



# Wise Payment Practices forge Better Relationships

Photo Courtesy of Bailey Nurseries

Just like good fences are recognized for making good neighbors, credit managers agree solid payment policies make solid business relationships. When vendors have clear guidelines and incentives for prompt payments, customers can plan their budgets accordingly and even improve their profit margins.

“Don’t be afraid to ask for payment,” advised Tom Claybaugh of Mountain States Commercial Credit Management in Englewood, Colo. “If you have a stack of bills and you only have enough money to pay 50 of them, you are going to pay the people who are going to enforce their policies, charge interest, call and put you on a credit hold.”

Know your customers and enforce your policies is the mantra of Claybaugh, who facilitates commercial credit meetings with trade groups like the nursery and greenhouse industry. “If someone wants to open a credit account, make sure you know them and it’s not just on a handshake. I recommend getting credit applications on all customers regardless of whether they want to purchase on cash or credit,” he said.

Alex Kane, the credit manager at Bailey Nurseries in Newport, Minn., said any company that wants to apply for credit terms with her company must fill out a credit application and provide information about their bank and vendor references.

“I extend credit based on the facts that we receive,” Kane said. “We have the nicest people in

our industry, but the bottom line is that customer’s credit history will decide if we extend credit. The data we get from an application will help us determine whether a customer is creditworthy or not.”

Kane and her staff follow up with references as well as checking credit reports. “Especially if a customer is new, we can work with that customer to establish credit. Many times in our industry customers start out without credit, but we work with them and eventually they become credit customers,” she added.

When Bailey does not approve a credit application, Kane calls the applicant’s owner directly to discuss the information. “It’s always in a call, not in writing. I can say ‘At this time, we can not extend credit, but we may extend credit in the future.’

It’s more personal than a cold letter, cutting them off. Sometimes a customer is just starting a business and they need advice. They need to know how they can establish terms in the future and we can help them to do this. Sometimes

customers don’t provide us with the right information. We had several cases where the people who filled out the credit application gave us the wrong references: ones for small purchases that didn’t apply. When that happened, we got additional information and we were able to extend terms based on that.”

Claybaugh of Mountain States said customers that don’t qualify for credit through the application

*“When we don’t hear from customers, we can’t help them and we have to make a decision about their account without their input.”*

– Bailey Nurseries Credit Manager Alex Kane



process could be asked to sign personal guarantees, which are very common in the green industry.

The guarantee is backed by the signature of company officers, who agree to be individually liable for ensuring payments and credit terms. "It's a very valuable tool that gives you more power if a company goes defunct, because you can get a court judgment for payment from the individuals when the company may not be worth litigating," he said.

This industry is so creative with payment terms because they just want to keep selling to customers, he added. Whatever the policies, once they are established, it's very important that they be communicated clearly to customers with simple documentation, reminders and enforcement.

"Follow through on your collection efforts. It is ok to ask for payment that is owed you. Credit is a privilege that you are extending to your customer," he insisted.

Vendors that offer discounts for paying within 10 days and charge interest for paying after 30 days give customers incentive to pay them before other vendors who don't have such policies or don't enforce them. "If you know they're going to charge a late fee, you're more likely to pay them before the supplier down the road who doesn't have a late fee," he said.

The policy at Bailey is a 2 percent discount for payments made within 10 days and a 1.5 percent charge for payments made after 30 days. The late charge is a big factor in getting payment, Kane noted, because similar to credit cards, customers want to avoid paying interest charges, which cut into their profits. The discounts are also helpful because retailers want to be profitable and the 2 percent may increase their profit, she added.

"It's very important to follow policies for two reasons. One, for the people who work in the credit department so they

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customers fairly," Kane explained. "Having a good computer system is not only helpful, but makes our jobs more efficient. Our programs help us monitor customer accounts, new orders and lines of credits, and alert us when accounts are past due. We then take appropriate steps to secure payment."

We are a beautiful industry, but we do face many challenges. "It's especially challenging in the spring if the weather does not cooperate. We do so much business in the spring that sometimes people get overwhelmed. Invoices and other paperwork may get misplaced. Not enough help may cause some accounts to become delinquent. One phone call can produce quicker results. Missing invoices, shortages or product issues can delay payment. Once resolved, payment follows," said the credit manager.

know exactly what to do and this makes every one's jobs so much easier. Then two, fairness because by being consistent we treat all our

## The Shrinking Dollar

*"Unlike fine wine; Debtors do NOT get better with time!"  
Allowing late payments reduces profitability over the long run.*

Current Accounts . . . . . \$1.00



3 Months Overdue . . . . . 87 cents



6 Months Overdue . . . . . 64 cents



1 Year Overdue . . . . . 43 cents



2 Years Overdue . . . . . 9 cents



Source: CCAA

"Other times, our calls may result in making special arrangements with customers. Customers may get in financial trouble for one reason or another. It could be a health issue, weather or unplanned expenses. Many of our customers do city and state projects and may not get paid for 60 to 90 days or more. We treat each situation differently when we work with a customer," she said.

Her "pet peeve of all time" is when she has to call customers over and over again and they don't call back. "We have knowledge, experience and we can help. We can set up a payment plan or give advice. I even helped one customer to get a loan from his bank because he didn't know how best to go about it. The worst thing they can do is not return our calls. When we don't hear from them, we may assume they don't plan to pay us. We then have to make a decision about their account without their input and that's not good. Always, always return our calls!" she said.



The bottom line for vendors is to stay profitable by avoiding bad debt, because recovering bad debt is not easy. Retailers are also looking for profitability, which can also be achieved through wise payment practices.

Some vendors might offer discounts for customers who pay with credit cards at the time of purchase, so the payment risk is transferred to the credit card companies. The advantages and disadvantages of this method have to be weighed, just like for any other payment policies, Claybaugh cautioned. For the vendor, the credit card fees of up to 4 percent may or may not be worth spending to get earlier payment and not chase it. Earlier payment also improves cash flow.

"In order to decrease bad debt, you want to identify slow pay versus potential bad debt, the earlier the better, because then you know how to treat it. Slow payers you bring back into the fold; bad debt you need to move on it before someone else moves ahead of you," he concluded. "After a certain point, it is better to write off bad debt. A common mistake new or small companies make is to keep calling customers when they should be seeking outside help. But in the end, a small company's bad debt write-off should not be more than 1 percent or it will hurt you. It can really mean the difference of increasing cash flow and getting good rates on lines of credit."



## 7 Steps to Strong Customer\* Relationships

- Step 1:** Create clear payment policies, which provide incentives for paying quickly and on time.
- Step 2:** Communicate the policies to all customers early and on credit applications and invoices.
- Step 3:** Require customers who request credit and make large purchases to fill out a credit application.
- Step 4:** Follow up with contacting references and checking information in the application. If a customer's application shows insufficient proof for credit approval, call them personally to discuss it, check for better information and work with them to help them become creditworthy.
- Step 5:** Enforce payment policies through requiring payments as stated, sending second invoices when payment periods end, charging interest as necessary, and calling customers when payments have not been made to determine how the situation can be solved.
- Step 6:** Help the customers who have the ability and willingness to pay on a plan that works for them. Cut loose customers and their bad debt when there is no solution.
- Step 7:** Repeat! Enjoy better profitability.

*\* These steps apply to customers that are worth keeping, not to the ones who will decrease a vendor's profitability by not paying.*

## 3 Best Practices Strong Vendor Relationships

- 1:** Understand your vendor's payment policies as well as your own budget situation.
- 2:** Take advantage of prompt and early payment discounts or at least pay within the period when no interest is charged. This not only helps your business relationships but improves your profitability by increasing your margins.
- 3:** When you have payment issues, be sure to communicate with your vendor and return calls/emails so you can continue to get the best terms through negotiation and cooperation.



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