Some Opportunities Harder to Notice, Require Deeper Investigation

Most credit professionals will experience a need at some point in their career to address marginal accounts and special business cases in order to maximize sales and open up new and growing opportunities.

It could be that a potential trading partner has solid fundamentals, an attractive product mix and experienced management at the helm, but is hampered by adverse financial or market conditions, or market conditions could prompt an increase in sales to an existing account that then becomes high risk. Most often, these types of partners are either marginal accounts with high-risk exposure, startups or small-and mid-size businesses that are expanding or experiencing cyclical short-term cash flow issues.

In these cases, the credit team has to go beyond the numbers and indentify the best opportunities among a pool of higher-risk accounts, writes veteran credit professional Lucas Gomez, CCE, author of *Credit: Beyond the Numbers*.

“For marginal accounts and complex business opportunities to work, employers and customers must provide the opportunity for credit professionals to meet one key condition: they must meet with the customer, owners and/or management to discuss credit and business issues and be able to inspect the manufacturing premises,” Gomez says.

Credit managers need to fully understand a potential marginal trading partner’s strategic business plan, “or at least have an idea of how a high-risk account that appears to defy basic credit principles manages to survive despite its apparent financial shortcomings,” he says.

This process should include management experience and specific skills, desire to succeed, market conditions and a well-written business plan, Gomez advises.

In the end, the credit team is being called on to make some bold decisions and may end up paying for letter of credit fees, accepting a consignment of goods, converting a receivable to an interest-bearing note, partnering with a bank, taking a second lien or obtaining a personal or corporate guarantee.

In the case of startups, some fundamental factors for credit managers to consider include: good margins, a tested product that addresses a market need, good product quality controls, use of up-to-date equipment, equity and outside financing in place, Gomez says.

Also, economic indicators have to be heeded when performing account risk valuations, he says. For instance, when GDP growth is expected to slow, credit professionals need to weigh this added risk carefully. On the other hand, an anticipated rise in growth should prompt consideration of adjusting lines of credit to support the upswing. Inflation, currency depreciation, interest rates, pricing and data about inventories and accounts receivable are other economic indicators that should be included in the risk/reward estimation.

“When a credit group goes the extra mile in firming up a sale under these risky conditions, a customer will appreciate the efforts made on its behalf; moreover, a seller will benefit by forging a strong and successful business relationship,” he says.

Still, there is no magic formula for discovering which decision will prove successful and which will not, placing the credit professional’s efforts in the realm of a work of art, Gomez says. As such, credit decisions for these types of accounts many times are not simply made by either extending credit on a secured sale or just rejecting the sale outright. “This fundamental reality is what differentiates an average credit professional from an exceptional credit professional.”

- Nicholas Stern, NACM associate editor

Source: *Credit: Beyond the Numbers* by Lucas Gomez, CCE.