



MALCOLM'S MOMENT OF TRUTH

PREAMBLE

In this month's Case Study we meet Malcolm, an ambitious Credit Manager keen to advance his career no matter what the cost or the risk. Malcolm sets out on a path which delivers early promising results but soon the cracks start appearing, Malcolm's world is starting to disintegrate and as he struggles to keep up, our Case Study asks you to help him with his Moment of Truth. We're sure you'll enjoy this Case Study prepared by Ledlin Lawyers.



Malcolm looked closely in the mirror - was that another patch of grey appearing just above the ears? If you looked too closely you saw the dark circles under the eyes and the worry lines ever deepening across the forehead. And, of course, the bags under the eyes seemed to bulge a bit more every week keeping pace with the thickening girth caused by one too many Maccas on the way home, late, as usual.



Malcolm's ambitions had always been worn on his sleeve. He was a good talker, related well to people and able to spot "opportunities" disguised as problems. He had climbed the ladder at Shorten's Supplies quickly and was keen to send his career into overdrive. The idea was simple really, he told his wife from their modest home in Point Piper. *"It will mean more sales, more business and a big pay rise to boot. We just target a few shakers and movers in the industry, give them extended terms and help them grow their business. We increase our market share and then slowly rein them back to normal trading terms."* Malcolm was big on ideas but often lacked the attention to detail.

He had no trouble convincing Sales and Marketing (they loved it) and the G.M. was prepared to run with it and review it in six months' time. All he needed now was to target the ideal customer. It wasn't long before that problem was solved.

Kwik Kash, a New Zealand based company, were one of their more aggressive customers and was the leading candidate for Malcolm's new strategy. These Kiwis played it hard and although the margins were nothing spectacular they attacked the market vigorously, in fact so hard that Malcolm was sure that some of their Sales people were former All Blacks. They responded well to Malcolm's approaches and they started buying up big, moving the Shorten's Supplies line out the door. The Shorten name was being advertised extensively and Malcolm was his usual cocky self.

It was five months into the new strategy and he was aware that the Kwik Kash payments were slow. As he ran his eye over the Trial Balance the G.M.'s words came back to him.... *"Malcolm, work closely with Finance on this, neither of us can afford any mistakes"*. The Kwik Kash account had blown out considerably. The account was at 120 days, it was just over \$1,000,000.00 and, to top it off, the warehouse had just advised that there were orders in



excess of \$300,000.00 due for delivery within the week. *"Struth, I'd better get over there pronto" thought Malcolm "and Sales and Marketing can come with me".*

It was one of those meetings where the sense of tension hung in the air.

"I'm pulling you back to a credit limit of \$300,000.00 AND I need to know how you are going to reduce the account back to terms" said Malcolm in his sternest voice. Almost as an afterthought he added, "And I also need security for the current debt".

"Well, there are a few things we should tell you about, Malcolm" said Kwik Kash. "We've restructured. Our New Zealand parent has sold our assets into a new company for a nominal sum and, frankly, we don't have anything to give you. You'll have to trust us when we tell you we'll do our best to get the account into line". Malcolm had a sense of unease that there was worse to come.

"There's one other thing too Malcolm, we need those orders filled. We have customers desperate for the stock and we'll lose them if we can't supply."

Malcolm was despondent as he drove back to the office even though the Sales and Marketing Rep. was as positive as ever. *"They're really doing a good job for us Malcolm, our sales have never been better".* Despondency turned to depression when he returned to find one of Kwik Kash's cheques on his desk marked "Refer to Drawer". There was a note from Finance attached to it saying *"Malcolm, do we have some problems here?"*

His calls to Kwik Kash were not returned. It was later that day when the letter from Kwik Kash arrived. It said, in part,



"We have spent years building up and supporting your product in the market place. You now wish to drastically reduce our credit terms without notice and you have indicated you will not release our orders. Those orders have been presold and if they are not filled we will suffer monetary loss and great damage to our reputation. We will claim that loss and damage from you.

In addition, your misleading conduct about our extended credit limit and terms and your unreasonable attitude in insisting it be reduced to \$300,000.00 will not be tolerated. We demand our limit remain at \$1.3 million and demand that you confirm same within 24 hours, failing which we will take legal action to protect our rights."

Malcolm was stunned. This could be a disaster if not managed properly. Just then the G.M.'s Secretary phoned through. *"Malcolm, the G.M.'s just been briefed by Finance about Kwik Kash. He wants your reports and recommendations ready for a 9 a.m. meeting tomorrow. Thanks."*

Malcolm pondered his options. *"Kwik Kash has no assets, owes us over \$1 million and are threatening legal action if we reduce the credit limit and stop supply"* thought Malcolm. *"Yet, if we go ahead and deliver the orders we will increase our exposure to \$1.3 million on an unsecured account with no guarantee of anything."* To make life more difficult, the real control of Kwik Kash lay overseas and there was a bounced cheque to boot.

It was going to be another late night.....



Advise Malcolm and help him prepare for his morning meeting. In particular:

- 1. What issues does Malcolm need to consider and what steps can Malcolm take now to help resolve the current problems?*
- 2. What steps should Malcolm have taken when setting out on his brave new strategy of extending credit terms?*
- 3. What sort of monitoring and review procedures should Malcolm have in place for customers like Kwik Kash?*
- 4. In a perfect world, what should Malcolm do if customers like Kwik Kash cannot keep within their agreed terms?*

For the answers to Malcolm's Moment of Truth, contact Ledlin Lawyers on [02-8488-3389](tel:02-8488-3389), e-mail us at info@ledlinlawyers.com.au or subscribe to our mailing list!

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