Rise in Orders Could Mean Fraud

Certainly, the primary goal in any business endeavor is to get customers to increase their orders. But this increase can also be a warning sign and another technique for spotting business credit fraud. In most credit fraud situations, the operator ultimately wants to order as much as possible. The window of opportunity for heavy ordering is often just a few months. Thus, there comes a time in almost every credit fraud when ordering increases drastically. It is simply greed. If they're going to take the business down, they can't resist doing it on a big scale. The results are orders that are out of proportion to the size of the business.

Again, like all fraud indicators, a credit analyst can only make use of the indicator in the context of other factors. Without knowing something about the business's history, its previous order history or its ability to move products, the credit analyst can't really make a judgment about whether a significant rise in orders is a warning sign.

Here are some things to be aware of:

- If the order is from a retail store, what is the square footage?
- How many locations does the business have?
- Has a sales representative visited any of the stores or the headquarters? What did he or she find?
- If the customer is a wholesaler, is the reason for the increase known? Under normal circumstances, a wholesaler knows his or her sales reps. If this is a mystery, try to find out who needs the product.
- Does the business have the usual signs of permanence or does everything look like they're ready to pick up and leave at a moment's notice?
- Is the background of the principals known?

When in doubt, a credit professional should call one of their own sales representatives—a good sales rep can be one of the best fraud-fighting allies. If significant increases in ordering are being experienced, coupled with any of the other fraud warning signs, the odds are something is wrong.

When questioned after the fact, many fraud operators have told NACM and law enforcement agencies that an increase in ordering should be viewed by credit professionals as a "red flag." Convicted bust-out operator Alan Levy, who made a 20-year career of bust-outs, said "Normal businesses do not routinely increase each order; but for bust-outs, this is par for the course. When a bust-out is gearing up, the orders generally increase each time."

Like all fraud warning signs, this is merely a circumstantial "red flag"—something that should cause a careful look at the customer in question. Dig until the reason is known and comfort level reached, prior to authorizing increased credit.

Source: NACM's *Principles of Business Credit*