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Schneider Drinks (A). Loan Request

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On September 3, 2003, Werner Schneider, manager and part owner of Schneider Drinks GmbH, visited Schumann, manager of the Jülich branch of Sparkasse Düren, a small thrift (savings and loan) bank, to request a €195,000 loan to be repaid in monthly instalments over a period of five years.

In early 2003, Werner Schneider had decided to increase the company's cold storage capacity so that Schneider Drinks could effectively compete for the distribution rights of two new frozen products from Unilever (sold under the brand name "Iglo"). Sparkasse Düren had granted Schneider Drinks a five-year, €320,000 loan on favourable terms. The cost of the expansion had been €372,500. Werner Schneider was now applying for a loan of €195,000 to improve his working capital.

Schneider Drinks, created in 2000 and based in Jülich, distributed Germany's leading brands of food and drinks (see **Exhibit 1**). The payment period to suppliers varied according to the type of product:

Product	Payment period in days
Milk	15
Frozen food	30
Coca-Cola	cash (3 or 4 days)
Others	within 30 days

Werner Schneider and Günther Peters, with their respective wives, each held 50% of the shares. Schneider acted as general manager and Peters as sales manager. The company had eight employees.

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IESE cases are designed to promote class discussion rather than to illustrate effective or ineffective management of a given situation.

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Recently, Sparkasse Düren had been trying to cultivate a reputation for innovation. To do this, it encouraged its employees to do everything they could to obtain new investments, so long as the risks did not seem excessive, by granting loans to companies whose position caused other lending institutions to hesitate. The aim was to establish firm relationships with customers, which would be profitable for the bank in the long-term.

Relations between Sparkasse Düren's Jülich branch and Schneider Drinks had been excellent from the outset.

Schneider Drinks had undergone spectacular growth in its first three years of operations, due mainly to its extensive franchise area, ongoing selection of suppliers – those offering leading products – and the creation of a cohesive sales team. It was able to achieve above industry margins as it was working in a rural area with less intensive competition than elsewhere in Germany. In 2001, sales amounted to approximately €3.4 million, with profits of €132,000. **Exhibits 2** and **3** show the income statement and balance sheet for 2002 and the first seven months of 2003.

The accounts receivable collection period varied according to the type of customer, although it rarely exceeded 30 days.

No discounts were made, but there were promotion periods during which customers were awarded bonuses for their purchases in the form of extra free merchandise. These campaigns were launched in cooperation with the supplier, who generally covered 100% of the costs.

As a first step towards granting the loan, the branch manager requested a report from Schneider Drinks detailing its sales targets, costing policy and future expenses, as well as its current financial situation. Werner Schneider accordingly prepared a report giving detailed financial forecasts and explaining Schneider Drinks' policies.[1] The basic aspects of the plan were: no new investments in fixed assets; short-term loans to be converted into longer-term loans (restructuring); greater use of computer systems to support management and the information system; careful selection of the products to be distributed, according to turnover; and constant analysis and monitoring of the volume of accounts receivable. **Exhibit 4** and **5** provide a summary of the sales revenue and gross margin forecasts.

The branch manager later requested information from agencies and banks that had dealings with Schneider Drinks. Two extracts from these reports follow.

Agency Reports

"Sparkasse Düren has requested a credit report from Creditreform (a credit agency monitoring payment of debts by companies in Germany), and there is no negative information about the company in question (Schneider Drinks). Its business activities continue to be normal and its payment obligations have been met."

[1] §18 KWG regulates the requirements banks need to follow for any loan exposure above €250,000. In their own interest, most banks do so independently for amounts of €25,000 or more. Under any circumstances, borrowers need to present financial information in the form of balance sheet and P&L. See also note on Basel II requirements.

Bank Reports

"There are no reports of unpaid debts under either the company's name or those of its owners. The company has always made payments when due, and the bank has had regular dealings with the company on affairs of mutual interest."

Finally, a representative of the savings bank visited Schneider Drinks and wrote a report (summarized in Exhibit 6).

With all this information in front of him, Schumann sat in his office wondering what position to adopt in the meeting of the risk committee due to be held that afternoon to decide what to do.