

Accounts Receivable: The Bank of Last Resort

Trade Credit Leaders Meet to Discuss The Credit Crisis

Press release from Credit Today

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Roanoke, VA, December 11, 2008 - American businesses will become “banks of last resort” as the credit crisis continues to wrack the economy through 2009 and probably beyond. Unwilling or unable to support even long-time business customers with lines of working capital, banks will force these companies to reduce output and employment.

Those are some stark predictions coming out of a day-long roundtable discussion conducted by **Credit Today**, the leading publication for business-to-business credit extenders. The meeting included the top minds in credit reporting and the top risk executives at the largest credit insurers in the world.

"There was probably more knowledge of current business conditions in one room than anywhere else on the planet," said Credit Today publisher Rob Lawson. Each participant is an expert in gathering and assessing relevant information on trade (business) credit risk.

"Much has been written about credit problems at investment firms, banks and insurance companies, but we wanted to focus on the credit risks faced by ‘main street’ businesses. What we learned was nothing short of astonishing," said David Schmidt, Credit Today contributing editor and the moderator of the meeting.

"This is a critical time for businesses around the world, with credit management right at the center of the storm. The ‘rules of the game’ truly have changed," said Schmidt. "Metrics of credit-worthiness that credit analysts have relied on for generations aren't working in today's environment."

Key Findings

Key findings at the Roundtable include:

- DSO (Days Sales Outstanding, a key measure of the health of accounts receivable) is rising dramatically, meaning payments are slowing as buyers are using their suppliers as their “bank of last resort.”
 - Experian, a leader in data on small businesses, conducted a study, which showed that receivables from small business have risen 50% in recent months.
 - Credit reporting firm Cortera data shows that between May and October, the percentage of A/R over 30 days rose from 8% to 19%.
- Top management is often in denial about the severity of the problem in their customer bases, and how that will soon play out.
- Our panelists fully expect top management's first move in response to declining sales and contracting margins will be to make across the board cuts, including credit departments. Ultimately, top management will see the wisdom of investing enough resources in credit and A/R departments to properly deal with today's market conditions.
- Metrics that credit execs have relied upon for generations to assess creditworthiness aren't working in this environment. For example, Experian detailed how two key metrics - the length of time in business and the size of the business - did not prove to be good predictors of small business health, as they traditionally have. This indicates, they say, that even the more established small businesses were swept up in the “bigger and better” euphoria.
- Small business owners are letting their homes go before their businesses.

- Fundamentals in the retail environment are worse than any panelists can remember, and a large portion of the sector is at risk of going under in the near future. Not one panelist was optimistic about an early or easy end to the current problems.
- There is almost no one left to provide Debtor-in-Possession ("DIP") financing, now that GE Capital has exited that market, so when companies file for bankruptcy, many will need to liquidate rather than stay afloat in a chapter 11.
- Same store sales are dropping off a cliff. The trend started earlier this year with 20+% drops in areas of the country most affected by high housing prices. Since then, the declines have spread to the rest of the country.
- Many retailers have simply opted out of reporting same store sales this year for the first time.
- According to data compiled by Smyth Trade Credit, the price of credit protection – as measured by the price of a 1-year A/R put - has risen roughly 6 to 8 fold since the beginning of the year, with a dramatic spike beginning in August.
- Most panelists believed that from a macro standpoint, the unwinding of debt in the economy has just begun and poses a large risk going forward. In addition to anticipated drops in consumer spending and further significant job losses, a big concern of panelists is outstanding derivatives, which total many times the size of world GDP. The contracts and assumptions on which they are based on are often incomprehensible, and the credit worthiness of the counterparties is a big unknown.
- Bank availability is dropping rapidly, as banks are cutting lines of credit, giving firms a smaller margin of safety going forward.
- Trade creditors should take steps to ensure that their goods don't end up simply funding their customer's bank's borrowing base.
- CFOs will be forced to learn new skills and adapt to a new environment in which coping with credit risk is much more important than "how to borrow money cheaply."
- Panelists are seeing increased credit fraud, as "hard times cause desperate people to do desperate things."
- Larger and better-financed firms will need to be leaders in helping customers through some of the pain.

"This is going to probably be the most troublesome 60 days of my career, and I just finished 40 years in the business," said Bob Carbonell, Executive Vice President & Chief Credit Officer at Bernard Sands Credit Consultants, at the meeting.

Preparing Yourself: Specific Steps

For specific information on how to prepare and defend your business in the worst environment in perhaps 80 years, businesses can get the full transcript of this extraordinary meeting at www.CreditToday.net.

Participating Companies:

- Atradius Trade Credit Insurance
- Bernard Sands Credit Consultants
- Coface North America
- Cortera
- CreditPointe
- CreditRiskMonitor
- Experian
- FINACITY Corporation
- Global Credit Services
- Smyth Trade Credit ■



About Credit Today

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