Case Study: Crisis Management

In this short case study, your team is the management of the company described in the following text. After reading the text, discuss the problem and try to agree on what course of action your company should take by answering the questions below.

Your company is employing 7 people. The market has become increasingly competitive, and the company's economic situation is far from ideal. Due to slow payers and difficult financial situation on the market, the company is experiencing serious cash flow difficulties and cannot meet several payments of its own.

The situation has become so serious that the management team is now forced to get tough with some of its debtors, even if it might mean losing vital business in the future. The question is: who is it going to be? Who can't pay and who won't pay?

On the following page you will find the information about the four companies which owe your company the most money. An immediate settlement by at least one or two of them of their outstanding debt might be enough to solve your company's current cash flow problems.

In order to act fast, your task will be to examine each debtor's case and analyse their current situation, their ability to pay etc. Use the table below to rank the four debtors by recommending in which order the companies should be pressed to pay and explain on which factors, considerations etc. you have based your decision and recommendations.

Company name	**Rank**	**Reasons**
Lemons Ltd.		
BonBon Pasta		
Hoftner GmbH		
Joy & Jenny Ltd.		

Here is the information about your four main debtors:

Lemons Ltd. owe your company € 830,000.00 and are four months late in settling their bill. Your company has been doing business with Lemons Ltd. for over 5 years. They were, in fact, your first major client and are currently your second biggest customer. Your CEO knows the owner of the company socially. Lemons Ltd. probably has the funds to pay you if you press them, but it may seriously damage their business. On the other hand, what will happen to your money if they go insolvent?

BonBon Pasta are six months late with the € 119,000.00 they owe you. BonBon Pasta is a relatively new customer and it has taken nearly eighteen months of ongoing negotiations to win their business. Financially, BonBon Pasta is in extremely good shape with its share price more than doubling in the last two years. Your management team believes that late payment is simply regarded as a money-saving policy in their finance department. And apparently, they used to enjoy a fairly flexible arrangement with their previous suppliers from whom your company won their business.

Hoftner GmbH is by far your biggest client, accounting last year for € 1.9 million worth of business. At the moment they owe your company € 226,000.00 and are two months behind with the payment. They have contacted you about this and explained that it is the result of the temporary cash flow difficulties caused by their recent expansion and, therefore, nothing to worry about. They would like to triple their credit limit and are promising you considerably more business in the future if you are patient with them now. Your management team feels quite confident that Hoftner GmbH will keep their word but they see no way of offering them the huge amount of credit they are asking for.

Joy & Jenny Ltd. are six weeks late paying the € 89,000.00 they owe. Normally this would not worry you, but, since this is the first time, they have not paid on time in 8 years, your management team is a bit concerned. When your team contacted them about the problem three days ago, they were suggesting that the problem must be on your side as they have transferred the money. Joy & Jenny Ltd. presented the evidence of the payment. However, compering the banking data, your team discovered that the money was transferred to the wrong bank. That happened due to the data high jacking and falsification of your original invoice by thieves. This falsified invoice with your changed baking details was sent to Joy & Jenny Ltd. and they transferred the money, without confirming the change of the banking details with you. How will you get the money back and resolve the situation with the client?