

Commercial Credits, Collections, and Adjustments

The Task of the Credit Man and Principles that should Govern His Actions

By T. J. JARMAN.

A consideration of the subject of commercial credits would not be complete without reference to collections, for the expansion of commercial credit contemplates naturally the ability to collect so that, of necessity, a credit man is in a broader sense a collector.

In every day parlance credits and collections are associated together almost as if one, but a third term has been added and we speak of credit collections and adjustments, for happily we are getting away from the so-called knock down policy of making collections and are bringing into collection work more humane ideas, are ministering in many ways to the debtor's needs, are conceding that the best interests of the creditor are served by obtaining the best understanding possible of the debtor's affairs before precipitating action. We are bringing all of the training and resourcefulness of the credit man to bear upon assisting the debtor in getting or keeping on his feet. Constructive adjustment we call it and that is what every credit man should study to bring about.

Now it is doubtful if the plan of making collections through salesmen can well be improved upon if that method is at all practicable. To be successful the plan must be worked out by slow process of education both of the debtor and the salesman. The system involves the ability of the salesman to collect without lessening his influence as a salesman or the consuming of too much of his time.

Of course, the merchant or manufacturer covering a wide territory will, of necessity, resort in a large proportion of cases, to other measures of collection, the form letter published by so-called auditing and credit bureaus, the banks, the collection agencies, local attorneys and traveling adjusters.

In the concern with which I am connected, when a draft is returned from a bank unpaid and there is but one bank in the town, we sometimes send a new draft to the bank, attaching an itemized statement of the account. We allow the bank 1% or 2% or even more of the amount collected, as the size of the amount or circumstances permit, often taking the banker into our confidence by giving him the full facts. This process takes the item out of the realm of the ordinary draft. Frequently the bank, as a result of a carefully worded letter, with a little extra effort and time will succeed at small cost where an attorney might not be able to collect short of suit, if at all. It is policy often to address the cashier rather than the bank itself, and when once the collection is referred to the bank copies of dunning letters thereafter addressed by the house to the debtor are sent to the bank with the explanation that they are written to aid the bank in making the collection and are not designed to interfere with its handling of the item.

We have to remember that the banker is human and demands ordinary consideration and courtesy, and our experience is that when these are accorded he will render the best services. It must be remembered that the bank may have a half dozen or more drafts against the same debtor at the time our matter has been referred to it and the purpose of our letters is to induce the bank to single out our draft for the exercise of its particular efforts.

As to the relative merits of using the collection agency or sending business direct to attorneys, past experience of the credit man will govern. Formerly the responsible collection agency laid great stress upon the fact that it protected its clients against dishonest attorneys, that if an attorney collected the money and failed to account for it the agency would make good, but now, with attorney's lists usually accompanied by like guarantees, this point is not so well taken.

If a collection agency is used it should be one in which the credit department has every confidence, and should be made, to all intents and purposes, an adjunct of the credit department. One of the best tests of the problem whether a particular agency gives good services is whether it makes frequent voluntary reports as to the progress it is making, for a collection agency which does not do this offers the credit grantor little chance of making suggestions from time to time. Most agencies operating in the northwest are alive to the need of making frequent

reports as an index of the thoroughness of their follow-up system.

Our experience has been that when the business of the house is scattered over a large territory it is a good plan to select a firm of attorneys at each central point and turn over to this firm all matters in the general locality. Through years of satisfactory dealing together the house and the attorneys will establish the closest business relationship. We have found it frequently advantageous for traveling salesmen to realize that they have this firm of attorneys always within comparatively easy reach in case of emergency.

The point which every credit man should strive to reach is not only to make his department a bureau for acting on orders as they come from the sales department, but an agency for increasing the volume of sales and becoming a living force in the upbuilding of the business, a department recognized by the heads of the house not simply as a necessary evil, but a live producer. Departments should become credit investigators, not only acting in their judicial capacity of passing on credits, but seeking to develop within themselves the capacity and inclination to advise customers along the best lines of financing their business, of taking up with them before it becomes too late, the tendency to credit over heavily, of urging customers to reduce their stocks if excessive, and performing those other services which will suggest themselves to the credit man who is resourceful in seeking to keep accounts permanently on his books.

In handling adjustments the credit man must make a mental picture of all of the essential physical surroundings of the debtor's business, his traits and his tendencies. Though acting largely upon the testimony of others, he must come to conclusions as sure and accurate as though he were on the ground. A traveling adjuster, after visiting a customer, will frequently be startled to find how accurately the credit man at the desk had sized up the situation. This faculty is hardly short of magic in the eyes of the outside observer.

The large house has its traveling adjuster and a credit department does well to limit itself to the employment of one or two men whose familiarity with the policy of the house will insure a judicious handling of the customers. This representative, by his handling of the accounts must reflect the real attitude of the house towards its customers, must accomplish the purposes of his visit with the least possible friction and even more, must regain the confidence of the customer if it has been impaired.

An adjuster's life is not an easy one. Possibly he has been on the road constantly for several months, has visited on the average six or seven customers a week, meeting at each point new situations and meeting them when tired out mentally and bodily because of continued daily strain so that sometimes he is hardly in fit condition to run up unexpectedly against critical situations.

Consider his position under these conditions, when he runs into an account which is large and upon examination of the books and the debtor's resources finds him top heavy, perhaps seriously involved, though with a chance of pulling through if there is proper coaching. Perhaps the true situation is understood by none other in the world but the adjuster, even the dealer, though he has been given a knowledge of the facts not understanding their import, or if he does realize them, standing at bay with his back to the wall, or taking that other attitude of thorough discouragement. All these conditions of mind have to be met, analyzed and used by the adjuster in determining what policy he shall pursue.

Naturally, it is the duty of the adjuster to protect the interests of his own house but there are two ways of doing this, first, by acting wholly without regard to the debtor's interest, on the principle of "anything to get money," or, recognizing that he owes the debtor a duty. With this latter feeling he forgets for the moment that he is over-wearied, pulls himself together, and gives the debtor all the help he consistently can to smooth out his troubles. The prompt holding out of the helping hand, the constant carrying out of generous policies, the hearty hand shake, the catering to the customer's likes and

dislikes, the going out of one's way to do the customer a favor, have been great factors in the development of large houses of the northwest, and the adjuster from the credit department has been, to a large extent, the instrument through which these things have been done.

Again, consider the credit investigation. A credit department has, we will say, placed a limit of \$2,000 on a particular account. That limit has already been exceeded. The credit man instructs the adjuster to size up the debtor and investigate his affairs thoroughly and make recommendations for the future handling of the account. The adjuster follows instructions and gets information which justifies advising that the line be increased say to \$3,000. Sometimes to warrant increasing the line or continuing the former line, the adjuster takes security, for the purpose is to retain on the books an old and tried account, to endeavor under one arrangement or another to place the house in a position to furnish the customer all the goods he needs in its line. Such an account once lost through the failure of the credit department to care for the needs of the merchant intelligently, leaves the house without representation in that town for many years. The point that the adjuster has to bear down upon is to determine whether there is any future in the customer or if he is doomed to failure whatever is done.

No treatment of the subject of constructive adjustments would be complete without making some reference to the trust deed. There has been some criticism of this method on the ground that the making of the trust deed might well have been avoided and the debtor being solvent encouraged rather to arrange for a general extension without the appointment of a trusteeship, or by well directed advice be enabled to overcome his temporary embarrassment by getting a little outside assistance and continuing substantial injury to his credit.

No one denies that every encouragement and assistance should be given a debtor to keep his affairs in his own hands. Admitting that the trust deed should be treated as a last resort, it is a fact that the plan of arranging a general extension without taking a trust deed is more easily worked out in theory than in actual practice. There come times with any house which has numbers of large or carrying accounts when the problem is presented point blank, "Shall we advise the making of a general assignment or take a chance and give the debtor time?" In the long run the actual results will show that it is better to err on the side of taking a chance, but when it is once decided that a debtor's affairs are going from bad to worse, and that there is no remedy, it is better both for the debtor and his creditors that there be an immediate winding up of his affairs.

Finally, if we believe in the credit system as at present conducted we must at all times be prepared to give our best efforts to maintaining and making the credit system serve its highest usefulness by accommodating it in our every day practice to the spirit and needs of the times. Our houses are not charitable institutions; they are conducted for profit, but the spirit of general belief and helpfulness exercised by the credit department towards the customers of the house is by no means in compatible with this, but may be turned into a valuable asset. The effect upon ourselves will tend to strengthen and broaden us for greater usefulness. The retail dealer early takes note of the broad-minded credit man, he has little use for the grouch. He will at times ignore terms and even prices in order to do business with a credit man whose personality has appealed to him.

The credit man should be searching in his self examination to determine his duties not only to his house but to customers of the house, and the more he recognizes the principle involved in constructive adjustments, broadly speaking, by applying it to his every-day problems so far as may be, the more will he find his efficiency increasing with satisfied customers and increase in the volume of sales, with no greater percentage of losses on the average.

TRAVELLERS' FEES IN ARGENTINA.

Uniform license for commercial travellers to be valid throughout Argentina has been instituted by Congress. Licenses that may be authorized according to the law will be transferable, on condition that the successor of the original licensee prove to the competent authority that he represents the same houses and the same line as his predecessor. The commercial traveler will have the right to sell samples of commercial value without a special importer's license, but is not to sell them as merchandise. Samples without commercial value are to be exempt from import duty, and the provision authorizing the temporary free admission, under bond, of other sample articles is continued in force.

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