Ed Moosbrurgger / **The Outlook**

Red flags point to accounts receivable that need attention

The accounts receivable portfolio of a business is no different than a stock portfolio in the view of credit expert Eric Shaw. Both have specific values, and it's important to keep track of where the individual components are headed.

There are telltale signs that the value of the accounts receivable - what customers owe the business - may be eroding.

"They're paying you a little slower. Instead of discounting, they are paying you in 30 or 60 days," said Shaw, president of New York Credit, Inc. of Marina del Rey. "Why all of the sudden aren't they meeting discount terms?"

Another red flag is raised if the customer's bank has asked it to find another lender. That may mean the business won't be able to find lending on favorable terms.

"If the bank asked them to leave, they will probably have to pay eight points over prime instead of two," said Shaw, noting that this could seriously affect the viability of a business.

Other signs to look for, Shaw said, include:

- The company suddenly is borrowing up to the hilt on its credit line.
- A divorce is in the works for a key principal, which could lead to a division of assets and keep the person's attention from the business.
- The business is slower in collecting its own accounts receivable and its bad debts are growing.
- The company's industry is declining.
- The state or region where it is doing business is suffering major economic or disaster-related problems.
- There are IRS or payroll tax liens on the business.
- Potentially costly lawsuits have been filed.

And, Shaw said, the creditor often can get a sense of impending problems just from regular phone calls to the business.

If the business isn't answering the phones as quickly as before it may be a sign that service is declining because of a financial squeeze, he said.

"The idea is perception," he said. "What are you picking up?"

Shaw's firm runs the credit departments of about 40 businesses, and also provides a variety of other services including commercial lending, audits, liquidations and trade debt management. He's also set up the All Cities Resource Group, a networking group with meetings in Century City, Torrance, Irvine, downtown Los Angeles and Woodland Hills. It's for people whose clients are manufacturers, wholesalers, distributors or service businesses.

When a business gets to the point where its vendors are badgering it to be paid and it has borrowed to its limits, a cash flow and trade debt restructuring may be in order, Shaw said.

This typically involves a 90-day moratorium on payments, stretching out debt payments over two years and developing a plan to return to a positive cash flow.

Creditors will often accept such a plan, Shaw said, because it's better than losing a customer and maybe not getting paid at all.

"Nobody wants to see you go out of business," said Shaw, who has written and published a book *The Game of Credit, Managing Your Accounts Receivable For Profit!* which includes a pull out game board that corresponds to chapters in the book.