ICB Group

Case Study:
How Credit Insurance can offer Financial Security.

The following case-study demonstrates that regardless of how financially strong a business seems to be - everyone, even the largest of companies are vulnerable due to an array of reasons, not to mention the dangers of Cyber Threats and Fraud which are prominent - as well as the uncertain times ahead caused by Brexit.

COMPANY X

...is our client's customer (the debtor) who owed our client a debt of circa £1M on credit terms.

'Company X' were involved in the Telecommunications sector, however they decided to diversify somewhat by choosing to invest into an upmarket fast food franchise (**'Company Y'**) which did not work and so being the part-cause of their failure.

THE SCENARIO

There were two catastrophic events which left **'Company X'** with cash flow issues resulting in their inability to meet their liabilities, including paying our client's bills, at month end 31/05/16.

In addition to this **'Company X'** were also hit by the huge downturn in their sector / the Mobile phone industry.

THE ISSUES

1

'Company X' invested in **'Company Y'**, which was an upmarket Fast Food Franchise covering within the M25. The intention was to expand over 5 years to 80 stores. At 6 stores and 2 years it was identified that the financial model was not working as expected and therefore entered in to extensive discussions with the Franchisor to find ways to improve profitability.

2

Company "X" terminated their Multi Franchise agreement and decided to stop all expansion until such time when they could start returning profits.

3

Company "X" managed to reduce losses from £166,000 to £50,000 per month but the additional cash investment required to get the business to a breakeven position would be considerable and therefore the Directors took the decision to refrain from investing any further monies.

4

At this point **'Company X'** had already invested over £2.2M in the fast-food venture.

5

Company "X" entered into liquidation and a creditors meeting was held in May 2016 where it was suggested there would be no possibility in the recovery of any of their investment.

Compounding the problem **'Company X'** were requested by BT/EE to close the Telesales and customer service departments virtually overnight in Bangalore as they were exiting their own overseas operation for commercial reasons.

6

7

This had the dramatic effect in reducing the turnover for **'Company X'** due to lost sales by £1,200,000 per month, which put even more pressure on their cash flow.

THE RESULT

As a result of the above factors and the knowledge that there was a high possibility that **'Company X'** could not meet all of their cash requirements, including the inability to meet their liabilities as they fell due on the 31st May 2016, **'Company X'** appointed an insolvency practitioner to report on the viability of the business.

As a result of the contents and in order to ring fence the business against any hostile legal action **'Company X'** filed a Notice of Intention to Appoint Administrators in the High Court accordingly.

'Company X' subsequently failed and entered into Insolvency owing our client circa £1M. This would have been a catastrophic financial loss but for the Credit policy arranged by ICB Group, which paid out a credit claim on this loss for our client.

As the above Case Study demonstrates, whilst the company you trade with may appear to be financially stable, the 'knock-on' effect of Third Party action can lead to terminal problems. Only by having a Credit policy in place did our client escape substantial financial loss, and probably total failure. In these economically turbulent times, it is increasignly more important to take all the measures possible in securing your company's financial health.

If you have any Credit related queries, or if there is any assistance we could provide, please contact:

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