

JOHNSTONE SUPPLY: RAPID GROWTH WITH MINIMAL RISK

Johnstone Supply is the second largest whole supplier of HVAC (heating, ventilation and air conditioning) parts and equipment with nine branches in Pennsylvania, Maryland and Virginia and has been in business for more than 40 years.

Years in Business: 40+
Years with Euler Hermes: 4

Region:



United States

Sector:



HVAC Supplier

Challenge:



Growing credit risk during periods of rapid expansion

Policy Benefits:



Access to better financing



Stronger sales



Credit insight and data

THE CHALLENGE

Six years ago, Johnstone Supply decided to pursue a plan for high growth that would expand its operations into nine locations in three states and more than quadruple its sales from \$9 million to almost \$40 million. Company CFO Jeff Green, who joined Johnstone Supply in order to manage the company's growth plans, was particularly concerned about the credit risk that can arise during periods of rapid expansion.

As the company expanded outside of its original locations in Maryland, Johnstone Supply was for the first time taking on new customers the company's management did not know personally or by reputation. "We knew that some new customers were shopping for great service or based on price, but we were also concerned that a lot of new customers were shopping for credit because they could not get it elsewhere," said Green.

As the former CFO of a seasonal supplier to retailers, Green has seen firsthand the positive impact credit insurance can have a company's financial strategy. His former employer was one of the suppliers affected when one of its key buyers, Kmart Corporation, filed for Chapter 11 bankruptcy in 2002 while owing more than \$1 million. Without credit insurance to cover the loss, that firm may not have survived.

Based on that experience, Green wanted to make sure Johnstone Supply was similarly protected from credit-related losses. Therefore, as the company's credit risk exposure grew along with its business, Green contacted Euler Hermes to discuss credit insurance.

THE SOLUTION

The tipping point for buying credit insurance was a contract in which Johnstone Supply offered a customer an initial line of credit of \$990,000. "As a \$15 million company, that million-dollar exposure has the potential to put us out of business if we have trouble collecting that receivable," said Green. "Insuring a significant portion of that amount through Euler Hermes gave us the level of comfort we needed to pursue and expand that relationship and others." Johnstone Supply was able to bring on more business, without the credit risk, through Euler Hermes guidance and protection.

Green was once again able to bring his experience with credit insurance to bear in finding the right credit insurance product and provider. "I understood going in what the pricing structure should be," he said. "Euler Hermes offered something we expected from a cost perspective, which other vendors did not. It also has a reputation for paying claims when necessary."

Johnstone Supply now has blanket credit insurance coverage for every new customer it acquires in its new branches as well as its current customers. The ability to expand the business safely to both new customers and current customers alike, has provided profits/returns which far exceed the investment in the credit insurance policy. "We still conduct credit underwriting and analysis and manage our collections," said Green. "Credit insurance gives us the confidence to expand faster than we would otherwise." With credit insurance in place as a backstop, Johnstone Supply can take time to see how new customers manage and pay their invoices before determining what level of long-term credit Johnstone Supply can comfortably extend to those customers, many of which are small companies. Johnstone Supply also continues to work with larger accounts that represent large credit exposures in all of its territories.

"If the size and complexity of credit exposures are creating a business risk or impeding the growth necessary to maintain your market presence, you need to consider credit insurance. Credit insurance can protect against the downside risks as you expand your business to achieve your goals."

– Jeff Green, CFO | Johnstone Supply

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THE OUTCOME

Having this level of credit insurance in place, has helped Johnstone Supply improve its business and financial position in many ways. "Credit insurance has a cost but it also yields multiple layers of benefits," said Green. Here are key benefits Johnstone Supply has realized from purchasing credit insurance.

Access to better financing. Johnstone Supply's banking partners have been more willing to give the company larger advances against its accounts receivable because they know the credit insurance underwritten by Euler Hermes is in place. "That increases our cash flow and access to working capital and allows us to make additional investments in our expansion," said Green. "The net result is faster and more secure growth."

Stronger sales. Johnstone Supply's sales and marketing department also leverages this credit insurance as it manages and targets sales. With credit insurance in place, Johnstone Supply can afford to take on a wider range of customers with different credit needs. "Sales and marketing can be more aggressive in the marketplace," said Green.

The sales force also leverages its knowledge of which customers are covered by the company's credit insurance and to what levels. With that insight, the sales force is able to direct its efforts toward those customers that have the financial capacity to make good on their financial obligations.

Credit insight and data. Euler Hermes provides credit insight and data that Johnstone Supply can use to decide whether to extend credit to new and existing customers and how much. For example, when Euler Hermes warns Johnstone Supply that a customer's financial situation has deteriorated to the point that it is reducing the level of credit insurance available for that customer, Johnstone Supply has the information it needs to discuss the situation with the customer.

"We work to uncover the underlying reason," said Green. In some cases, a lack of current information may be the reason for the problem, which is relatively easy to remedy with updated and new information about the customer's financial situation. About half the time, just bringing new information to Euler Hermes attention is enough to support the credit insurance levels for a given client. "There's an openness to the review process that I appreciate," said Green.

If it turns out that a customer's financial position is not as strong as it once was, Johnstone Supply might push for a joint personal guarantee of payment from owners or reduce the customer's credit limit if it cannot obtain credit insurance on that customer. This proactive approach allows Johnstone Supply to deal with each situation before it gets too severe. "This gives us more options to resolve it," said Green.

Although Johnstone Supply has never made a claim on its credit insurance, "we know that Euler Hermes will stand behind us in the event of a loss," said Green. "And I know from experience that that isn't always the case with other insurers."