

## Sometimes Breaking Up is Hard to Do

*Cost pressures play a major role in handling late-paying accounts weighing down the bottom line.*

By Greg Valero, Editor and Publisher

**Editor's Note:** *This story is part of our "At Issue" series, a year-long, in-depth look at hot topics and challenges impacting the metal finishing industry. Our objective is help you better understand the dynamics reshaping job and captive shops.*

**Y**ou're fired!" That's what many job shops would like to tell customers who have a hard time making payments. The urge is all the more pronounced considering rising materials and energy costs as well as growing competition from low-cost suppliers. When customers are late or negligent paying their bills, cash flow is constricted and relationships become strained.

Metal finishers can ill afford to carry customers on their backs by fronting materials and labor costs dur-

ing precarious times, observers say. These companies are already having enough trouble making ends meet.

"A major fear of the finisher is to lose a customer because it won't extend the payment term," said Bert Sherwood, president, Sherwood Business Management Corp. (Los Angeles), a consulting firm. "Believe it or not, several job shop owners have stated that they need the work more than the money."

How much longer can finishers afford to do business with customers who don't pay their bills reasonably promptly? Are you simply better off severing ties with the late-payers weighing down your bottom line? The answer depends largely on a company's competitive situation, experts say.

"Anyone who is taking 60 or more days to pay, you have to make a business judgment on how important the customer is," said George Spilka, president, George Spilka and Associates (Pittsburgh), a consultant specializing in acquisitions. "If the customer is financially stable and intends to pay, the only cost you have is the working capital being tied up."

### SLOW TRAIN COMING

Accounts receivables (A/Rs) are currently running 40 to 45 days for most job shops, according to industry estimates. But major accounts—such as automotive companies—typically take longer, about 60 days or more on average. "Beyond 90 days is the problem area," Sherwood noted.

The most common excuses voiced by customers are akin to a child saying the dog ate his homework. Troubled firms often cite quality issues and lost paperwork, industry members say. Public companies may have an incentive to delay payments, such as for enhancing their cash positions in quarterly financials.

Metal finishers say they manage delinquent A/Rs on a case by case basis, depending on such variables as a customer's payment history, business relationship and amount of volume done with the company. "Before the order is released, we take care of the older balances, or set up some type of COD (cash on delivery) payment plan," said Howard Loeser, president, Industrial Metal Finishing (Houston). "If the account is 90 days late, we try to have it paid off

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when customers pick up their order to keep it from going any further."

Accounts that take 60 to 90 days to pay are not uncommon in the metal finishing industry, observers say. That's because too many job shops are afraid of getting rid of bad customers for the wrong reason. The fear comes down to the fact that even though the customer is late making payments, losing them would create a hole in capacity.

"Job shops are rarely in a position to walk away from customers who do not meet their criteria for doing business," Sherwood said. "Their criteria are like the proverbial 'wet noodle.'"

#### BEFORE THE LAST RESORT

Rather than fire customers, metal finishers have been more commonly known to withhold shipments or threaten production delays if old receivables go unpaid. They believe this gives them leverage, especially over customers who serve production-dependent industries such as new building construction, where meeting delivery times is critical. However, some caution against taking such drastic steps, as it could very easily be perceived by the legal system as a business interruption.

"There are better ways to make money than filing a lawsuit," Spilka said. "I would look at it from the aspect that if a supplier has a reputation for playing hardball during the course of an order run, it might hurt them in the marketplace. The customer may think, 'If my supplier gets ticked off about something, it may withhold my shipment.'"

Leverage can be further compromised, depending on the market served. For example, in the automotive industry, it is common to be paid after production parts are approved by carmakers. But this process, called PPAP, can take several months or even years.

"When they (carmakers) decide they are going to stretch out their payments, we have two choices. Either ride with them or quit doing business with them," said one Detroit-based metal finisher who services the automotive industry and declined to be identified for this story. "We have kings here and kings decide how to run their kingdom."

Industry members can work with lenders, and sometimes customers, to ensure adequate financing is available for late payments. There are lending institutions that provide an array of financial products and services to the commercial and industrial marketplace. For example, GE Commercial & Industrial

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