

# CREDIT

## ABUSE, PROFIT LOSS

Over half of the business being conducted today is transacted on credit. The percentage grows every year and soon it may be close to universal. As it expands, so do the hazards. The life of any golfing business may well depend on how adequately it is protected against credit abuse.

The improper and haphazard operation of credit procedures has accounted for as high as 65 per cent of small business failures in the past. Although such losses were blamed on lax procedures in granting credit, this problem has decreased due to better education on procedure and greater availability of checking agencies. But recent surveys have pointed up an alarming increase in loss through abuse of credit. The pro shop operation has been no exception to this unfortunate trend.

The following paragraphs describe the top-ranking credit abuses, which were responsible for 90 per cent of these losses. Accompanying each are procedural steps to help pro shops avoid these abuses.

□ Changes in credit status were ignored. Yesterday's well-rated customer can, through all kinds of circumstances, become a dangerous risk tomorrow. Failure to watch over the continuing credit status of major customers is always a

*Credit abuses can eat away profits, unless records and procedures, governing everybody, are strictly enforced* **By Ernest W. Fair**

hazardous procedure.

*Preventive:* Periodically, survey the account status of all customers. Watch carefully any account which has become slower and slower in making payments over any past three-month period.

□ "Softness" in collection procedure. One is always tempted to grant the good credit account some extra concessions. Too often this leads to a major loss.

*Preventive:* Strict adherence to conventional credit terms at all times is a must. Extension of such terms in cases of genuine emergency are justified only on a short-term basis.

□ Mistake or errors in bookkeeping. Failure to charge to the proper account and errors in transcriptions of sales tickets to account ledgers are the two most common mistakes in this area.

*Preventive:* A well-developed system for handling the paper work for all charges and a continual check of people involved to see that this is be-

ing followed does the job. Doing away with hurry and rush in handling the paper work is another good step.

□ Laxity in follow-up on every delinquent account. There should be no exceptions regardless of how good a customer may be involved. Carelessness in handling delinquent accounts can lead to greater customer delinquency.

*Preventive:* Establish a definite procedure to follow and use on every account without exception. Never wait more than 30 days to put it into use.

□ Chronically slow accounts deteriorate into bad ones. Many a good credit customer has been permitted to down-grade into an undesirable one because of the failure of the pro shop management to insist on payment according to agreed terms.

*Preventive:* (a) Reduce the amount of credit allowed; (b) keep in a separate file for closer attention, and (c) institute a 1 per cent per month service charge for failure to pay on the due date.

□ Carelessness in handling credit cards. More and more use of bank-type credit cards is a certainty for the future. Carelessness in handling the charge slips means sure loss.

*Preventive:* Making certain every

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item of basic data needed is clearly reproduced on the slip, particularly the customer's account number.

□ Tolerating too many returns for credit to account. Every such action does away with profit on the given sale and increases the chance for error in handling the transaction. Frequently credits are made for larger amounts than the original charge.

*Preventive:* Require the original charge slip to accompany each returned item.

□ Accepting partial payments on accounts month after month. This often leads to a dangerously large balance which the customer cannot pay and jeopardizes his heretofore rating.

*Preventive:* (a) An account charge of 1 per cent a month on the unpaid balance each time; (b) reducing the limit of credit allowance as the practice continues, and (c) personal contact with the customer after the second or third such partial payment to help solve the problem before it grows larger.

□ Granting requests for larger than authorized amounts of credit. This was usually done for a good customer of long standing as a special favor.

*Preventive:* Without exception, granting the request should be delayed long enough to check on the reasons behind it, the ability of the customer to pay the larger sum and for any change in the financial capabilities of the account.

□ Checking only one credit reference. Many substantial losses were noted where only one reference was required on credit applications or only the first was checked even where more were listed.

*Preventive:* Check all references

and require at least three from every applicant.

□ Over-zealous urging of customers to use their credit. The drive for additional business can never be discouraged in any business operation, but when such activity is obtained on a basis of credit where it's not justified, it usually costs more than the profit made.

*Preventive:* (a) Discouragement of high pressure methods resulting in customer's over-using his credit beyond his ability to pay; (b) holding fast to all credit rules in periods where special business promotion activities are underway, and (c) setting up of separate credit facilities for use at such times.

□ Failure to pursue conventional collection steps for fear of losing a good customer. Almost every business failure revealed the presence of such procedure. An uncollectable account is certainly anything but that of a good customer.

*Preventive:* (a) Following through on a standard policy of handling credits and collections with no variance for any but emergency considerations; (b) realization that the good customer whose account had become hazardous has lost that status and handling it accordingly.

□ Finally, the lack of proper credit and credit control records has always been a contributing factor where credit abuses have eaten heavily into the profits of any business. The system which fails to immediately point up existence of shaky credit conditions is inadequate. Without such workable credit records and systems all other safeguards can prove inadequate. They have done just that for virtually every one of the business failure referred to above. □

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