

# Counting the Cost

How to reduce the risk of food supplier failure



In these tough economic times, suppliers are being squeezed from all sides. This is especially evident in the food sector, where suppliers are struggling to cope in a climate of supermarket price wars and growing producer demands.

Simon Thomas, Partner at Moorfields Corporate Recovery, examines the issues and explains how invoice financiers can protect their sales ledgers.

Food suppliers today face big challenges to their viability. Against a backdrop of falling sales, continuing price wars and diminishing profit margins, food producers are increasingly demanding a better deal for their goods.

## PUTTING THE PRESSURES IN PERSPECTIVE

Exeter-based Avilton Foods, an importer of Italian food products, found itself a victim of these pressures. At home, supermarkets sought to reduce the prices it paid. In Italy, farmers insisted on better prices to meet rising costs. Meanwhile, both issues were compounded by unfavourable exchange rates.

Over 2 years, Avilton's costs escalated in an attempt to continue operating until, cash flow dried up, resulting in the company entering into administration.

## THE RISKS TO INVOICE FINANCIERS

The issues illustrated in Avilton Foods' struggles are not uncommon, and they present severe risks to invoice finance companies. With supermarkets dictating payment terms of around 45-60 days, most food suppliers use invoice finance to support their cash flow and working

capital requirements. Naturally, when food suppliers falter and fail to supply, invoice financiers face the threat of significant losses through supermarkets offsetting claims for losses resulting from lost sales. This can often be exasperated by suppliers failure to fully provide for retrospective discounts due to the retailer.

## THE IMPORTANCE OF INVOLVING ALL STAKEHOLDERS

Experience tells us there are ways to reduce the risk. For example, as administrators of Avilton Foods, Moorfields adopted a strategic mediation role, working and negotiating with all stakeholders – including the supermarkets, bank, directors and Italian farmers – to create an arrangement that met everyone's approval. Our efforts included appointing a third-party to fulfil supermarket orders, arranging a handover of packaging, and establishing a new supply chain for the farmers. This approach avoided any break in supply with the consequential loss claims. We have recently acted on several other food supply businesses with similar success.

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## ACTING ON EARLY WARNING SIGNS

Speed is of the essence. Through our strong relationships with major supermarkets, we know they are more likely to be flexible and accommodating when involved at an early stage.

The benefits of acting quickly apply equally to identifying warning signs. The earlier matters can be spotted, the better the chance of avoiding breaches of contract (on supply side) and recouping money. For invoice finance companies, this means keeping a close eye on:

- cashflow difficulties
- debtor days extending
- increasing numbers of credit notes and retrospective rebates
- poor management accounts
- Crown arrears
- overpayments at short notice

Each of these factors indicates that a food supplier may be experiencing difficulties – and that now's the time to act.

## STEERING A COURSE TO SUCCESS

Delivering a satisfactory outcome requires diligence and experience. At Moorfields, our sector experience and relationships provide a favourable environment for engaging with all parties and, consequently, reducing losses for invoice finance companies. By involving us from the moment warning signs appear, we are well-placed to create an effective plan, engage stakeholders and steer a course to a welcome conclusion.

## WANT TO KNOW MORE?

To find out more about Moorfields' restructuring and insolvency services contact:  
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“invoice financiers face the threat of significant losses through supermarkets refusing to pay due to breach of contract.”



### MOORFIELDS CORPORATE RECOVERY

Moorfields is a leading provider of Corporate Advisory, Restructuring and Insolvency Services. Our highly skilled teams include restructuring professionals and licensed insolvency practitioners who provide leadership, experience and high quality advice to companies and their stakeholders in financially distressed situations.

Our focus is to offer a dedicated service with straight forward options and realistic solutions to ensure we maximise the financial outcome for our clients and business stakeholders.

Our team has built up a strong reputation as one which delivers, which is evidenced by the fact we consistently act for a number of financiers.