Extending Terms During COVID-19 Pandemic

The sudden outbreak of COVID-19 in the U.S. caused many businesses and individuals to fall on hard times, closing up shop, losing income and the death of loved ones. The government stepped in to assist those financially impacted by the pandemic; however, the need for additional assistance fell to others in different industries and sectors to help supplement those experiencing hardships.

"We looked at our customer base and tried to get ahead of the game in early March to develop a terms extension program to help the hardest-hit trades all while not violating antitrust rules," said Cynthia Smith, CCE, associate director of credit with The Clorox Company. "By opening the program up to an entire class of trade, we wouldn't have any problems."

Companies in the business-to-business credit world can have a difficult enough time getting paid without an economic disaster like the one seen during the spring of 2020. Yet, planning and resilience have paid off for some credit departments despite the pushback from customers.

According to a recent NACM survey, two-thirds of respondents reported customers were requesting/demanding extended payment terms due to the COVID-19 pandemic. However, roughly 45% said their customers are receiving the terms extension.

At Clorox, any terms extensions need to be approved by the chief financial officer. "The extended terms program was in part established as a way so the CFO wouldn't have to be involved in every customer request." Some customers would ask for 30-day extensions; some would ask for 60 days. "We anticipated we'd receive requests, but we wanted a policy already signed off by the CFO."

Smith said, planning started in late February/early March, and the program was in place by the end of March. "We knew brick-and-mortars would be hurt heavily, so we looked at nonessential, brick-and-mortar customers as a top priority."

The extended terms program was originally developed in the credit department, but Smith said, they reached out to finance directors and presented the policy to the CFO. It is also important to get the legal team involved upfront when developing these policies. The program was run through a cost analysis—what would be the price to the company for giving extended terms and what would be the maximum exposure based on historical buying levels.

The extended terms policy was not a blank check nor was it automatically approved. Guidelines were followed when it was built and how it was implemented. The program was only for open invoices at the time the customer requested extended terms. Extended terms were not given on new orders—order volumes should be going down to coincide with business needs, noted Smith. "There was an understanding that going forward the order volume would be drastically reduced; we didn't want the policy to incentivize customers to increase order volume to get extended terms."

Some customers were happy because they were getting more time and longer terms then they were asking for, but some customers were not as happy since they wanted longer terms. "We were consistently applying the policy, and when faced with questions, we would explain, 'This is the policy we have to be fair and equitable to all.'"

For those skeptical of this type of program or those wanting to avoid the risk of floating extra time for payments, Smith said, most of the extended terms that were granted have already been paid, and the program has been closed. However, there is also the potential to use this extended terms policy as a foundation going forward should it be needed due to another economic failure. “It’s easier to have a process in place and reinstitute the policy in the future if need be.”

-Michael Miller, managing editor