Strategies from the sharp end

The following questions were used at the recent International Credit Forum. As follows is a summary of the answers

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Q1: Since the pandemic arrived have you changed your approach to risk?
A1: No change.
A2: Yes, we have – more country risk analysis and sector vulnerability.
A3: Yes, but not necessarily in the way we are underwriting credit limits at present. We have reviewed ours and increased our provisions for bad debt to cover any future exposure we see with the economic fallout to be fully understood yet.
A4: Yes, we are certainly more careful. We are spending more time monitoring smaller partners and we are working with our sales directors to ensure that we are spreading the exposure a bit better. We are developing reports to show available credit and a traffic light system for risk. This is to be distributed amongst the salespeople on a bi-weekly basis so that there is a wider view across the sales-to-cash stream of behaviours, risks and any change to those elements.

We have also increased the provision for high-risk industries where we are working on extended payment terms and revenue has already been recognised

Q2: Have you suffered any bad debts or increased provisions for bad debt?
A1: No bad debts suffered.
A2: Yes, we have seen an increase in bankruptcies particularly in the US and some ROWW. We have also increased the provision for high-risk industries where we are working on extended payment terms and revenue has already been recognised – bad-debt provision is now at its highest level in 20 years.
A3: Not yet, but it is something we have flagged as a possibility. Hopefully, the work we do at the front end (mentioned above) will mean we are less vulnerable to bad debts.

Q3: Are you dealing with longer cash cycles now?
A1: We saw this during lockdown period but now cash cycle has returned to normal.
A2: Nothing noticeable.
A3: In second quarter we did see a spike in delinquencies but during third quarter we have been able to pull that back. There are still some accounts that are significantly delinquent, but we continue to work these to gradually bring back into terms.
A4: In some cases, yes, some countries have been paying later (India is one example). We have not changed our payables payment terms. We are still paying suppliers on 30 days and we believe that keeping cash cycles consistent is critical.

Q4: Are you seeing an increase in requests for extended terms?
A1: We had a handful of requests during lockdown for outstanding debt rather than ongoing sales. No requests post lockdown.
A2: We saw requests shortly after lockdown but no material volumes since.
A3: In the second and third quarters requests for extended terms has decreased dramatically and the majority of contracts now been written within our standard offering.
A4: Yes. 70% tactical or opportunistic, and 30% legitimate in our view.

Q5: How are you dealing with requests for extended terms?
A1: For the requests received these were assessed on a case-by-case basis and where appropriate we agreed a payment plan to keep cash flowing rather than extended terms.
A2: Mostly rejecting.
A3: We formalised a global playbook to guide teams through the peak of the economic turbulence, where it defined what terms could be utilised for which industries and customer channels. Also gave ultimately flexibility to credit to determine what worked for each individual case or request. Again, request for extended terms has reduced significantly.
A4: We have introduced a new and stricter approval policy and approval matrix meaning that sales need to present business cases to directors. This is already reducing the numbers of requests. I have also written a paper (open-letter style) to the sales teams on payment terms during economic crisis and why we should be unified in resisting extensions. As always, some we have had to agree to, most we have pushed back on.CCR