Seizing the initiative in Ireland's changing credit landscape

The Expert Viewpoint

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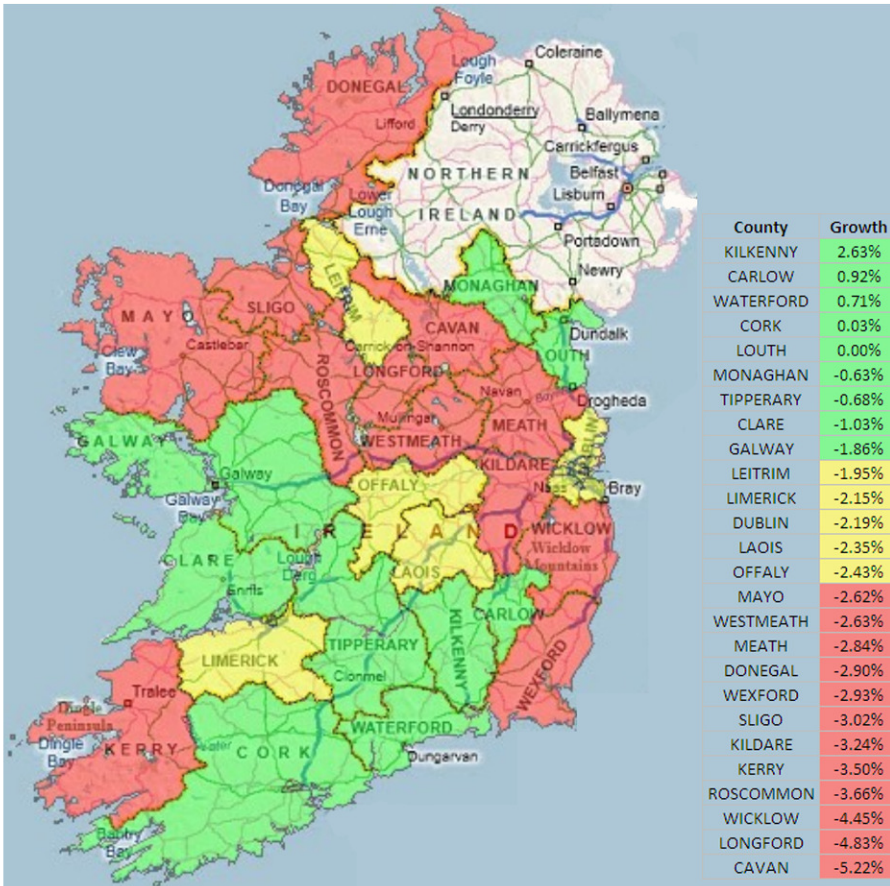
This document focuses on the risks that the wider economy places on commercial credit portfolios. Experian analysis is based upon identifying and quantifying these risks at sectorial and local area levels. This is then used to future-proof a client's own credit portfolio by identifying and mitigating against risk exposures as well as identifying opportunities.

Post Recession Impact in 2011

The recession that hit Ireland back in 2008 has had a lasting impact on how we do business and the aftershocks from this period can still be felt across the business landscape today. Cautious banks and low demand for high commercial lending rates mean growth opportunities are thin on the ground, however, the opportunities are there if businesses look hard enough.



County	Growth
KILKENNY	2.63%
CARLOW	0.92%
WATERFORD	0.71%
CORK	0.03%
LOUTH	0.00%
MONAGHAN	-0.63%
TIPPERARY	-0.68%
CLARE	-1.03%
GALWAY	-1.86%
LEITRIM	-1.95%
LIMERICK	-2.15%
DUBLIN	-2.19%
LAOIS	-2.35%
OFFALY	-2.43%
MAYO	-2.62%
WESTMEATH	-2.63%
MEATH	-2.84%
DONEGAL	-2.90%
WEXFORD	-2.93%
SLIGO	-3.02%
KILDARE	-3.24%
KERRY	-3.50%
ROSCOMMON	-3.66%
WICKLOW	-4.45%
LONGFORD	-4.83%
CAVAN	-5.22%

This map indicates the level of growth (%) in Ireland in 2011

County	2011 BHI Rank	County	2011 BHI Rank
TIPPERARY	1	ROSCOMMON	14
LAOIS	2	DONEGAL	15
MONAGHAN	3	CLARE	16
OFFALY	4	LONGFORD	17
CAVAN	5	CARLOW	18
KERRY	6	KILDARE	19
WEXFORD	7	MAYO	20
KILKENNY	8	MEATH	21
WATERFORD	9	CORK	22
DUBLIN	10	SLIGO	23
LIMERICK	11	WESTMEATH	24
WICKLOW	12	LEITRIM	25
LOUTH	13	GALWAY	26

The worst post recession impacts in 2011* are still being felt within the construction, financial and services sectors. These 3 sectors account for 61.5% of all businesses ceased or dissolved in 2011 with the Services industry alone accounting for 32.2%.

In 2011* there was an average business population growth rate across the country of -1.4% with 16,858 businesses being dissolved or ceased and 14,345 new businesses being created. There were however a number of counties bucking this trend, led by Kilkenny with a growth rate of 2.6%

Using Experian's unique credit scoring model, the Business Health Index provides insight into the business universe of each of the 26 counties in the Republic of Ireland.

Tipperary ranked number one in the Experian Business Health Index with the lowest percentage of companies in the high or maximum credit risk category (41.29 per cent). Laois and Monaghan follow with 41.48 per cent of Laois companies and 42.13 per cent of Monaghan companies were in the high or maximum credit risk category.

Conversely, Galway was the lowest ranked county on the Experian Health Index with and the highest percentage of companies in the high or maximum credit risk groups (52.47 per cent).

A higher Business Health Index ranking indicates that a county has a lower percentage of companies at risk of failure than the national average. A lower index score indicates that the county has a higher percentage of companies at risk than the national average.

***All 2011 figures are calculated using a cut off date of 19th Dec 2011**

How has the credit landscape changed?

The credit landscape is dramatically different from the pre-recession days. Companies have gone out of business, merged or slimmed down and businesses and credit teams have learnt some hard lessons.

Today, businesses are more choosy about who they extend credit to, protecting their business by reviewing credit risks in detail before agreeing payment terms or establishing a more tailored payment plan. Businesses who do apply for credit must look credit worthy and like a good opportunity to businesses who have considerably tightened their credit risk assessment policies.

Pressure to make quick decisions

Credit insurance that protected a business from its most high-risk customers before the recession is harder to come by. With the margin for error still so tight, there is increasing pressure on credit professionals to make instant decisions regarding a customer's financial situation, so they can protect the business from increasing credit risks and maintain financial stability.

The trouble is, today's financial market is highly changeable and a business that looks good today could be a risk tomorrow. Making the right decision with both new and existing customers can make the difference between success and failure.

'...today's financial market is highly changeable and a business that looks good today could be a risk tomorrow.'

What used to work?

Before the recession, credit was easy to come by. Years of 'reckless' sales and imprudent credit extensions inflated a huge debt bubble. Sales teams overruled credit controllers by extending credit to high-risk businesses with dwindling assets and falling credit ratings.

While this attitude to credit is deemed irresponsible by today's standards with the benefit of hindsight, at the time it was a period of substantial growth and prosperity.

Credit decisions were based on information that was not necessarily the most up to date, making it impossible to understand the true financial health of the businesses you trade with, and to predict their long-term financial stability. Credit reference checks were always in place, but since the recession they have come under increasing scrutiny.

In the past, the volume of sales coming in meant businesses could absorb a certain amount of bad debt without cause for concern and credit departments were forced to absorb this debt in the name of 'growth'. Today, even a little bad debt can cause big problems.

Did you know? To reduce extending credit to high-risk customers and force sales staff to take ownership, some businesses are penalising those responsible for customers whose account is in query or who has a DBT of more than 90 days.

Lessons learnt during the recession

The need for due diligence and stricter credit control is one of the key changes to come out of the recession. Credit application criteria are tighter and potential high-risk businesses are subject to more intense scrutiny. Businesses have learnt the hard way that it's not just new customers who need vetting, but existing customers too.

Businesses are now managing their existing portfolio more proactively and seeking out better ledger management tools and more efficient risk assessment processes. By doing so, credit teams are able to keep a close eye on customers who pose the biggest risks so that they are in a position to act quickly - many cannot afford late payments or unreliable suppliers.

Applications are assessed individually using more detailed measures, and then consistently analysed throughout the customer relationship, while many larger corporations are slimming down and closing branches in an attempt to manage their debt and balance sheets. Collection methods have also changed and the most successful businesses collect where the risk is, rather than follow a more traditional A-Z collection method, or collect the largest or oldest debt first.

Assumption of distrust

In the past, businesses gave customers the benefit of the doubt. Even after a late payment, it was not unusual for a period of three to four months to elapse before serious measures were taken to collect money owed. But the collapse of well-established companies has taught businesses to be more careful about whom they trust to be credit worthy. Today, many businesses act with decisive measures within just two months at the sign of potential risk behaviour.

Post-recession policies

Extending credit responsibly is an issue that comes up more frequently as businesses try to increase credit worthy sales. Businesses are forced to walk a tightrope between financial stability and increasing new credit applications - something every creditor must do to grow the business. The key to success is the quality of the credit report and understanding of the risks.

For this reason businesses are more aware of ledger management and the need to closely monitor customers. The risk of late payment and bad debt have forced businesses to be proactive when it comes to customer management and the industry has seen a big increase in direct debit transactions and other planned payment methods.

Credit and collections teams are also under scrutiny. At the extreme end of the spectrum when an account goes legal, judges are coming down harder on businesses that are seen as harassing customers or acting irresponsibly and many directors are being held accountable for the actions of the staff within their organisation.

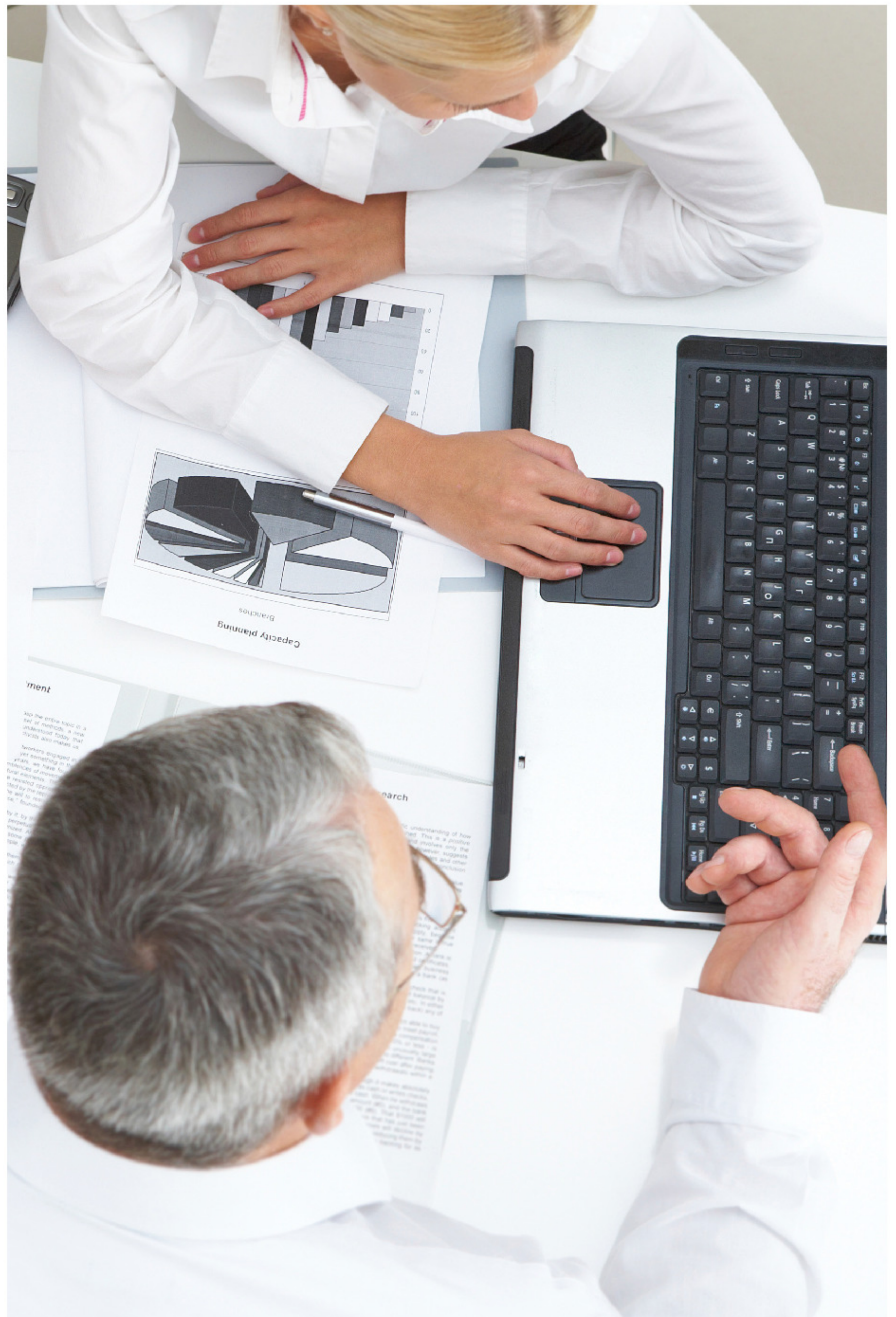
Pressure is on to adhere to the stringent demands now placed on collections, and failure to do so could end in prosecution.

As a result, many businesses now adopt a proactive stance to changing industry regulations by ensuring that compliance processes are regularly monitored. In doing so a business can mitigate risk and protect their corporate reputation, while managing their ledger in the right way.

The power of data to minimise risk

As the effects of the recession were compounded further by the poor credit decisions and lack of ledger management by many businesses at the time, it is of little surprise that accurate data holds the key to solving many of the industry's problems.

Already, many businesses are giving their credit management processes a refresh, as they attempt to shake off the shackles of recession and exert more control over their credit risks. Increasing pressure to make faster credit decisions and seek out profitable new businesses has led to greater awareness about the need for a deeper understanding of a customer's true financial situation. With Ireland's recovery looking more reliant on exports, doing business in emerging markets such as Brazil, Russia, India and China is crucial. It is also crucial to have up to date and expert data on businesses in these countries, looking at a financial statement is not enough anymore to guarantee credit worthiness - the stakes are much higher.



To overcome these issues, businesses must look to their own data. Measures such as adopting a single customer view and predicting long-term business affordability with greater accuracy are essential to profitability.

Understanding your own data and building insight with extra layers of detail, including affordability, indebtedness and willingness to pay, is the best and only way to tackle today's uncertain climate. Investing in data to ensure it is comprehensive, reliable and up to date keeps a business nimble and able to stay on top of even the biggest, most high-risk accounts.

Cash flow is king

Cash flow is the lifeblood of a business, as cash-rich organisations can testify. A healthy cash flow enables a business to prepare for any shortfalls or unexpected expenses. It plays an important role in debt reduction and repayments, and is closely linked to efficient collections.

By establishing the right payment plans with customers from the beginning and collecting money owed efficiently before credit risks increase, a business is able to maintain a healthy cash flow. Yet it wasn't that long ago that many businesses were run on credit.

Since the recession, credit is harder to get, leaving many businesses with serious cash flow problems. On the other hand, cash-rich businesses with effective credit risk assessment strategies in place now have good cash flow, putting them in a commanding position. Rather than relying on collecting money owed to survive the post-recession climate, companies with a good understanding of the credit risks within their portfolio can look to growth with little opposition.

In an attempt to manage cash flow as best they can, many businesses look to credit forums where credit managers share best practice, payment information on suppliers and best practice for processes that have a direct impact on the KPIs of the credit department. As increasing departments look to credit teams for answers, credit forums offer a place to share information in a productive environment.

Seizing growth opportunities

In today's most successful businesses, credit is the driving force behind sales and profitability. Not the other way around. Change came as businesses used data in new ways to benefit the whole business - from marketing to sales - in an attempt to do more with less.

Since new business is expensive to get, many companies now look at their existing portfolio as a source of growth and up-sell opportunity. Sales teams have come to recognise the importance of working with credit to identify the credit worthy businesses within their own portfolio, and vet high-risk businesses with greater accuracy. This allows a business to grow and seek out new opportunities, while reducing costs and minimising risks.

To first establish the credit worthiness of customers a business must be in a position to slice and dice its data to spot opportunities as they appear. Information on existing customers could reveal a potential to trade at a higher level, while better planning and deeper analytics can reveal anything from where your low-risk business prospects are likely to be, to your potential turnover and market share.

'By feeding sales credit worthy businesses, a business can quickly increase its up-sale opportunities while reducing costs and minimising risks.'

Following new rules and regulations

The thresholds for statutory filing accounts at the Companies Registration Office have steadily increased in a trend that has gone on for nearly a decade. However, because businesses seek greater financial transparency before they consider new credit accounts, the upcoming move to reduce red tape further is a worrying one.

The Irish government intends to increase the audit exemption threshold by over 20% by the end of 2012 which will see a further 1000 - 2500 small and medium sized businesses exempt from filing audited accounts with the CRO. This will, in today's uncertain economic market, create even less financial transparency. This will hold many companies back from extending credit to new businesses.

Businesses give credit to one another based on the confidence that comes from knowing that the company they are extending credit to is financially stable - the main proof point of this is a set of audited accounts. Without it, businesses will find it more difficult to easily assess a customer's financial stability and identify where the biggest credit risks lie.

'Less financial transparency will hold many companies back from extending credit to new businesses.'

Credit at the forefront of decision-making

The need for credit control is one of the key issues to come out of the recession, followed closely by the substantial rise in profile of credit managers.

Where once credit teams were known as the ‘sales prevention department’, today credit teams are seen as a fundamental part of a business’ stability and growth, having become well respected across the business.

In today's business environment, making informed, accurate credit decisions quickly is more important than ever. Credit teams are now the driving force behind sales, they can dictate the way a business manages its portfolio, and even which prospects marketing budget is spent on. After the pressure of the recession to extend credit with more insight and due diligence, credit is seen as leading businesses forward while minimising costs and maximising returns.

In a cash-rich business good credit decisions lead to growth, while cash-poor businesses are reliant on good credit decisions to increase collections and ease the strain of today’s limited credit options. Businesses must be self-reliant to survive, and the margins for error are much smaller. As a result, credit professionals are in the position to drive decisions across a business, and for the first time, all departments are listening.

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