Call on Analysis, Credit Experience to Tackle Workouts

So your customer has recurring payment delinquencies or is experiencing consecutive periods of poor financial results. Perhaps more alarming, the customer is suffering from a broader economic slowdown, has unfulfilled payment obligations or is experiencing management changes or recurring order holds. The time for a "workout" session has arrived. Now you will assess an account's financial condition and perhaps make a tough credit decision regarding your customer.

"The ultimate goal of a workout should be to restore a customer to economic health in order to reduce risk of loss or to withdraw open account terms because the endgame is looming near," writes veteran credit professional Lucas Gomez, CCE, author of *Credit: Beyond the Numbers*. "A workout plan should reflect the customer's financial condition, provide the customer an opportunity to overcome his/her shortcomings and provide the seller the opportunity to protect and cover its investment."

To successfully conduct a workout, credit professionals should draw on their working experience and burnish their negotiating skills, Gomez says. Experience is needed to read the business signs and customer behavior that "point to a potential workout." Negotiation skills are needed to develop, present and "convince the seller's management and the customer that the selected plan is indeed beneficial to both parties."

The following steps will help credit professionals consider whether and how to conduct workouts:

1. Be proactive in identifying players who consistently under-perform and may not last the next market downturn. Credit managers should undertake a selection process "to determine which accounts need to be removed from the active customer base," Gomez says.

2. Take special care with accounts that have serious cash flow problems, that are unwilling to provide financial data or that often pay late.

3. Request updated financial data, and consider some type of security in order to continue supporting a distressed sales account.

4. Keep emotions out of the equation. If not, the credit professional may stay longer than he or she should with a troubled account and eventually lose the payment owed. "Pride has no place when dealing with critical business situations," Gomez says.

5. Don't be afraid to ask for advice. Seek out an unbiased viewpoint from within your credit group or from the marketing/sales department. Workouts are also a time to call on financial analysts to aid you in reaching a credit decision, as they can develop "potential scenarios and financing packages that may yield better returns for a supplier," Gomez says.

6. Be decisive. After completing your due diligence and making your decision, withdraw open account terms, hold orders in the system, stop future orders, or request security or cash in advance to support future sales.

7. Be prepared to cut your losses and document in writing your assumptions and action plan should you decide to continue supporting a troubled account.

Source: *Credit: Beyond the Numbers.*