

## It's the 1st of May 2010...

You are asked to open a new account for a Plc with a credit limit of £60,000 and an initial order of £20,000 on 30-day payment terms. In the current economic climate, you are delighted with this.

However, it's a considerable sum and the likelihood is that you will soon be exposed to the full credit limit of £60,000. You don't feel it's too great a risk. On the plus side you know this company reasonably well because you have several accounts with associated companies within the group of the Plc. You have traded without incident for several years with these companies and have always been paid, albeit sometimes beyond terms.



Each company you already deal with has an impeccable credit rating and all without exception have sizeable recommended credit limits and ratings from all the main credit reporting companies. You know this because you regularly review and monitor them.

Out of good practice, and company rules, you still follow the correct procedures for a risk of this size, taking credit reports from four different sources. These reports reveal the following key data:

1. The Applicant's year-end is 31st August annually. You know this however because your sales representative, (who manages the other related companies that have accounts with you), has been telling you for the last three months that the new account and first order from the Plc will be in the bag when their annual budget is approved.
2. Of course the company has yet to file accounts relating to the year-end 31st August 2010 and will no doubt do so in the next few months.
3. **The credit reports yield much reassuring data including:**

## The recommended credit limit on each one of the reports is £500,000 +

### Your 3 key questions

1. Do you place your trust lock stock and barrel in the data supplied by the credit reports because this information is from established and trusted sources that you have been using for some time now?
2. Do you trust the information that has been supplied to you by your sales representative? After all, he has built a good working relationship with the decision-makers at the Plc and is very confident about the order and the potential to build the account further.
3. Do you offer the Plc the full credit limit or a lower figure in order to give you some degree of protection?

The likelihood is that in the light of the information you have from the credit reporting companies plus your euphoria at securing such a sizeable order and a big client, you decide to do business, based on the original request of a credit limit of £60,000 and an initial order of £20,000 on 30 day payment terms.

### Did you make the right decision? Turn over to reveal the answer...



	Turnover	Gross Profit
Year Ending 31/08/2009	£659million	£99.9million
Year Ending 31/08/2008	£552million	£78.1 million
Year Ending 31/08/2007	£396million	£50.8million
Year Ending 31/08/2006	£299million	£36.9million





## This is not a hypothetical situation. This is Connaught Plc.

- Connaught Plc, Connaught Partnerships Limited and Connaught Technical Partnerships Limited all entered into Administration on 8th September 2010, following failed efforts to restructure and refinance the companies.
- This meant that all unsecured creditors such as sub-contractors and suppliers essentially lost any money they were owed when the Administrators were appointed. Many of these unsecured creditors lost in the region of £40,000, hence the example overleaf.
- Many unsuspecting suppliers, small business owners like you, suffered even greater financial losses. For some of these small businesses, Connaught's demise brought them to financial ruin too.

## The blatant shortcomings of the current credit reporting companies

*Perhaps even more disturbingly, throughout 2008, 2009 and into early 2010 the warning signs were actually all there.* However, neither you nor the credit reporting companies you used to make your decision had access to the key data that could have prevented a sizeable financial loss and write-off.

In fairness there were one or two press items circulated during June 2010 that indicated there may be some problems and this certainly intensified in September - sadly too late for you as you were already exposed to the risk of £20,000 to £60,000 from 1st May 2010 onwards, long before there was any indication of a problem.

*There was however one source of credit information that had you been aware of it, you would have made a very different decision...*



## How ROSI was reporting that all was not well at Connaught

### As at 8th September 2010 The Register of Outstanding Invoices (ROSI) had the following entries on it:

**177** Exact Matched entries for Connaught Plc at the Head Office in Exeter.

**125** Matches for Connaught Plc at different postcodes (name match only)

**26** Matches for linked businesses at the Head Office postcode

## Year by Year

<b>2007</b>	<b>4</b> Invoices with a total value of £4,266
<b>2008</b>	<b>60</b> Invoices with a total value of £40,375
<b>2009</b>	<b>97</b> Invoices with a total value of £58,402
<b>2010</b>	(9 months to September) <b>165</b> Invoices with a total value of £103,687

Most importantly subscribers to the ROSI Monitor early warning service had received constant and repeated warnings by email of new ROSI entries throughout 2007, 2008, 2009 and 2010... **328** in all.

Businesses that took heed of these warnings reduced their exposure and lost far less money than if they had trusted the data supplied by the credit reporting companies – if indeed they lost any money at all.

## What is the moral of this case study?

If you want your business to be a financial victim of the next Connaught Plc or indeed any of the lesser value liquidations or receiverships that will inevitably come along for some of the customers on your ledger, you can ignore this document.

If however this document has made you think about your current credit management systems and it has led you to the conclusion that you would like to avoid unnecessary write-offs in the future, contact accountassyst on **0845 680 1891** to discuss ROSI Monitor and our associated online credit management services in further detail.