Askee: Gasket, Packing, and Sealing Device Manufacturing

QUESTION: I have a question regarding changing of terms and credit limits. I want to change terms on one of my customers. They are a public company so I have solid facts that they maybe be filing bankruptcy. My question is: We have accepted PO's (Blanket) that are good for several years. Their PO's state their terms and conditions - which I was okay with before. Now I want to put a credit limit on them to reduce our exposure or put them at cash in advance. Does anyone know for sure what I can do? They are living up to their terms and paying us. However, their financial situation has changed. Any advice would be greatly appreciated.

RESPONSE: Each company individually determines what level of risk it wishes to take or be exposed to. The only solid fact we can rely upon when it comes to bankruptcy situations is have they filed or not. It is either or. With that said, speculation has made many a creditor look at the amount of credit it provides to its customers, how those customers pay and as a result if they deserve the level of credit provided.

With that said, if a creditor decides to lower it is exposure by holding orders as leverage for payments, and then shipping out lesser amounts on open account, this of course lowers exposure. Done over time, this aggressive management of a customer will reduce the amount a company owes you. Every creditor has the "right" to advise its customers it is reducing credit limits at any time. There are consequences; #1) the customer may go elsewhere for product, #2) the customer may stop paying you or really slow down it's payment frequency to you, or #3) Not comply with your requests pitting your sales & upper management executives against your finance department. When it reaches the point where the customers is barely paying you but demands shipments daily, extreme actions like requiring the customer to pay $2 of old debt to $1 of new or Cash In Advance may not be a surprise to the company. When a company is paying reasonably within terms extended, you will find it difficult to justify and explain the customer why you are taking the actions your taking. I.e... to indicate we think you are going to file bankruptcy is not going to put a company on the best of friends list with each other. That is especially true if the company actually does file bankruptcy and then has a successful re-organization.

Here is my advice. Management and you need to target or identify a value or amount you wish to expose yourself to in the event a particular or large customer should file bankruptcy. Work towards brings in that balance down to those amounts. Once at that level, aggressively manage that customer with a careful exchange of cash payments with a combination of new shipments. If payments stop, not allowing you're to ship new goods at the pre-determined level, shift to and require cash in advance payments.

If you're able to manage the accounts in this manner not only will you drive down your exposure, but in the event bankruptcy is filed and there are possible preference demands made, your selling to the customer up to the end and then on a cash in advance basis are two of the three defenses creditors have to avoid having to pay back preference payments.

All of this is predicated on top management and sales being on board with this plan. If this is Finance's plan only because of their opinion a company may file bankruptcy, chances are support is going to be difficult to obtain. So, a word to the wise, all disciplines in the company should know the plan and what it will take to execute it.