Easy Ways to Determine Customer Risk

Risk is an ever-present concern for credit professionals. Still, it's not rare that an insolvency can put a creditor in a bad place. Regularly reminding oneself of risk warning signs will lessen the chance of a big loss, or being taken by surprise. Here are some tips gleaned from Credit Congress speakers for determining financial risk:

- **There is no silver bullet to replace due diligence:** Sure, there are ratings, scoring models and all sorts of automation to help a credit manager, but overreliance on any of them can make you miss the big picture. Using a combination of tools and doing some research still go a long way despite technological advancements that might encourage you to use only one resource.
- **Heed the warnings, especially in the news:** There have been plenty of recent incidents where warning signs about a company existed, but weren't spotted or heeded. Blockbuster was a prime example. It had well-publicized disputes with movie and television show distributors regaring shipping and licensing agreements, as well as competitors, primarily Netflix, that had a much more evolved strategy and were quickly taking away market share. A better analysis of ongoing and publicizide events would have helped such a case and many others.
- **Remember your education (or get educated) on understanding financial statements:** They're available for any publicly-traded company. Most privately-held customers are also willing to share, if asked. Financial statements contain much useful information that can predict where a customer is going. That is, of course, if you know what to look for and understands how to analyze the information properly.
- **Engage the sales team:** While they don't think like credit professionals, sales people can have the closer relationships with customers. They can provide an important perspective otherwise not seen by a credit manager, such as what a potential debtor's jobsite looks like, or are able to take photos during a visit that reveal the conditions of the site. These details might be an important piece of the puzzle in determining the health of a customer.
- **Industry credit groups:** It's a fundamental rule in credit: know your customer. One way to do that is the exchange of information on customer behavior provided at credit group meetings. One piece of information obtained from a meeting could save your company thousands, if not millions. Knowing that a meeting monitored by NACM Affiliates, NACM-Canada and FCIB adheres to federal antitrust guidelines also gives you peace of mind that the information shared is legal.

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