

Observing a Customer's Facilities

When visiting a customer, a credit professional should ask for a tour of the facility. A great deal can be learned from viewing the customer's operations first-hand, and an observant credit professional can note any irregularities and/or inconsistencies within the business. For example, a recent financial statement may indicate a large volume of inventory on hand. During the facility tour, however, if the inventory seems low, then the credit professional can point out the discrepancy and allow the customer to offer an explanation.

Below are some suggested checklist items to use when visiting a customer's facility:

1. **Prioritize.** Visit the most important sites first but not necessarily the site the customer seems most inclined to have you visit.
2. **Observe the impact of competition in terms of product use, amount on hand, etc.** Try to ensure that you are not misled by what you observe. If there is a large backlog, what factors are involved (heavy buying in advance season, poor acceptance of the suppliers' product, spot buying due to advantageous pricing, purchase of suppliers' product due to credit problem with us, etc.)?
3. **Observe what other suppliers are present in the on-hand inventory.** This may provide reference information that can be used for follow-up after the visit.
4. **Observe the efficiency of customer logistics.** Is the facility located advantageously to customer locations and supply routes?
5. **Observe the traffic flow of employees' work areas, receiving and shipping facilities.**
6. **Observe manufacturing efficiency and productivity. Look for signs of excess capacity.**
7. **Are they busy?** Depending on the industry, be aware of the kind of activity that should be taking place.
8. **Does employee morale seem high or low?** If possible, ask employees to describe their functions in the organization.
9. **What is the condition of equipment and other fixed assets?**
10. **Are there plans to relocate any facilities?**
11. **Have your salesperson accompany you to help explain the facility and add their interpretation.** Ask your salesperson to compare this operation to competitors' facilities.

Source: Principles of Business Credit