company.

EMAIL
admin@bakering.global

TELEPHONE
+44 (0) 0207 871 1790

WEBSITE
bakering.global

REGISTERED OFFICE
Office 7, 35 Ludgate Hill, London EC4M 7JN, UK

REGISTERED COMPANY
09787114

Baker Ing

Creditor Impact & Supplier Chain

How timely you are paid is most often very much proportionate to the impact that you as an individual have on the people at the company in question.

A company will assess their working capital and prioritise their suppliers. Procurement teams are likely to know your order to cash process and how far they can challenge your terms. You should try and learn your client's supply chain (i.e., other creditors) so you can determine your importance as a creditor and seek to influence it.

The first step is to gather the information you need. Quite often the people best placed to help with this are your procurement or sales team. Your client onboarding forms may also document some of the information you need.

"In Credit, we are used to balancing risk and revenue on a daily bases, but in a crisis like this, it has become even more acute. In my opinion relationships with sales are critical, ability to have frank conversations and determine real risk versus perceived one and maintaining company cash flow, while still managing revenue".

- Baiba Gaigra, Credit Manager, EMEA Ivanti

Visualising where you stand in your client's priorities and being mindful of how easy or how hard it will be to be replaced by a competitor, is powerful. Credit management often liaise with procurement teams for their internal purchase chain; incorporating this insight into order to cash considerations could make all the difference to getting paid.

"We understand we must work with our customers to encourage honest dialogue about realistic payment promises and plans".

- Danielle Fotheringham, Credit Manager, Pentland Brands

Furthermore, it is recommended that you determine which of your competitors are useful in helping you to negotiate better. Joining Credit Circles within your industry is now even more advantageous in this respect; you can learn payment behaviour, identify which suppliers are being paid before you, and identify Risk earlier.

Baker Ing International recommend Let's Talk Credit Limited and Forums International Limited.

EMAIL
admin@bakering.global

TELEPHONE
+44 (0) 0207 871 1790

WEBSITE
bakering.global

REGISTERED OFFICE
Office 7, 35 Ludgate Hill, London EC4M 7JN, UK

REGISTERED COMPANY
09787114

Baker Ing

Technology, AP Process & Communication

COVID-19 has had a significant impact on AP. There has been a a high instance of 'furlough' of AP staff, not just in the UK, but also within offshore BPO and Shared Service Centres such as India, Eastern Europe and LATAM areas.

"We have learned that our great brand reputation and relationships are our most valuable tools at a time like this. Our approach is to be firm, fair and realistic. Three of our four values as a company are 'in good conscience', 'with clarity and courage' and 'success is a team game' – these have been at the core of the way we are managing the crisis".

- Danielle Fotheringham, Credit Manager, Pentland Brands

Your invoices are more likely to be taking a different route than the standard process for which you have accounted. The increased time it takes an invoice to be processed will impact your cash collection and the procedure you need to adopt may have changed (e.g., using different software or uploads via online portals could have been introduced). A new contact person within a business is possibly addressing AP and delegating payments via a new, lean, work-frame.

"Remember to keep in touch and emphasise with your customers, especially brick and mortar independents who we have found have been hit hardest".

- Sam Godwin, Credit Manager EMEA, Deckers Brands

Ask your credit and collection team specifically and directly;

- Do you know the payment process within your AR client base?
- How well do you know the payment processes of your high volume/low-value debtor segment?
- Have you accounted for the impact the current situation will have on this client segment?

EMAIL
admin@bakering.global

TELEPHONE
+44 (0) 0207 871 1790

WEBSITE
bakering.global

REGISTERED OFFICE
Office 7, 35 Ludgate Hill, London EC4M 7JN, UK

REGISTERED COMPANY
09787114

Baker Ing

Introducing a short, sharp questionnaire for all your clients in response to COVID-19 to determine what you can do to help them to pragmatically pay an invoice could be a good idea. A one-page request for information which you present for better communication between your two companies may be welcome and give you the information you need to change your internal processes. You may no longer (or even previously had) the headcount to telephone and speak to all your client base and 'fact find', so use this crisis as an opportunity.

"Keep your eyes and ears open and adapt. Be flexible. Talk to others. Talk to sales they know the customer and hopefully also the industry".

- Baiba Gaigra, Credit Manager, EMEA Ivanti

Emailing a simple request for information and asking how their AP process has changed, or asking what you may need to do differently, should also shorten the dispute process. If a signatory is essential in your purchase order process, speak to them, learn how best to contact them and what will influence their ability to sign for payment. Try to foresee the challenges of your clients and be one step ahead; whether in policy, software, or any other matter.

Finally, make an effort to understand the software your clients use and the methods they utilise to pay your invoices. You can anticipate problems and compatibility issues of your systems – this can be invaluable.

"The best advice would be to work hand in hand with the collection group. Most often enough, knowing the client financially & the knowledge of how their account was being maintained, can make it easier for both client & supplier to adhere to a repayment plan, suited for both".

- Pasqualina Spagnuolo, Senior Global Credit Manager

EMAIL
admin@bakering.global

TELEPHONE
+44 (0) 0207 871 1790

WEBSITE
bakering.global

REGISTERED OFFICE
Office 7, 35 Ludgate Hill, London EC4M 7JN, UK

REGISTERED COMPANY
09787114

Baker Ing

Conclusion

We often discuss the extent to which businesses value their Credit Management a company; if it receives the recognition it deserves and if Credit Directors have a 'seat at the table' when it comes to Board Level discussions. If there is anything remotely 'positive' for us about the state of our economy right now, it is that Credit Management should be a focal point.

"Be considerate but be firm; I have found that companies are asking for much more lenience then they need at the moment, and when you sit down to negotiate you may be surprised that you will be able to reach quite a reasonable compromise".

- Baiba Gaigra, Credit Manager, EMEA Ivanti

Now is the time for credit professionals to showcase their professionalism, knowledge and business acumen. How you collect in crisis could very well positively impact your career.

EMAIL
admin@bakering.global

TELEPHONE
+44 (0) 0207 871 1790

WEBSITE
bakering.global

REGISTERED OFFICE
Office 7, 35 Ludgate Hill, London EC4M 7JN, UK

REGISTERED COMPANY
09787114