

Managing the Post Pandemic Relationship Between Credit and Sales

(BEST PRACTICES AND LEGAL
CONSIDERATIONS)

**ROBERT SHUTLTZ,
MANAGING PARTNER**



CHAIR HIGHAKO ADVISORY COUNCIL



**SCOTT BLAKELEY, ESQ. ,
FOUNDING PARTNER**

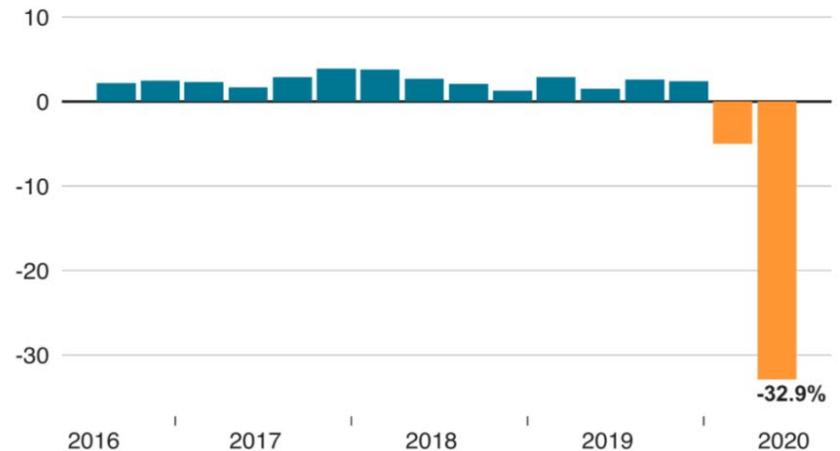
Blakeley LLP

Coronavirus Recession

- Economy headed for “COVID cliff” come 2021
- US GDP not expected to return to pre-pandemic levels until 2022
- Recession severity:
 - Weakness across economy, lowest read since 2015
 - Depth → severe
 - Recovery likely to last long
- U.S. economic recovery is “extremely anemic” (Economist, Nouriel Roubini)
- Second Wave of corporate defaults to hit Q3 and Q4 of 2021
- More than 500 U.S. companies expected to go bankrupt by end of 2021
- W-shaped economic recovery
 - Triggered by reopening of economy too quickly, second spike of COVID outbreak, and closing of businesses again
- Economic forecaster: “Brutal recession”, 22 million people filing for jobless claims compared to 8.7 million jobs lost during Great Recession

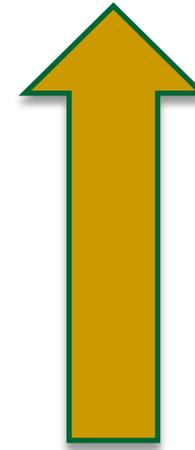
US economic growth

GDP, % change on previous quarter



Insolvency Concerns

- Wave of Chapter 11's and Out-of-Court workouts
 - 6.7 million U.S. companies are at severely high risk of bankruptcy
- Impact of customers bankruptcy:
 - Bankruptcy risk
 - Automatic stay
 - Preference claims
 - Fraudulent conveyance claims
 - Turnover action
 - Strong-arm powers



Commercial delinquencies on the rise heightened by COVID impact



“Sales took a major hit last year in the wake of Covid-19 and all of the associated lockdowns. Millions of consumers reduced discretionary spending just to make it through the pandemic, as they were furloughed or lost jobs. Businesses had to reduce operations or shutter entirely to comply with emergency safety regulations.”

John Hall Forbes 2.21.21

Today's Focus

- The Business Reality: What do We Know?
- The Need for Transparency
 - A Well Thought out Credit Policy With On-the-Shelf Alternatives
 - Pre-Sale Credit Screens
 - Retrain Sales
- Partnering With Sales
- The Need to Walk in Their Shoes
- Dealing with Legal Issues
- Maintaining Legal Compliance

The Post Pandemic Business Reality

The Reality is: We Have Not Had a Pandemic in our Lifetime.

Who knows? How do we address Credit and Sales post pandemic?

The Question is: What “Do” We Know?

The Post Pandemic Business Reality

Some Things are Known:

- Not all industries have been affected equally. Catastrophic for some, opportunity for others.
- Although the economy appears to be growing, it is volatile
- The 5 C's are still relevant to credit decisions:
 - ❑ Character
 - ❑ Capacity
 - ❑ Condition
 - ❑ Capital
 - ❑ Collateral

The Post Pandemic Business Reality

Some Things are Known:

- The pandemic may have changed the risk profile of applicants and customers.
 - They may have had a drop in revenue or lost customers permanently.
 - Liquidity could be a major issue: Slow AR turn, bad debts, borrowing not available.
 - Using past financial and payment trends may be irrelevant.
 - Competitive positions may have changed.
 - Supply chain may be more of a factor in a company's sustainability than ever before.
- Sales has had it rough and will be aggressive as the economy picks up and their sales goals increase.

The Post Pandemic Business Reality

Some Things are Known:

- Credit and Sales Have a Symbiotic Relationship
- In some company's the relationship between Credit and Sales is cooperative. In some it can be contentious.
- Sales is not the enemy of Credit. Credit is a valuable resource to Sales.
- It is best for Credit and Sales to go back to basics.

Let's Go Back to Basics

Re-train Sales:

- **Credit Policies**
- **The Application Process:** What Credit needs to evaluate a new applicant or rise in an existing credit limit.
- **Credit Approval Criteria**
- **The Exception Process:**
 - ❑ The requirements for an escalation process addressing business decision exceptions.
 - ❑ Include the progressive signature authority, based on the dollar value over the policy driven credit limit.

Make it Clear How Much New Business is Required to Recover the Cost of Bad Debts

Profit %	10%	15%	20%	25%	30%	40%	50%
Loss	Incremental Sales Required						
500	5,000	3,333	2,500	2,000	1,667	1,250	1,000
1,000	10,000	6,667	5,000	4,000	3,333	2,500	2,000
5,000	50,000	33,333	25,000	20,000	16,667	12,500	10,000
10,000	100,000	66,667	50,000	40,000	33,333	25,000	20,000
25,000	250,000	166,667	125,000	100,000	83,333	62,500	50,000
50,000	500,000	333,333	250,000	200,000	166,667	125,000	100,000
75,000	750,000	500,000	375,000	300,000	250,000	187,500	150,000
100,000	1,000,000	666,667	500,000	400,000	333,333	250,000	200,000

Let's Go Back to Basics

Provide Pre-Sale Credit Screens

- Check bureau reports, previous experience, and your industry group.
- Inform sales before they present a quote of special requirements: Cash in Advance (full or partial) UCC, guarantees etc.

Let's Go Back to Basics

Transparency is Key:

A Well Thought Out Credit Policy:

- Fair, Consistent, Addresses Business Needs, Predictable Outcomes
- A time to make sure it is supported by the highest-level executive.
- Sensitive to your company's financial and sales objectives and forecasts:
 - ❑ Some companies may have a good profit margins and strong financials and can absorb slow pays and risk of loss.
 - ❑ Others operate with thin margins and can't absorb cash flow disruptions or losses.
- On the shelf alternatives to unsecured open terms.

Let's Go Back to Basics

Partner with Sales

Keep Sales Informed of credit holds before, during and when released:

- Past Due Accounts
- When possible before a credit hold is imposed what is needed to prevent it.
- What is needed to release a credit hold?
- Leverage credit collection automation:
 - ❑ Share customer notes.
 - ❑ Real time cash application and hold release.
 - ❑ Electronic payment alternatives
 - ❑ In some industries enable field level payments
- Seek Sales help to reach the right person when there is an impasse or help is needed from the customer over deductions and disputes.

Let's Go Back to Basics

- **Walk in Their Shoes:** “If you don’t talk, you don’t know. What you don’t know, you can’t fix.”
- **Engage with Sales on Customer Visits.**
- **Attend sales meetings:**
 - Listen:
 - Observe sales presentations, understand their objectives.
 - Ask “What do you need from my department?”
 - What are your issues where we can help?
 - What should I know that is in progress so we can expedite decisions?
 - Report:
 - Results of interest
 - Sales team collection performance and comparison.
- **Explain what your department needs from them.**

COVID Terms Pushback Strategy (TPS)

- For many customers, extending payables has become a best practice
- Small and medium sized customers find bank financing difficult, forcing vendors to be last source of financing
- Big businesses sitting on record cash holding but increase the days to pay vendors
- Consider Repayment Agreements to work with the Customer but not giving customer too much pushback

Educate Sales on the Fiduciary and Legal Responsibilities of Both Departments

- Complying with the antitrust laws
 - Sharing industry group information
 - New account set up and gathering customer information
 - Customer credit terms pushback
 - Working with the delinquent account
 - The Sarbanes-Oxley Act and the sales team's pledge of no ancillary agreements with customers
 - Credit, Sales Cooperation when a customer exerts a payment terms pushback strategy
 - The importance of cooperation if a bankruptcy is looming
-

Contact Information

Scott Blakeley, Esq
Founding Partner, Blakeley LLP
18500 Von Karman Ave, Suite 530
Irvine, CA 92612
seb@blakeleyllp.com
(949) 260-0612

Robert S. Shultz
Managing Partner
Quote to Cash Solutions (Q2C) LLC
rshultzquotetocash@gmail.com

Chair Highako Academy Advisory Council and Instructor
robert.shultz@highako.com
academy.highako.com
(805) 520-7880 (Office and Fax)
