

# CP SHADES; ADVISOR: MARCUM LLP FILLING THE GAPS WITH CREDIT INSURANCE

In the often volatile apparel industry, a steady cash flow and proactive risk strategy are imperative for successful growth. On the advice of Marcum LLP, a CPA firm, San Francisco-based apparel company CP Shades thus implemented credit insurance as a comprehensive solution to mitigate risk and strategically grow sales.

## THE CHALLENGE

As a leading apparel wholesaler and retailer, CP Shades has long enjoyed a solid reputation in the fashion industry for its quality, sustainable garments—hand-made in northern California. The growing company received a significant revenue boost recently when it rapidly expanded sales to a key retail customer. Like many companies in its industry, CP Shades used a factor to accelerate cash flow and to cover a portion of receivables against loss. The company's strategy changed, however, when the factor became unwilling to absorb the increased exposure with the key buyer, for which limited financial information was available. CP Shades faced a difficult risk-reward decision.

"CP Shades was in a position where it had a good customer who paid its bills on time and kept its word," said Ron Friedman, CPA, a partner at Marcum LLP—the accountants for CP Shades. "But since the customer didn't provide financials, the factor wasn't comfortable taking the risk for such a high amount. It was unclear if the customer had a cash flow problem, and it was not a risk the factor was willing to take. If the customer was ever unable to pay, it would have left CP Shades exposed to a very large bad debt."

Though the factor agreed to cover a portion of the receivables risk, the remaining unprotected portion of the transaction still left CP Shades exposed to a substantial non-payment risk. Having no alternative, CP Shades decided to continue shipping to the customer, but it also turned to its long-time CPA partner, Marcum LLP, for advice. Friedman raised the concentration risk as an issue.

Years in Business: 45  
Years with Euler Hermes: 2

### Region:



United States

### Sector:



Apparel

### Challenge:



Coverage for increased exposure with a key buyer

### Policy Benefits:



Alleviate concentration risk



Protect against catastrophic loss



Grow sales safely



Gain financial peace of mind

## THE SOLUTION

Friedman then turned to one his key strategic partners—Euler Hermes. Euler Hermes worked with Friedman to structure a credit insurance solution to meet the specialized needs of his client. Covering the CPS Shades full sales portfolio, the Euler Hermes credit insurance policy provides CP Shades with a strategic tool to expand sales safely to new and existing customers. However, covering the very large key account required a more strategic tool given the limited financial information on the customer. Euler Hermes recognized the high risk the customer presented and recommended that CP Shades procure the coverage it needed from the Euler Hermes product, Power CAP. Power CAP allows policyholders to purchase additional coverage for very large, higher-risk transactions. The additional coverage offers extra reassurance against catastrophic loss, letting companies realize their trading potential and growth goals while still demonstrating sound financial management.

"I've been a CPA in the apparel industry for 44 years, and I can tell you that apparel companies are not interested in taking credit risk," said Friedman. "In this industry, most receivables are covered through factors, and companies rely on them for credit information on their customers and for adequate risk coverage. However, the factors are taking on less and less risk these days if they lack financial information. This can leave apparel companies struggling with fluctuations in cash flow that can affect many aspects of their operations and growth. That's where Euler Hermes comes in. Credit insurance can make up that shortfall and strengthen client financial positions by ensuring cash flow and balance sheet stability."

The credit insurance offered by Euler Hermes not only alleviated a concentration issue, it also helped put CP Shades on the path to expansion. This is key because many companies in the apparel industry don't take on credit risk because they have limited resources to assess customer financial information. As a credit insurer, Euler Hermes acts as an extension of a company's credit department, providing proprietary knowledge and risk monitoring in addition to financial protection. These resources give companies the confidence to significantly increase credit limits to help stimulate sales.

"Seeing how credit insurance helps CP Shades, I realize how it can work in conjunction with factors," said Friedman.



"Credit insurance gives clients who accept their own credit risk the added protection they need. But it is also a vehicle to allow clients to grow quicker and expand their business."

– Ron Friedman, CPA, a partner at Marcum LLP

## THE OUTCOME

In the case of CP Shades, the need for protection on a single key buyer drove it to explore credit insurance. But the company also soon learned about the impactful benefits the core Euler Hermes policy offers and started to incorporate those benefits into the wider CP Shades business strategy. Friedman hopes that credit insurance can also be another financial tool for other companies in various consumer product industries, especially those that have traditionally relied on factors. The strategic protection of credit insurance gives leaders of companies like CP Shades the freedom to focus on the critical foundations of their business: designing, merchandising, and selling products.

"I value the relationships I have with my clients, and Euler Hermes enables me to effectively solve one of my clients' key problems," said Friedman. "I can offer a solution that helps them run their business better and gives them peace of mind instead of worrying about their exposure. If companies in this industry adopt credit insurance and that allows the whole sector to expand, it could be a real winner for everyone involved."

### For more information you can:

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