

Credebt Leveraging debtor book and financing options in a turnaround

Case Study

Food Manufacturing Business - Northern Ireland - Restructure of whole business with Credebt providing Credit Control, Sales Ledger Management, Policy, processes and Staff training.

This case study provided by IFT Corporate Partner Credebt highlights how the use of options such as invoice financing and debtor book management in conjunction with broader measures work in practice and can secure business turnarounds.

There are numerous options available for viable businesses experiencing challenges, including asset-based lending options such as invoice finance and businesses and professionals working with them should seek expert support to understand what their options for funding and support with credit control and debtor book management might be.

Facts

The business in this case was a £45 million Turnover Family run Food Manufacturing business with £7 million ledger and £6 million funds in use. Other bank lending of £6 million was a mixture of overdrafts, loans and asset finance.

Credebt were asked by the Bank's Invoice Finance (IF) division to help and engage directly with the business to get things back on track.

At the same time a Turnaround Practitioner was instructed by the Bank to look at the rest of the business.

The business had lost £1.3 million in the last full financial year due to overspending on developing new products instead of focusing on core business streams.

They also had issues with large Supermarkets' rebate agreements, queries and offsets as well as previous supply and quality issues.

The CFO had reacted to Cashflow issues by manipulating the Sales ledger and gaining a cash advantage from the IF Facility.


Following Credebt's initial visit and review of the business, where we spent a day on site reviewing everything free of charge, we were instructed jointly by the bank and company.



Actions

Credebt collaborated with the company to attack the aged debt quickly.

? Queries were resolved first, as they were the main reasons for the overdue amounts.

 Contracts were reviewed and an accurate rebate accrual produced so that ledger dilution was then projected properly.

In addition, we wrote a Credit Policy and procedures for the business that would prevent re-occurrence.

The Order to Cash process was reviewed and updated as well as redistribution of work within the existing team to better match the required skillsets.

Credebt liaised weekly with the Turnaround Practitioner, bank, the IF Division of the bank and all other stakeholders to ensure all goals were always aligned.

Over a short period of time, it became obvious that the CFO was out of his depth and needed replacing to take the business forward. All stakeholders supported this position. The MD also handed over day to day running of the company to his son.



Results

Past terms/overdue debt reduced to £21k or less than 0.5% of the ledger.

All queries were resolved and credited where needed resulting in payments of balances once resolved.

Accurate Rebate accrual produced based on actual contractual entitlements.

Full Credit Policy and Collection procedures implemented.

Accurate Reconciliations were produced.

Cash allocation and Credit Control were split and staff trained as to proper processes going forward.

Responsibility for all collections and further progress was handed over fully to the in-house team that had been restructured to meet the business needs.

These results formed part of an overall successful turnaround, where there was a focus on core products, reduction in development of new items which greatly reduced the cash burn of the business, as well as enabling revenue growth.

Glen Morgan of Credebt notes that the end result saw both a “Happy Client and Happy Bank, a win-win situation”.