

# How To Reduce Sod Credit Losses

By

**RICHARD HORNER**

Horner Sod Farms  
Union Grove, Wisconsin



Horner Sod Farms' office manager, Bob Brewer, doubles as dispatcher. Farm communication is by radio, but instant communication is also needed between home offices and sales outlets. Teletype provides 24-hour hookup for credit approval and other matters.



Acres and acres (about 800) covered with lush, green sod. Meticulously cared for sod isn't worth the trouble to irrigate if, once delivered, the customer refuses to pay. As Horner points out, "sod has no retrievable value after the customer has received it."

If there is any problem that almost every sod grower has a burning interest in, it is the problem of collections and accounts receivable.

Members of the Sod-Growers Association of Mid-America exchange information on delinquent accounts. The last list compiled by our secretary in 1965, made up of reports from eight or nine growers (mostly in the Chicago area), contained the names of 246 delinquent accounts with a total amount of \$142,800 outstanding.

This list refers only to accounts the reporting growers considered delinquent. It did not contain the names of accounts that had made arrangements to pay debts over a period of time, those who signed notes, or those whose accounts were on a current basis.

Considering that probably at least one-half of these outstanding accounts are uncollectible, it illustrates the nagging problem of collections in the sod business. No grower, large or small, newcomer or oldtimer, is immune. It is a problem that is upsetting and frustrating, as well as representing a considerable drain on the profits of the typical sod farm. In short, it drives sod men crazy.

## Why Collections Are a Problem

Why are collections such a problem in the sod business? There are several reasons.

One, sod is a product that has no retrievable value after the customer has received it.

Two, a large percentage of sod is sold to landscape contractors, and unfortunately a relatively large percentage of landscapers

are either underfinanced or poor businessmen, or both.

Three, these landscapers require relatively large amounts of short-term credit to finance their projects. This credit is usually extended by their suppliers since it is difficult for them to obtain through banks.

Accounts receivable go sour for a variety of reasons. About the time the average sod man has figured that his system is finally perfected, some account manages a new way to escape through his grasping fingers.

Let's take some typical cases. There is good old Meanwell, for instance. He plugs along paying his bills more or less regularly. His great faults are two — he has no reserve and he is not sharp enough to ever make sufficient profit to build one.

His sod supplier may get along very well with him for a while. He may, in fact, be inclined to consider him a good customer. Suddenly, misfortune strikes! Meanwell is in an accident; or his wife has major surgery; or a child goes off to college. Take your pick. It all adds up to the same thing. Meanwell can't pay his bill. If this account has gotten too big, the sod man ends up holding a very empty bag.

Then there is the Sharp-E Landscape Company. Sharp-E breezes in with a line about how good your sod is and how wonderful your service. Thus disarmed, you charge his first order without further investigation. Before long, Sharp-E pays. But in the meantime his bill is running up much faster than his payments.

When he is finally called on the size and age of his account, naturally enough, he switches to a more accommodating supplier. Since this is exactly the strategy he intended to use, it really should not be any surprise to find out that he has no particular intention to ever pay his bill. Nor should it be surprising to find that Sharp-E owes money to every sod grower he ever patronized. He regards his unpaid bills as extra profit, a sort of bonus for clever thinking on his part.

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scaping. Fleece is a creative writer at heart. His most profitable work is done on paper — blank checks! Fleece likes to hit and run. His first check or two, usually small, may clear his bank in fine style. But that is just the setup.

What he really has in mind is hitting very quickly with two or three big ones all written and accepted before the first one bounces. Fleece is an adept liar. With a straight face he explains his rebounding checks: (a) One of his customer's checks bounced, (b) his bank has made an error, or (c) his wife forgot to make a deposit. "Just run it through again," he smiles. "It's OK now."

#### Protection Necessary

Well, how can sod men protect themselves from these kinds of losses? Can we eliminate credit losses entirely? If not, what is an acceptable bad debt loss? Why not eliminate the problem by eliminating credit?

Let's start with the last first. I reject a cash-only policy as impractical, overrestrictive, and unnecessary. For one thing, cash only requires the handling of relatively large amounts of cash. In many cases this handling would be done by hired help, either the landscaper's or the sod grower's. This is neither safe, nor businesslike, nor convenient.

Another argument against cash only is that there is a legitimate and justifiable reason to finance landscapers by offering short-term credit. Finally, there are ways to control credit to hold losses to an acceptable level so that the very inconvenient policy of cash only is unnecessary.

All right, what is an acceptable bad debt loss? At this point I would like to make some observations from our own experience at Horner Sod Farms.

In 1962 we opened our first wholesale sales lot in the Chicago area, which is about 75 miles from our farm. A hired manager was placed in charge. Our controls were almost nonexistent since he had no previous information to act upon, but we managed to muddle through our first season fairly successfully. In 1963 we really began to sell.

In December of 1963 we discovered that about 12% of our total 1963 sales was uncollected. By March 1964, 8% was still uncollected. (Most of this has since been written off.) The result was that, in the early months of 1964, we began to think hard thoughts about accounts receivable.

So obvious that it hardly needs stating is the first principle of credit management: *Accounts are easy to collect when they are small and when they are not old.* With that principle in mind we started revising our whole system.

#### How To Cut Credit Losses

The first change was to strip our salesman almost completely of authority to grant credit. This authority was reserved for our home office. Credit decisions are made objectively only away from the competitive battlefield that the salesman operates on.

It is not fair to the salesman, and it is certainly not smart business, to give him the responsibility to make credit decisions. He is much freer to operate when he can blame some dirty so-and-so in the home office for refusal to give credit.

Next, we set up an individual file for every customer and prospect. For these files we acquired credit applications, reports from references, reports from credit information organizations, old account ledgers showing the history of how accounts were maintained, etc. These files have proved of tremendous worth and they become more and more valuable as time goes by.

Each customer was studied

and a decision was made. No, we would not give credit. Or yes, we would give credit, but only so much. Credit limits granted varied from \$300 to \$2,000.

Another change we made was to print new invoices, on which we stamped in big, bold letters the words: "Please Pay from this Invoice." Our terms had been net 30 days. Our terms remained 30 days with the important difference that 30 days is reckoned from the date of purchase and not from the date of the statement.

#### Calendar File Tabs Delinquent Accounts

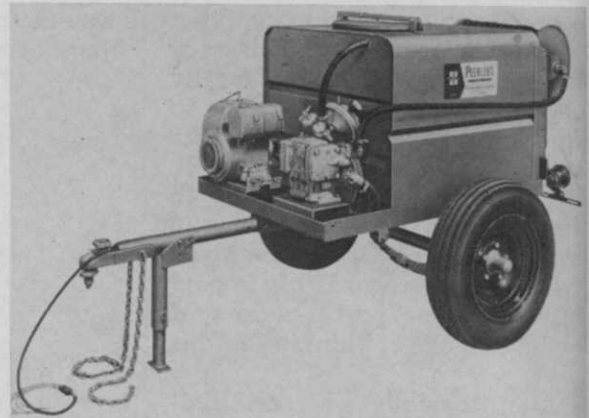
Our final and perhaps most valuable addition was a calendar file. This is simply a series of files numbered 1 to 31. As soon as our invoices are posted to the various ledgers, the originals are dropped into the file that bears the number corresponding to the date of purchase. That is, invoices dated on the first of the month are put in file 1, second in file 2, etc.

A month later these invoices are examined. Those that have been paid are removed. The unpaid are immediately acted upon. The customer is sent a friendly reminder that invoice so-and-so in the amount of such-and-such is unpaid. We suggest that it has probably been overlooked.

At this point we don't just dismiss it from our minds. The invoice is moved back 10 days and again it is either pulled if paid or else followed up with a slightly stronger note. At this point we cut off any further credit.

This process continues until the account is paid, or at the end of about four requests, each of

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which is stronger than the previous, the account is referred to a collection agency.

We became convinced that the customer that does not pay his account after four or five notices and an elapsed time of 75 days is not worth having as a credit customer. He usually quits us after we put a collector on him, but we consider this no great loss since we shall, in all likelihood, lose enough on him eventually to cancel out any profit we could ever hope to have made on our sales to him.

That in a nutshell is the system we set up to manage our credit from 1964 on. Has it worked? Yes! In both 1964 and 1965 our credit losses were less than  $\frac{1}{4}$  of 1%. We were shooting for 1% or less and we were well below that. We would tolerate 1% if our competitive situation required loosening of our controls.

Is our system perfect? No, but we feel we are on the right track. At this point we feel our particular weakness is our vulnerability to bad checks presented in lieu of cash. It is the credit problem to which we have now directed our principal attention.

### Attack Next Year's Nematodes This Fall

Chemical treatment of soil to kill nematodes must be done when the temperatures are between 60 and 80°, advises Claude L. King, extension plant pathologist, Kansas State University, Manhattan, Kans.

Since most garden and flower crops are planted in cooler spring weather, he suggests treating soil the previous September while temperatures are still high. To treat small areas for the microscopic worms, he recommends furrowing 6 to 8" deep, with furrows 12" apart. One pint of D-D soil fumigant should be enough for 150 to 175 lineal feet, and after application, furrows should be filled with soil and packed lightly, the extension expert advises. At least two weeks must be allowed between soil treatment and planting.

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