

# ACCOUNTING OFFICE MANAGEMENT & ADMINISTRATION REPORT



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## Cash Flow & Profits Are Now the Top Concerns of Your Business Clients

Findings from quarterly research conducted between November 2008 and May 2009 by the Credit Research Foundation (CRF) indicate a fundamental shift in what's most important to your business clients. Understanding this change can help you continue to modify your services—and gain a better understanding of your business clients' needs in the all-important area of credit.

"We find that the recession has changed the focus of American business from that of revenue and market share to cash flow and profitability," states the report, *Economic Impact of the Credit Crisis on Business Credit & AR—Part III*. That finding, according to the report, is "quite different from previous surveys conducted by CRF in non-recessionary times." The survey polled 1,032 business credit professionals.

**Survey highlights.** Just how dramatic is this shift? Consider the following survey findings:

- 54 percent of respondents say their companies have shifted focus from revenue and market share to cash flow and profitability.

- 61 percent report they are "now under a directive to accelerate cash flow and turn their AR faster."

- 60 percent have been given a mandate by upper management to reduce overall risk in the AR portfolio.

The CRF survey's data are broken out by 11 industry sectors: consumer goods, industrial manufacturing, building supply, tech, services, basic materials, distribution & wholesale, health care, energy, telecom, and conglomerate. The information was also broken out by company size based on annual sales. Of the May survey responses, approximately 60 percent came from the consumer goods, industrial manufacturing, and distribution & wholesale sectors (see the accompanying table for partial results from those three sectors).

Seventy-three percent of respondents to the May 2009 survey report their companies have instituted hiring freezes, and more than half (54 percent) are laying off employees. In a major blow to automation of credit functions, 64 percent state their organizations have frozen or are about to freeze budgeted capital expenditures, while 28 percent are seeing such operational expenses as credit reports and credit group participation put on hold. There also have been dramatic cuts in budgets for travel (57 percent of respondents) and training (49 percent).

**Credit conditions grew worse.** It's especially striking to compare the May 2009 survey's responses to those of credit pros in the first of this series of surveys, conducted in November 2008.

While the bottom of the recession may be in sight, credit pros report business credit conditions have worsened considerably over the past six months.

Highlights of this trend include:

- The number of companies having to collect late payments has grown, from 67 percent in No-

vember 2008 to 70 percent in May 2009—with an especially large jump in industrial manufacturing (see table).

- Eighty-nine percent of respondents reported that customers were relying on them more for working capital needs; 93 percent now say that's the case. That number jumps to 96 percent in the distribution/wholesale sector.

- While 28 percent said in late 2008 that they were turning delinquent accounts over to collection agencies more often, 35 percent now report

**How Is the Economic Crisis Impacting Your Credit Function?**

|  | Overall   |          | Consumer Goods |          | Industrial Mfg. |          | Distribution/Wholesale |          |
|--|-----------|----------|----------------|----------|-----------------|----------|------------------------|----------|
|  | Nov. 2008 | May 2009 | Nov. 2008      | May 2009 | Nov. 2008       | May 2009 | Nov. 2008              | May 2009 |
| <b>Are you experiencing a general slowdown in customer payments?</b>   |           |          |                |          |                 |          |                        |          |
| Yes  | 67%       | 70%      | 55%            | 53%      | 62%             | 68%      | 77%                    | 77%      |
| No   | 33        | 30       | 45             | 47       | 38              | 32       | 23                     | 23       |
| <b>Do you believe your customers are relying on suppliers for working capital needs more than they were in the last few years?</b>                     |           |          |                |          |                 |          |                        |          |
| Yes  | 89        | 93       | 88             | 90       | 85              | 91       | 90                     | 96       |
| No   | 11        | 7        | 12             | 10       | 15              | 9        | 10                     | 4        |
| <b>Are you turning delinquent customers over to collection agencies or lawyers sooner than prior to the downturn?</b>                                  |           |          |                |          |                 |          |                        |          |
| Yes  | 28        | 35       | 20             | 29       | 28              | 37       | 35                     | 42       |
| No   | 72        | 65       | 80             | 71       | 72              | 63       | 65                     | 58       |
| <b>As a reaction to the crisis, have you recently initiated, or are you considering assessing a late payment charge for your delinquent customers?</b> |           |          |                |          |                 |          |                        |          |
| Yes  | 15        | 17       | 8              | 8        | 10              | 18       | 23                     | 19       |
| No   | 85        | 83       | 92             | 92       | 90              | 82       | 77                     | 81       |
| <b>Due to the economic downturn are you increasing your bad debt reserve?</b>  |           |          |                |          |                 |          |                        |          |
| Yes  | 50        | 62       | 52             | 60       | 37              | 57       | 50                     | 61       |
| No   | 50        | 38       | 48             | 40       | 63              | 43       | 50                     | 39       |
| <b>Is your company experiencing more customer bankruptcies than a year ago?</b>  |           |          |                |          |                 |          |                        |          |
| Yes  | 45        | 69       | 48             | 60       | 29              | 68       | 52                     | 74       |
| No   | 55        | 31       | 52             | 40       | 71              | 32       | 48                     | 26       |
| <b>Is your company experiencing more out of court workouts than a year ago?</b>  |           |          |                |          |                 |          |                        |          |
| Yes  | 24        | 32       | 24             | 19       | 21              | 23       | 27                     | 44       |
| No   | 76        | 68       | 76             | 81       | 79              | 77       | 73                     | 56       |

(Source: Credit Research Foundation)

doing so—37 percent in industrial manufacturing and 42 percent in distribution/wholesale.

- Credit pros think carefully before imposing late payment charges on delinquent accounts, given how this tactic can backfire. That is shown by the fact that in November 2008 just 15 percent reported recently initiating such a policy—a number that climbed only slightly in May 2009, to 17 percent.

- An especially large jump was registered over these six months in the percentage of respondents increasing their bad debt reserve: from 50 percent to 62 percent.

- Even more striking is the increase in credit pros experiencing more customer bankruptcies. This number jumped from an already scary 45

percent at the end of last year to a chilling 69 percent this May—and an even worse 74 percent in the hard-pressed distribution/wholesale sector.

- More credit pros are also being forced to negotiate out of court workouts with defaulting customers. That percentage rose from 24 percent to 32 percent across the six-month period—yet again with the worst results recorded in distribution/wholesale (a jump from 27 percent to 44 percent).

**For more information.** For the complete May 2009 CRF report, go to: [www.crfonline.org/request/May09\\_Economicstudy.pdf](http://www.crfonline.org/request/May09_Economicstudy.pdf). For the complete November 2008 CRF report, go to: [www.crfonline.org/surveys/Nov08EconomicStudy.pdf](http://www.crfonline.org/surveys/Nov08EconomicStudy.pdf). □

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