CREDIT MATTERS
Financial Risk Management is Good Management

B2B CREDIT IN 2020

– A LOOK FORWARD

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What will the future look like in 2020 for B2B credit?

Well, it could be anything, but with a recession looming, I thought it worth putting forward my thoughts. This is my attempt to provide a possible scenario from the perspective of a credit and fraud risk professional, front-line global business operator, entrepreneur and business owner.

THE TIME IS

The time is now late in 2020 and leading up to Christmas. The world is looking grim and there have been many changes to the way business is conducted. The recession is now in full view for everybody to see.

The casualties to date have been many, including our friends, suppliers and customers. Many high-profile corporate enterprises which were thought to have solid financial credibility and too big to fail, have also disappeared. No business has escaped the clutches of the current recession.

Business operations have changed significantly, especially with B2B credit and sales. Many businesses are no longer prepared to do business with large or corporate customers on credit. They found it was increasingly unprofitable. When they did their sums, many businesses found there were other sales channels they could use instead of offering credit to the large corporate customers. The result was usually less stressful and offered greater profits.

In addition, many customers had assisted in the destruction of their existing suppliers through slow or no payments, raising false claims, a lack of cooperation, inefficient billing processes, etc. As a result, the potential pool of suppliers has been reduced with existing suppliers taking a more assertive role in trading relationships.

Prepayment, part-payment schemes and cash sales are now the norm. The benefit of these strategies mean fewer account resources are required, there are no, or fewer credit limits and stop supply lists to maintain There is also no need to worry about all the issues of accounts receivable, due diligence, privacy, etc.

Credit sales are now restricted to "supplier-friendly customers" with solid payment records. (Note the definition of a supplier-friendly customer in Appendix A). Other customers are now granted short terms of 30 days or less and stop credit limits are strictly maintained.

Management structures with updated responsibilities have changed. The creation of a new position in the corporate and larger businesses now exists, the CBM (Commercial Business Manager). (Note the role and working responsibilities of the CBM in Appendix B).

The CBM oversees the risk management, credit, accounts receivable, marketing and sales operations. They report directly to the CEO (Chief Executive Officer) and the board. The CFO (Chief Financial Officer) works alongside the CBM as equals and collaborate on cashflow projections and expenses of the marketing, sales and credit and/or accounts receivable teams.

Another progressive innovation is that credit and accounts receivable employees are no longer called, or thought of, as the "debt collectors" of the business. They are now treated with more respect by all stakeholders, including management, and have a more proactive role when dealing with customers. Management also treats their suggestions with more respect having finally learnt the hard lesson, "… a sale is not a sale until the money is in the bank".

IT WAS JULY 2019

By early July 2019, it became obvious, the recession had started. Sales and profit figures were down and customers had started disappearing or were becoming insolvent.

In Australia, customers were resorting to VAs (Voluntary Administrations) to avoid the onerous penalties against directors trading insolvently. If an insolvent business went into liquidation, insolvency administrators were more demanding of preferential payment refunds.

Meanwhile, new administration costs and operating procedures were forced onto business by legislators and regulators. These costs were expensive and of little benefit to the creditor and legitimate businesses. On the other hand, these costs were ignored by fraudsters and other unscrupulous businesspeople.

The courts were no better. If expensive legal action was required and if the creditor won, the courts were rarely able to enforce payment from the debtor. Although mediation between creditors and debtors was tried, the creditor usually found mediation a waste of time and money.

To further compound management problems, debt buyers were reluctant to buy debts or debt collectors collect debts for businesses. They were finding the quality of debts were so poor a lot of effort was required trying to collect uncollectable debts for little profit. Therefore, as was noted from early in 2019, many debt collectors and debt buyers refused to collect or buy debts which could not be verified through robust risk and credit management processes.

Invoice discounting, factoring and debtor ledger or credit insurance were products for their time, when the economic climate was not so fragile. However, the providers of these products were also finding their returns had decreased due to fraud, insolvency and a lack of quality customers. As a consequence, they too were reluctant to take on just any customer. A strong due diligence and credit policy were the keys to gaining access to these products.

Many business owners and professionals were starting to see how business conditions were changing and did not like what they saw. In an effort to avoid many of the current negative costs and factors of business, the more astute business owners closed down their businesses. This process allowed them to minimise the potential of future liabilities and protect their cash resources. They could also take a break, review the new business conditions and create a more appropriate business structure.

The proviso of such action was of course, such closures had to be completed legally and all current obligations met. Those cases where a phoenix operation was initiated and designed to avoid current responsibilities could still be subject to prosecution.

The business factors and experiences described above were occurring in every country, although there would have been local variations to the factors described.

The truth was now obvious, irrespective of your global location, the desperate times were only just starting.

IT WAS NOW JANUARY 2020

The recession is now in full swing. A lot of businesses have ceased to exist. Management of surviving businesses are seriously rattled because many have never experienced a severe recession. Furthermore, many are unsure how to conduct a profitable business in these conditions.

There are still plenty of potential customers demanding credit terms. These buyers comprise older and more established businesses which were approached years ago, but did not buy at the time. Some of these enquiries will be genuine because their other suppliers have gone out of business. Others will only be looking to buy now because they are on stop credit with their current suppliers.

There are also many new businesses which have suddenly appeared in the marketplace and wanting to open a credit account.

The problem for the surviving suppliers also includes customers signing trading agreements with no intention of honouring them, broken payment promises, false credit and dispute claims, plus increased preferential payments from insolvency administrators.

In addition, creditors have realised they are unable to protect their assets via the courts or small claim tribunals. Government legislation and regulations, plus associated costs are also increasing.

On reviewing their operations, management now finds they are spending most of their time on housekeeping, administration, chasing unpayable invoices and complying with government legislation. As a result, they actually have few resources available for revenue earning activities. It is also painfully obvious, they cannot continue to do business as in the past and hope to survive.

At this point, management may decide to either;

- ***(i) struggle on in the hope of surviving;***
- ***(ii) put the business into some form of insolvency administration;***
- ***(iii) close the business down in an orderly manner or just walk away; or***
- ***(iv) try a phoenix strategy and hope to get away with it.***

REBUILDING A NEW BUSINESS FOR SURVIVAL IN 2020 AND BEYOND

Reviewing the old ways of doing business pre-recession

As management and business professionals considered how to re-engineer their business for survival, they were forced to reflect on what went wrong in the past. This was especially important for those businesses which extended B2B credit. Likewise, those people which were about to launch a new business had to decide how they wished to operate and even if B2B credit was a feasible option.

In reflecting on how to move forward, the main question was "Why did so many businesses fail to prepare for the recession and/or go out of business?"

The fact is there were many causes of business failure and different reasons for why individual businesses failed. The main theme however seems to be for those businesses which extended B2B credit and failed, included the following factors.

1. ***Changes in legislative policies, and societal and business behaviour which affected the status of a creditor***

Due to government legislation and the rules of regulators, plus the cost of legal action, which was often ineffective, credit providers found their rights had effectively been taken away.

Creditors also had to combat the "entitlement generation", which was now entrenched within the business environment. As a result, customers were committing fraud by signing agreements they had no intention of keeping because they felt they were entitled to do so. Besides, based on existing experiences, they believed no action would be taken against them.

Should B2B credit providers have been surprised? No. This behaviour had already been seen in the consumer finance environment. As a result, many business providers were no longer willing to grant credit to consumers and that was well before 2018.

2. ***A "sales at all cost policy" coupled with a lack of business disciplines***

Many businesses were set up with a focus on sales and with little emphasis on the importance of business disciplines and due diligence. What many business professionals failed to learn and understand, "A sale is not a sale until the money is in the bank".

In the meantime, false sales, poorly prepared invoices, a lack of file maintenance and a belief that all invoices would be paid, caused all sorts of liabilities which were rarely addressed.

As the old sales expression/saying goes, "Any person can sell a dollar for $0.50," and unfortunately, that outcome happened on too many occasions.

3. ***A focus on technology solutions and the elimination of the "human" element in business***

Due to an overriding focus on technology the human element of business was soon forgotten. By the time management worked out humans were essential, they had often damaged their business by removing too many humans from their business.

When the correct technology tools are employed properly, they add value to the business. On the other hand, when poor technology products are utilised, they also quickly detract from the effectiveness of the business. Management had failed to note how quickly technology also shows up the incompetence of their own business.

Many businesses also operated without the right type of employees and therefore failed to differentiate their business from their competition. In these same businesses, we also saw where incompetence and fraud factors were allowed to thrive and ruin profits, and sometimes, the business itself.

In addition, the truth was lost; nothing beats human to human interaction in the business setting. Management had also appeared to forget; it is people which have control of money and make the decisions to buy from them or pay them. No matter how effective technology becomes, it will never own money.

4 *The lack of risk management and due diligence of customers*

Spending money on risk and due diligence was never deemed a priority by management. Many in management believed such spending added nothing to the benefit of sales and was just taking valuable resources away from the real business of selling.

Risk is always present in the business environment and spending money on risk management is normal in building a solid business. Spending money on risk management is akin to building solid foundations for a house. Build a house without proper foundations and you cannot be surprised when it falls over when Mother Nature strikes.

5 *The prompt collection of outstanding invoices*

An outstanding invoice past due for payment is always a liability. Unfortunately, the accounting practice of calling an invoice an asset, seems to have lulled management into thinking that every invoice is an asset.

An invoice which is past due for payment, incorrectly processed, or one where the customer raises an enquiry which remains outstanding, is always a ***LIABILITY.*** This fact never seemed to resonate with management. In many businesses therefore, rarely was there sufficient emphasis on ensuring prompt collection of all outstanding invoices.

6 *Failure to measure the costs of incompetence and mistakes*

As Peter Drucker said, "you can't manage what you can't measure." The same goes for incompetence and mistakes. If you don't measure them, you will never know how much they cost, or the risk they are placing on your business.

Most businesses seemed to act as though their systems and people were perfect. It would also appear, management acted as though the level of costs relating to wrong decisions or any problems are minimal.

A lack of understanding the above factors was often compounded when management sacked, retrenched, or failed to employ enough people for the business to operate efficiently on a daily basis. Management did not appreciate it is their employees which interact with customers and suppliers, and run the back office and warehouse, which are the real "knowledge workers" that make the business work efficiently.

When these workers are in short supply, or their work and knowledge is not valued, costs inevitably increase due to unworkable systems, processes and mistakes. It is also likely, when problems occur, there is nobody available to resolve the issues causing the problems and so further costs escalate.

By understanding costs relating to wrong decisions and mistakes, management can begin to rectify them. As the recession continued, many business owners and professionals found their business did not earn enough to protect them from their bad decisions and incomplete processes. Furthermore, many businesses did not have enough funds in reserve, or which they could borrow, to rectify the problems.

7 *The failure to see the oncoming recession and plan accordingly*

Don't look back, stay focused on your mission, forget the past, were the mantras which helped business owners and professionals forget about the real world around them. As late as November 2018, many people were suggesting all will be well because of ….!

Life and business always include periods of highs and lows and as such, recessions are part of the history of business. We also know; if you do not learn from history, you are doomed to repeat it. Many business owners were so focused on operating their business on a daily basis, they forgot to think about the future.

Management may also have believed that a recession would not happen and if it did, they would be largely unaffected due to their current success. On the other hand, if management did believe a recession was imminent, they did not know how to act and so did nothing.

Other business owners and professionals did the opposite. They started early making plans to survive if a recession did occur.

The new business focus and processes in 2020 to survive the recession and beyond

It has finally dawned on management and business professionals that selling via B2B credit ***MUST*** be ***PROFITABLE.*** They also found they could not continue to do business in same old laissez-faire manner of the past. To repeat, management and business professionals have now found:

1. ***they could use other sales channels just as effectively without offering any credit;***

2. ***many of their customers abused the golden goose of business, free credit;***

3. ***many of their customers no longer had any embarrassment about not paying;***

4. ***many of their customers appeared happy to commit fraud to obtain credit;***

5. ***larger and corporate customers were often not supplier friendly;***

6. ***there was little benefit for taking costly legal action; and***

7. ***legislators and regulators had created so many rules and regulations which penalised those offering credit and which favoured fraudsters and unprincipled debtors.***

As a consequence, if you were in business, you almost had to decide on one of two choices;

(i) whether to go out of business quickly by offering credit which might not result in profitable sales, or
(ii) go out of business more slowly by not selling on credit.

There was a third way. However, this would require upfront expenditure to restructure the way their businesses operated and require professional employees committed to the business and capable of operating in the new business environment.

The New Business Structures and Formats

CEOs

The new business process involved a business wide reorganisation from the CEO down. CEOs found they had to now be more practical and hands on than they had been in the last 50 years. Apart from all the general duties of the position, they were now expected to be able to “walk the walk” and “talk the talk” as in the “old days”.

CEOs needed to be seen at the coalface of the business and where necessary, talking and working with their employees and customers. No longer could CEOs hide behind middle management, emails, corporate videos, or fancy words and slogans.

CFOs
Any duties relating to sales and credit or accounts receivable were taken from the CFO and allocated to the CBM. Such actions were required, not because the CFO was suddenly incompetent, it was due to the shear complexity of the modern business world. Many CFOs could barely keep up with all their other historical duties, plus manage the commercial reality of dealing with customers, sales and credit management.

The CBM
The CBM became responsible for risk and fraud management, sales, credit and accounts receivable. The National Sales and Marketing, Credit and Accounts Receivable managers reported to the CBM. In addition, the CBM supported the CFO with anti-fraud and risk management requirements of the Accounts Payable operations.

The CBM oversaw the marketing, sales and credit functions. There are many grey areas within these operations which need to be managed properly in order to achieve maximum profitably and avoid offending respective legislation. The CBM also knew that no one size fits all as salespeople would often point out, and this same principle also applies to selling on credit. The CBM was a person who could approach each situation with the finesse required to achieve the best result.

The CBM also needed an understanding of the way people operated within their own business and that of their stakeholders. This understanding took into account, three other essential factors of:

1. ***how fraud and inefficiencies could rob the business of their assets;***

2. ***understanding the nuances of dealing with insolvency practitioners who chase preferential payment refunds; and***

3. ***how to determine if a profit was being made and all the other intangibles of making profitable sales.***

Sales and Credit / Accounts Receivable
Management has reorganised operations to ensure that cross training and the allocation of resources to sales and accounts employees are realigned to the new business environment. Each department is now treated equally and the business's champions may come from either group of people. This may be a foreign concept for many in management and sales.

It needs to be recognised that sales and credit/accounts receivable operations complement each other in the sales process. As sales and credit or accounts receivable work more closely together, they will also be far more proactive in dealing with customers. Regular visits, telephone contacts will be made and file maintenance will be priority actions, designed to encourage the customer to keep buying and paying promptly.

Operating silos are important to a degree. However, they can cause friction within the business and an "us and them culture", if not managed properly. It is often forgotten; the enemy is not your fellow employees. The enemy are your competitors, fraudulent or unprincipled business owners and insolvency administrators. It is only by creating a "team", can management leverage the best outcomes for the business.

Other Employees
As pressures built up the use of technology increased, management would discover the truth, "… technology does not eliminate problems, it just changes the nature of the problems", as highlighted by Captain Sully Sullenberger and others.

Management will have to therefore be more careful with employee selection. Yes, the number of employees will be reduced through the use of technology. Those which remain however, will need to be more highly trained and professional. These employees with their wide range of experiences will also not tolerate organisational dysfunctionality.

Another important feature for these employees is they will be made aware of how they play a part in marketing the business by increasing sales and cashflow. The emphasis will be on being customer focused and removing any problems which create an unpayable invoice. Poor customer experiences and mistakes only encourage customers to look for other suppliers or slow pay their accounts.

CONCLUSION

It is now approaching Christmas of 2020. The world has changed because of the impact of the recession. As a consequence, the landscape of business has seen new challenges and opportunities being the norm.

Suppliers becoming tired of being ripped off by customers, have initiated steps to take back control of their destiny. The fact that poor customer behaviour has assisted the demise of so many suppliers, means there are fewer suppliers available. Consequently, suppliers now have a greater leverage when negotiating an equitable trading relationship with their customers.

Creditors have realised they have less rights than their debtors and fraudsters. It seemed even the courts, legislators and regulators were against the creditor. As a consequence, suppliers are insisting on cash up front, part payments or if credit was provided, limited terms are the norm. Stop supply lists are strictly enforced.

Many of the old ways of doing business before the implementation of technology have come back into vogue. After trying to reinvent the world of business via technology, management has come to understand, many of the old ways are still essential. Technology now designed by the users enhance the value of these old ways.

B2B credit is no longer provided without increased due diligence being completed. The days of customers thinking credit was a right have disappeared, because they abused the privilege of free credit so badly.

Furthermore, with the aid of litigation funders, CBMs are increasingly resorting to different legal tactics as debt collection was found to be ineffective in many situations. For instance, jointly with litigation funders, aggrieved suppliers are suing customers which do not pay within agreed terms. Such actions are initiated prior to the debtors going into liquidation when suppliers believe they have no other option of getting paid. Both suppliers and litigation funders have found the returns are greater through early intervention rather than waiting for a business to enter insolvency.

Another development, in an effort to increase sales, has been the increasing exploration of block chain and cryptocurrency solutions. There will always be situations where prepayment is not accepted by the customer and the supplier is unwilling to extend credit. It is entirely understandable when trust is in such short supply and has been betrayed by both parties in the past. Blockchain and cryptocurrency solutions is potentially one method to overcome this lack of trust.

Suppliers of B2B credit still need to operate to the best of their abilities and practices. Finally, management has realised without the right application of applicable technology and people, a good reputation and cash, they do not have a business.

APPENDIX A – "SUPPLIER-FRIENDLY" DEFINED

No longer are those businesses extending B2B credit prepared to be dominated by suppliers. As the recession has deepened, they have become more proactive in creating an equitable relationship with their customers. They also feel they have nothing to lose on that basis, they can either go broke selling on credit, or broke by losing customers.

The factors now under review include the following.

Does the customer have a website and if it does, is it supplier friendly?

If so, can a supplier and other visitors to the website locate applicable telephone numbers and other contact details for real people to discuss any account or shipping enquiries, or with the authority to make decisions.

Suppliers and other visitors are no longer prepared to waste time trying to find the right person who can help, or make decisions.

Is there a supplier portal or a billing system?

If a supplier is to fund data processing services to the customer to lodge their invoices via a portal or billing system, they want their efforts rewarded. Suppliers do not want to find out after 30 days their invoices are rejected, or they cannot process their invoices properly, or there is no firm date for payment.

Therefore, the supplier will want to verify:

(i) the system being used;
(ii) what information is required when an invoice is processed;
(iii) is there access to proper training and instructions;
(iv) is the system overly restrictive in how information is entered; and finally
(v) is there somebody who can help with problems.

A number of systems currently provide little support and suppliers are tired of wasting time when billing systems do not help them get paid quickly.

Operational changes

Too often suppliers are given little warning of changes to personnel and operations.

Therefore, they will want to know whether a supplier is warned of any changes to authorised people, support, processing, contact details etc., before the customer makes changes?

In addition, what happens to the supplier's invoices which are already processed? The last thing suppliers want is to have to reprocess invoices already processed under another system.

Are there people with the authority to make decisions?

In many businesses today, nobody seems to, or want to, or is authorised, to make decisions.

Nothing destroys value or increases unnecessary costs quicker than wasting time trying to find somebody who is authorised to make a binding decision, or negotiate a resolution to a problem.

Conclusion

Too many customers pre-recession treated their suppliers with contempt. Today, with the recession in full swing, suppliers have fought back on the premise, they are on a hiding to nothing. Suppliers now demand equal rights which include a demonstration from the customer they are "supplier-friendly" if they want to obtain B2B credit.

APPENDIX B – THE CBM (COMMERCIAL BUSINESS MANAGER)

The role, duties and functionality of the CBM or their equivalent in a smaller business is as follows.

Manage the operations relating to marketing, sales, and credit or accounts receivable operations. Specifically, they are to oversee these operations from a risk, anti-fraud, due diligence and commercial viability perspective.

The National Marketing, Sales, Credit and Accounts Receivable Managers will all report to the CBM to ensure that the business can operate successfully in the new business environment.

The current issues dictate that due diligence on all operational aspects of these functions must:

1. comply with legislative and regulative responsibilities to protect the "good name" of the business;
2. facilitate "a positive point of difference" between the business and its competitors;
3. create profitable trading relationships with customers;
4. understand how to take advantage of supplier incentives;
5. create operational guidelines that protect the business from fraudsters, unscrupulous customers and a preferential payment demand by insolvency administrators;
6. ensure all documentation and processes are in place to help protect the business in case of potential litigation against customers and suppliers;
7. create respectful relationships with all stakeholders.

To achieve these objectives, the CBM will have the authority and resources to access:

1. a budget allocation commensurate with the above responsibilities;

2. well trained and professional employees and to keep them so qualified;

3. the technology tools to manage and operate the business efficiently and profitably with all suppliers and customers;

4. explore the use of new technology and methods to increase sales and cashflow; and

5. explore new legal developments to protect the business's assets and reputation.

If you wish to discuss the contents of this document further, or are interested in more details on how to prepare for this recession; or you require information on other credit issues, please visit our website, or contact our office.

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