Case Study: Catastrophic Loss Prevention

Company:
Scrap metal broker serving steel mills and foundries

Situation:
The Company was carrying a $2.5 million exposure with a Steel Mill and was in the process of trying to determine how they should proceed with the customer. The Company was unsure if doing business at this level going forward was prudent and decided to consult with ProfitGuard to determine what the appropriate level of credit should be, if any.

Operating Facts:
- Annual Sales: $300 million
- Gross Margin: 4%

Credit function handled by the Company's CFO

Objective:
The Company was trying to determine if it made sense to carry this level of exposure, risking the Company's capital for the margin it earned on sales to the Steel Mill.

Results:
Based on a thorough review of the Steel Mill's credit profile, ProfitGuard advised the Company to reduce its open credit exposure. ProfitGuard identified that the Company was a high risk and a bankruptcy filing was very likely in the near-term. The Steel Mill was in default on its credit agreement, which the Company wasn't aware of. Additionally, the Steel Mill's lenders had rejected the Steel Mill's proposals to negotiate its credit agreement as the lenders felt these proposals weren't appropriate. As a result, the Company rejected additional business and was able to reduce its exposure below $100,000 when the Steel Mill filed for Chapter 11 bankruptcy protection 5 months later. Without the recommendation by ProfitGuard, the Company stated it would have continued doing business with the Steel Mill at the $2.5 million exposure level, which if lost in the bankruptcy proceedings, would have posed significant cash flow problems and threatened the long-term viability of the Company.

Without ProfitGuard's Recommendation:

Potential Write-Off:	$2.5 million
Divided by Gross Margin:	4%
Additional Sales Needed:	$62.5 million

The above analysis illustrates the potential result of a large credit loss to the Company. Had they taken the risk they would have had to generate $62.5 million in additional sales to return to their pre-loss position. By comparison, the minimal investment in ProfitGuard (Credit Limit Advisory Report: $100) helped them reduce the payback volume to just $1.9 million.