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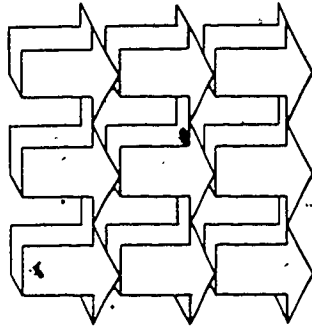
ABSTRACT

This lesson on managing customer credit and collections, the 17th in a series of 18 units, is part of the first level of a comprehensive entrepreneurship curriculum entitled: A Program for Acquiring Competence in Entrepreneurship (PACE). (Designed for use with secondary students, the first level of PACE introduces students to the concepts involved in entrepreneurship and helps them become aware of entrepreneurship as a career option.) The following topics are included in the unit: reasons for offering credit, basic policies to use for credit and collections, determining rules for deciding about people who apply for credit, features of credit card plans, basic types of credit card plans, and using a cost/benefit analysis for direct credit and credit card plans. Included in the lesson are instructional text organized in a question-and-answer format, individual and group learning activities, a case study, and assessment questions. (MN)

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PACE
REVISED

Program for
Acquiring
Competence in
Entrepreneurship



- Level 1
 Level 2
 Level 3

Managing Customer Credit and Collections

Developed by M. Catherine Ashmore and Sandra G. Pritz

You will be able to:

- Identify reasons for offering credit.
- Consider basic policies to use for credit and collections.
- Determine your own rules for deciding about people who apply for credit (3 "C's" of Credit).
- Identify features of credit card plans.
- Identify basic types of direct credit plans.
- Determine how you can use a cost/benefit analysis for direct credit and credit card plans.

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Research & Development Series No. 240 AB 17

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BEFORE YOU BEGIN...

1. Consult the *Resource Guide* for instructions if this is your first PACE unit.
2. Read the Unit Objectives on the front cover. If you think you can meet these objectives now, consult your instructor.
3. Look for the business terms as you read this unit. If you need help with their meaning, turn to the Glossary in the *Resource Guide*.

capacity
capital
character
cost/benefits of credit

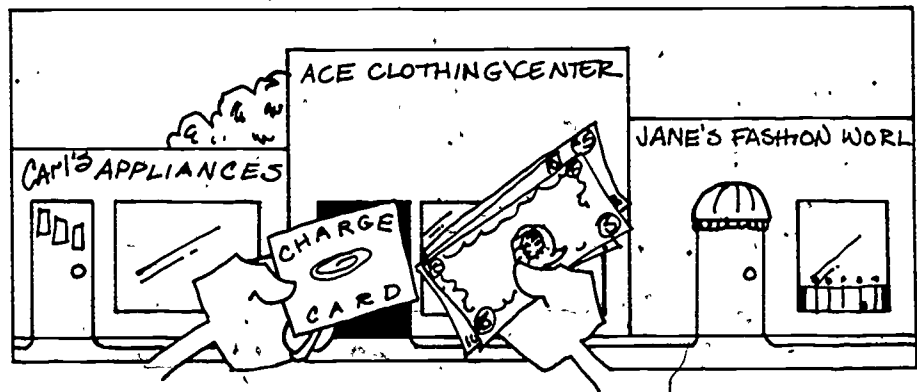
credit bureau
credit verification
direct credit plan
revolving credit plan

MANAGING CUSTOMER CREDIT AND COLLECTIONS

WHAT IS THIS UNIT ABOUT?

Carl Jenkins, who owns a small appliance store, is upset. The money that is tied up in credit to his customers has increased considerably during the past month. A lot of his time is needed to collect the money from those who are slow in paying. "I thought that giving credit to people who looked like they could pay would bring me more business," says Carl. "But I am beginning to wonder whether these people will ever pay what they owe. Am I doing the right thing, or should I stop selling goods on credit?"

In another part of town, a clothing retailer is complaining that people never want to pay cash anymore. "In fact, many customers have walked right out of my store when I tell them I don't accept credit cards. They say, 'Why should I pay cash to you? I can go somewhere else and buy all I want on credit.'" Situations like these two show what this unit is all about, "Managing Customer Credit and Collections."



For many customers, "plastic money" and other forms of credit have become a way of life. Wallet-size credit cards are accepted in millions of businesses all over the world. As the owner of a small business, you often must extend credit to customers so that sales will not be lost. At the same time, you must avoid ending up with long overdue accounts. Such unpaid accounts will tie up your capital and increase your collection costs. The purpose of this unit is to assist you in managing your customer credit and collection policies and procedures. Level 1 of this unit will assist you in answering the following questions:

- What are the reasons for offering credit?
- What are the basic things to consider when making your credit policies?
- What are the rules you can use in evaluating people who apply for credit?

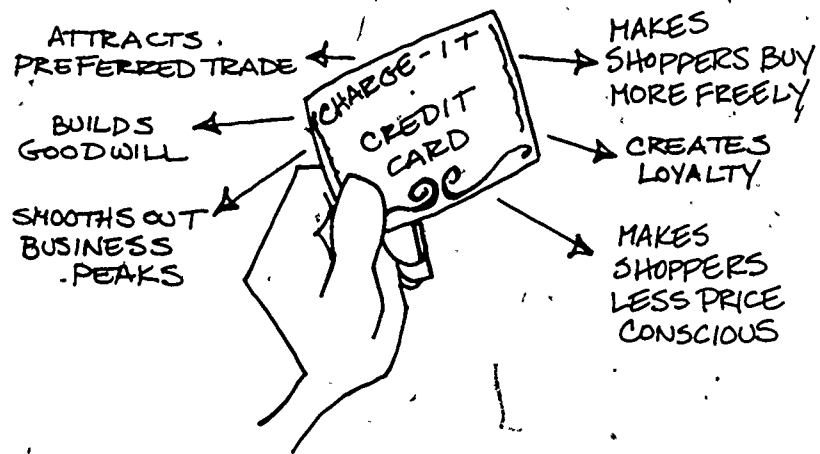
- How can you check up on credit information?
- How can you notify credit applicants if you decide not to give them credit?
- What types of credit plans are there?
- What are the features of *credit card* plans?
- What are the basic types of *direct credit* plans?
- How can you figure out what the costs/benefits of credit are to your business?
- How can you figure out what the costs/benefits of *direct credit* are to your business?
- How can you figure out what the costs/benefits of *credit cards* are to your business?

WHAT ARE THE REASONS FOR OFFERING CREDIT?

Before a manager/owner decides on credit and collection policies and procedures, it is wise to review the reasons for granting credit. One major reason for granting credit is that about one-third of the nation's retail sales are based on credit. Many retailers, large and small, believe that credit gives them some or all of the following advantages:

- **Charge accounts create customer loyalty.** Customers who pay cash tend to shop in a number of stores. People who have charge accounts, though, tend to return to the stores where they can use credit.
- **Credit customers may be less price-conscious.** Consumers who have a charge account are less likely to hunt for bargains. They will buy an article because they want it at the moment. Sales to a credit customer, therefore, are often larger than sales to a cash customer.
- **Credit customers buy more freely.** Credit customers like the convenience of saying "charge it" without wondering if they have enough cash to pay for their purchases. They often buy from store displays and may buy things on impulse. They are also open to suggestion on buying related items.
- **Credit may attract customers who will pay more for quality.** If you give credit privileges, you may attract customers who are interested in quality, service, and style rather than those who are interested only in low prices.

- **Credit builds goodwill.** For some customers, the fact that a store has enough confidence in them to grant them credit builds their confidence in the store. In smaller firms, salespeople often know charge customers by name; this is flattering to the customers and a way of building goodwill.
- **Credit helps smooth out business peaks.** Shoppers who buy with cash tend to spend more on days when they get paid and less on other days. Credit customers on the other hand tend to buy things whenever the products and services are available and needed. Peaks and valleys in business are costly, and credit tends to smooth them out.



WHAT ARE THE BASIC CREDIT POLICY CONSIDERATIONS?

There are two policy extremes in granting credit. One is not to grant credit to anyone. The other is to grant all customers unlimited credit. Of course, neither extreme is wise. However, a wide range of credit policies deserves consideration. The range stretches from an easy-going credit policy with an easy-going collection policy, to giving credit only under strict guidelines and enforcing collection dates very strictly.

An easy-going credit policy involves granting credit to people without checking thoroughly to see if they will be able to make payments. In a strict credit policy, a customer's financial background is checked thoroughly before credit is granted.

Collection policies, on the other hand, refer to the method to be used for payment. An easy-going collection policy allows people to pay what they owe slowly, and a strict collection policy demands that payments be made on a strict schedule.

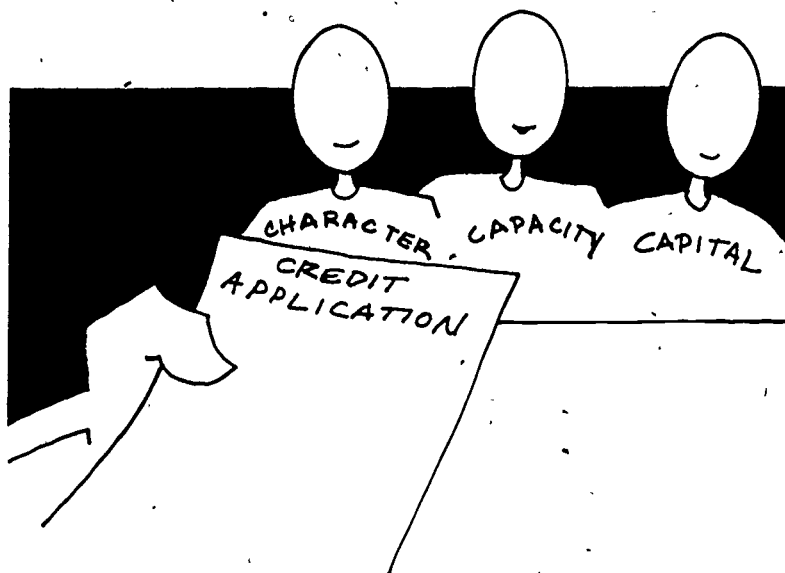
The combination of credit policies you choose depends a lot on your type of business. If you are a travel agent, for instance, you have to pay the airlines and steamship companies promptly. You are involved with large sums of money and small levels of profit, so you can't afford to give credit freely. You must give credit only to people who convince you that they will pay promptly. On the other hand, if you are extending credit for a highly profitable item, you can afford to be much more free.

How easy-going your credit policy should be also depends upon—

- the policies of your competitors,
- the extent to which your business depends on credit for making enough sales,
- your company's ability to handle having unpaid debts,
- the time you have available to collect the money you are owed.

**WHAT ARE SOME GUIDELINES
FOR EVALUATING CREDIT
APPLICANTS?**

Guidelines for making decisions about credit applications vary from business to business. Two business managers with different credit policies may take opposite points of view about the same people who apply. Even so, some general rules are commonly accepted for deciding about credit applicants. These rules are the three "C's" of credit: character, capacity, and capital.



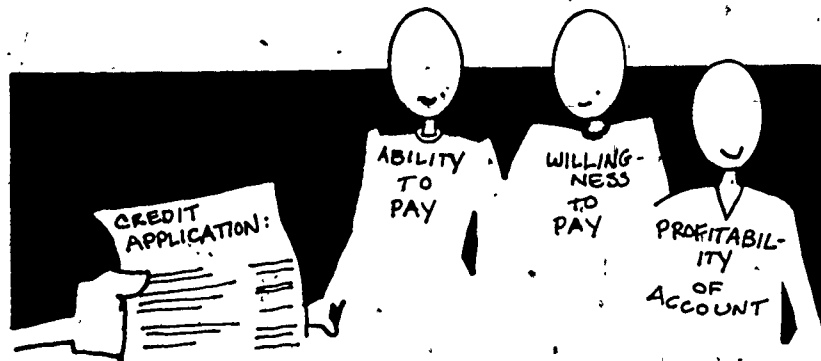
Character is the most important of the three C's. It is based on the person's sense of responsibility in meeting financial obligations. A person who has always paid bills promptly rates high on this standard. A person who has enough money to pay bills but who doesn't feel an obligation to pay them promptly is not considered a good character risk.

Capacity usually refers to the person's ability to earn money. It means that the applicant has job skills to keep a steady job at an earning level high enough to meet financial obligations. Wage earners who may become laid off from work or who already have more financial responsibilities than their earnings will safely cover are examples of those who are rated low on the capacity standard.

Capital refers to the physical and financial assets of the applicant. If a person has property, savings, or other investments that can be sold in an emergency to pay off owed money, the person's credit is usually good. To most retailers, it's the least important of the three C's.

Many credit problems can be avoided through investigation and prudent judgment when giving credit to customers. It is extremely important to make good judgments, since credit policies should be neither too easy-going nor too strict. Policies that are too easy-going invite too many uncollectible accounts while overly strict policies can cause lost sales.

Before you decide whether to grant credit or not, get the facts. Investigating credit requests thoroughly protects you from the customer who has no intention of paying as well as from the customer who is extremely slow in paying. Consider three major factors in deciding about a credit applicant. First, consider the applicant's *ability* to pay, based upon income and obligations. Second, consider the person's *willingness* to pay, which can be determined from the applicant's credit history. Third, decide about the possible *profitability* of the account. You stand to lose the money you put into the product or service that you sold to the customer if you cannot collect on an account. If your cost is a large fraction of the selling price, then you have to be quite careful in deciding about credit risks.



Your decision about any credit application will depend on a number of factors. When deciding about an individual applicant, consider the following:

- Current address (and previous address, if the person lived at the current address less than a certain number of years.)
- Employment history
- Current job
- Salary and other income
- Length of time on job
- Monthly obligations (rent, loan payments, food, utilities, and so forth)
- Number of dependents (alimony expenses)
- Bank balances
- Personal assets (house, cars, stocks, bonds, and so forth)
- Credit standing with other businesses, credit accounts
- Amount of credit desired (See the credit application example of Mary Wallace on the next page)

HOW CAN CREDIT INFORMATION BE CHECKED?

Information on credit applications must be checked out to be sure that it is correct, current, and complete. A good practice is to begin at the place of employment. Find out whether the applicant is really employed and whether income and time on the job have been reported accurately.

Bank references should then be checked. Checking on this information can protect you from obvious fraud. It may also give you some indication of the applicant's ability to pay. Most banks will confirm that an account exists and will give you a general idea of the person's average bank balance. The bank may also tell you whether or not the person has been satisfactory about meeting bank policies.

An important source of information for retail credit is the local credit bureau. Firms that are bureau members can generally get information on credit applicants. There is generally an annual membership fee that is charged based on the size of your business. A small additional charge is made for each inquiry you make on a credit applicant. Your local credit bureau will provide you with details about services and costs.

HOW CAN CREDIT APPLICANTS BE NOTIFIED OF REJECTION?

If you decide to refuse a credit application, you can inform the person by a tactful letter. Such a letter usually states that the person's application is not acceptable "at the present time." If the customer requests the reason for rejecting the application, you must give it. For example, you might tell the customer that your decision to deny the credit application was "based on information received from the (Name) Credit Bureau." The person can then contact that bureau for specific reasons for the rejection, ask to see the credit record on file with the bureau, and ask that errors be corrected.

CREDIT APPLICATION

NO. 1754		DATE 12/15/7X		
FULL NAME MARY WALLACE			AGE 38	
ADDRESS 15 WEST PLACE, CONCORD, N.J.		ZIP 07647	HOW LONG 10 YRS.	
HOME PHONE 607-5421	BUSINESS PHONE 613-4700	<input type="checkbox"/> SINGLE <input type="checkbox"/> MARRIED <input checked="" type="checkbox"/> DIVORCED	NUMBER OF DEPENDENTS (INCLUDING SPOUSE) 4	
FORMER ADDRESS 36 MAIN ST., CONCORD		ZIP	HOW LONG	
EMPLOYED BY COUNTY SUPERIOR COURT		ADDRESS 100 PARK PLAZA, CONCORD ZIP 07647		
HOW LONG 1 YEAR	POSITION ASST. CLERK	MONTHLY INCOME \$ 1,000	OTHER INCOME \$ 300 (CHILD SUPPORT)	
PREVIOUS EMPLOYER NONE		ADDRESS	ZIP HOW LONG	
BANK ACCOUNT FIRST COUNTY BANK		BRANCH DOWNTOWN	CHECKING <input checked="" type="checkbox"/> SAVINGS <input checked="" type="checkbox"/>	
NAME OF SPOUSE —	EMPLOYED YES <input type="checkbox"/> NO <input type="checkbox"/>	WHERE EMPLOYED —	MONTHLY INCOME \$ —	
DO YOU OWN AN AUTOMOBILE YES <input checked="" type="checkbox"/> NO <input type="checkbox"/>		WHEN PURCHASED 5 YEARS AGO	FROM WHOM KING FORD	
NEAREST RELATIVE WITH WHOM YOU ARE NOT LIVING:				
NAME SALLY THOMAS	ADDRESS 56 BLAKE RD, LEXINGTON, MA	ZIP	RELATIONSHIP MOTHER	
REAL ESTATE OWNED (OTHER THAN HOME) NONE				
CREDIT REFERENCE				
TYPE	IN ACCOUNT WITH	ADDRESS	MONTHLY PAYMENT	BALANCE OWING
HOME <input type="checkbox"/> OWN <input checked="" type="checkbox"/> RENT	COUNTY REALTORS	5000 GREELY DR. CONCORD	\$ 250	\$
AUTOMOBILE <input checked="" type="checkbox"/> OWN <input type="checkbox"/> LEASE			\$	\$
OTHER			\$	\$
OTHER			\$	\$
CREDIT CARD	BAMBERGERS	CARD NO. 176542	\$ 20	\$ 150
CREDIT CARD	DAYTON'S	CARD NO. 287416	\$ 35	\$ 250
ALL OTHER INSTALLMENT OBLIGATIONS (IN TOTAL)			NONE	\$
IF GRANTED CREDIT I AGREE TO PAY ALL BILLS PER THE FOLLOWING TERMS:				
NET 120 DAYS				
SIGNED: <i>Mary Wallace</i>				
REMARKS:				

SOURCE: Small Business Administration. *Credit and Collections*. Module 14. Washington, D.C.: U.S. Government Printing Office, 1981.

Once you have decided to give credit to customers, you must set up a system to keep track of all charge purchases and payments made by your customers. You must also have some way of collecting payments that are overdue. These topics are covered in Levels 2 and 3 of this unit.

WHAT ARE SOME DIFFERENT TYPES OF CREDIT PLANS?

Several types of credit plans are commonly offered by business firms. Two possible systems are to—

- honor one or several established credit cards,
- allow customers to open accounts with you and grant them credit directly.

WHAT ARE THE FEATURES OF CREDIT CARD PLANS?

In granting credit on the basis of credit cards, you have many choices. You can honor—

- one or more of the major bank credit card systems,
- travel and entertainment cards,
- one or more of the major oil company credit cards (if you are in an automobile-related business).

Which card(s) you accept and how many you honor depend on the needs of your business. Remember, though, that the more cards you honor, the more paperwork you create for yourself. The credit granting and reporting system becomes more complex when several credit cards are honored.

Credit given with credit cards does not require many complex decisions after you make the first one—to work with a particular credit card company. At this point you may be able to negotiate the charge, usually called a discount. The issuing company will deduct from your credit slips a charge for the service of paying you before it collects the money from the customers. Credit card companies take much of the responsibility for collecting payment from the customer. The fee (3 percent to 6 percent of the amount purchased) is usually well worth it, as you avoid the collection problems and paperwork.

Along with the discount rates, the credit card company establishes a store's authorization line. The authorization line is the highest amount that a store clerk may allow a customer to charge to a card without calling the credit card company for approval.

When a customer wants to use a credit card, the usual procedure is to first check to see that the credit card has not been listed on the latest list of withdrawn cards. If the card has not been withdrawn, and the purchase amount does not exceed the firm's authorization line, the sale may be charged to the card. However, if the amount the customer wishes to purchase exceeds the firm's authorization line, then a call must be made to the credit card company to gain approval.

for the sale. The credit card company checks the customer's balance and decides whether or not to allow the customer credit for the purchase. If the customer's credit limit is good, the credit card company allows the firm to accept the customer's credit. The firm is then given an authorization number for the sale.

Suppose the customer has a withdrawn card, or the customer wants to purchase on credit more than the credit company is willing to allow the customer. Then the firm is not authorized to transact the sale through that credit card. A firm should not fail to obtain an authorization number for a large credit card purchase. Should the customer fail to pay, the firm, rather than the credit card company, must take the loss. The firm is also responsible for checking that the customer's signature on the slip matches the one on the credit card itself.

In many areas of the country today, merchants who make many sales on credit and who most frequently check customer credit install a small computer terminal in their firm. The amount of the purchase is typed into the computer. Then the computer scans its records to see whether the card has been withdrawn, and to see whether the customer has enough credit to cover the purchase.

WHAT ARE THE BASIC TYPES OF DIRECT CREDIT PLANS?

You may feel that your business would benefit from granting credit directly through customer charge accounts. If you decide to grant credit in this way, you can use one of two basic plans:

1. **For individual purchases**—A separate bill is sent to the customer for a month's purchases, and the customer must pay the entire bill within the normal credit period, usually thirty days. As long as payment is received within the normal credit period, no finance charge is made to the customer. (Additional information concerning this type of credit is covered in Level 2 of this unit.)
2. **On a revolving credit basis**—A separate bill is sent to the customer for a month's purchases, and the customer must pay at least a certain amount of the bill within the normal credit period. The customer must also pay finance charges each credit period, based on how much of his or her bill has not yet been paid. (Variations of this plan are covered in Level 2 of this unit.)

In addition to giving credit, many businesses cash checks for customers. While this is not a direct form of credit, it can become credit if the check is rejected by the bank. For this reason, most firms place restrictions on the type of checks they will cash. They will usually cash checks only up to a limit that they consider safe. They will cash them only for people they know or who show them detailed identification. It is common practice to ask check writers for both a driver's license and an established credit card. Few firms will accept out-of-state checks. (They are much more difficult to collect if returned for insufficient funds.) Few firms will cash checks for more than the amount of the purchase.

**HOW CAN THE COSTS/
BENEFITS OF CREDIT BE
EVALUATED?**

To figure out the costs and benefits to your business of giving credit, look at both sides: the costs of granting credit, and the benefits gained:

The benefits are chiefly the extra business you get because you grant credit. If all your competitors are conveniently located and also grant credit, you will probably lose a large amount of the business that is based on credit if you have a no-credit policy. On the other hand, if a relatively small amount of your business is on credit, then you gain little from offering credit. Also, by offering credit you may keep smaller amounts of cash on hand for change, have fewer cash-drawer errors, and reduce fears of robbery.

**HOW CAN THE COSTS/
BENEFITS OF CREDIT BE
ESTIMATED?**

The condition of your business will be important in figuring out how much benefit you will get from offering credit. A way to estimate the costs or benefits of granting credit is outlined below:

1. Estimate the amount of business per year due to credit. This may be based on your business judgment and experience. You may wish to talk to other managers of similar types of businesses to help you arrive at this estimate.
2. Multiply the percent net profit you make on the business each year by your yearly amount of estimated credit sales.
3. From this figure, subtract your costs of providing credit, such as—
 - a. billing customers,
 - b. credit reference checks,
 - c. credit losses,
 - d. costs of money tied up in credit,
 - e. other related credit costs.

4. The result should be the estimated cost (loss) or benefit (profit) that credit sales may bring to your business. This formula may be summarized as follows:

$$\begin{array}{rclcl} \text{(The amount} & & \text{(The percent} & & \text{(Costs of} & & \text{Estimated} \\ \text{of business} & \times & \text{net profit} & & \text{providing} & = & \text{benefit or} \\ \text{due to} & & \text{you make on} & & \text{credit)} & & \text{net profit} \\ \text{credit)} & & \text{business)} & & & & \text{that credit} \end{array}$$

An example of this process of estimating follows:

After reviewing your sales and credit records, you find that you are doing \$50,000 business on credit. You estimate from your experience and judgment that you would get only \$10,000 of the business if you did not grant credit (based on direct customer credit requests, competition, industry trends, and so forth).

Let's say that your net profit was 10 percent of sales.

Your costs of extending credit were—

1. Billing customers = \$ 600
2. Reference check costs = 150
3. Bad debt losses = 1,200
4. Cost of money tied up in credit = 720

Total Costs \$2,670

In this example, you can estimate your total benefits from granting credit by using the formula previously stated.

\$40,000	X	10%	=	\$4,000
Business Due to Credit		Percent Net Profit on Business		Net Profit
\$ 4,000	-	\$2,760	=	\$1,330
Net Profit		Cost of Providing Credit		Benefit: Net Profit that Credit Brings You

**HOW CAN THE COST/
BENEFITS OF CREDIT CARDS
BE DETERMINED?**

It is easier to evaluate the costs of credit if you are doing business with a credit card company. First, calculate how much you pay in discounts to the credit card issuer. Then add the cost of credit verification telephone calls and other credit processing costs. Compare the total of these costs with the benefits that credit brings in additional sales. For instance, assuming that the credit card company would charge a 5 percent discount, the cost/benefit calculations are as follows:

Discount on credit card charges (5 percent \times \$50,000 sales) =
\$2,500

Cost of checking larger purchases
(phone calls and time spent calling) = \$500

Total Costs: \$3,000

In this case, a credit card plan, to be beneficial, would have to give you enough additional net profits to exceed the \$3,000 in costs.

Still another way you might save money in granting credit would be to make more detailed checks on credit risks. This could be based on a careful study of the characteristics of people who have not paid their bills to you in the past. This would result in a somewhat tighter credit policy, which may be the least expensive way to operate the business. A tight credit policy would, of course, result in somewhat less business, but it takes ten dollars of sales to make up for every dollar lost to uncollected accounts (assuming a 10 percent profit margin).

All these estimates are, of course, difficult to make. Even so, if you do make a reasonable estimate of the costs and benefits for your company, you should get a good idea of the impact that credit is likely to have on your business.

ACTIVITIES

Do you have some understanding of credit and collections concepts and principles? Do you realize the many different things that a manager must consider when analyzing and deciding on certain ways of handling credit? The following activities are designed to aid you in applying the concepts and principles to real-life situations.

INDIVIDUAL ACTIVITY

Imagine that you are the manager of a business. You are wondering what profit or loss you may have if you decide to offer credit. After you review your business records, you find the following information:

1. Estimated sales you make because you grant credit = \$10,000
2. Net profit = 5%
3. Costs of customer billing = \$ 200
4. Costs of credit reference checks = \$ 50
5. Bad debt losses = \$ 500
6. Cost of money tied up in credit (18 percent of the average \$1,000 monthly credit balance) = \$ 180

Refer to the benefit calculation formula under the section, "How can the costs/benefits of credit be estimated?"

Based on your calculated answer, what course of action would you, as the manager, follow to improve this situation?

COMBINED INDIVIDUAL AND GROUP ACTIVITY

This activity is designed to help you understand more about various types of credit plans. You will be able to determine the common types of credit plans offered by merchants in your community.

It is recommended that you study businesses similar to the ones you are presently managing or have an interest in managing (owning).

1. On your own, prepare a list of commonly offered types of consumer credit plans. Refer to this unit or other sources identified by your instructor.
2. In a group of three to four persons, review the different types of credit plans identified. As a group, decide upon specific types of credit plans and businesses that each group member will investigate individually. Prepare a list of common questions that cover such topics as uses, terms, interest rates, unique features, and advantages and disadvantages to the business and/or customer.
3. On your own, visit a local business. Ask the business manager to respond to your group's questions. Have the manager add any important information that was not obtained from your list of questions. Have the manager rank the characteristics of each credit plan in order of importance. Whenever possible, get copies of credit plans, policies, applications, and so forth.

4. As a group, discuss each member's report. Are there any differences or similarities in how business managers responded to certain questions? What unique kinds of information were obtained about certain credit plans that you were not previously aware of?

**COMBINED INDIVIDUAL AND
GROUP ACTIVITY**

1. On your own, obtain copies of credit application forms available from magazines, books, Small Business Administration publications, local businesses, and financial firms. Design a credit application form for a business of your choice or for your current business and include the best elements of the forms.
2. In a group of three to four members, evaluate each individual credit application form. Consider how clear the questions are, how complete they are, whether the grammar and composition are good, how attractive the forms look, how the forms are laid out, whether they give adequate space for answers and information, how appropriate they are for the specific business, how easy they are to fill out, and so forth. Give suggestions for improving the forms.

GROUP ACTIVITY (OPTIONAL)

In a group of two or three, review the credit application of Mary Wallace, located on page 9. Discuss the questions listed below.

Imagine that you, as the manager of your own small business, are reviewing Mary Wallace's credit application. You do not personally know Mary. She wishes to purchase an item valued at \$500 and she would like to establish a monthly payment schedule. Presently, your firm does not offer a major credit card service. In evaluating the information on her application blank, you will need to answer the following questions:

1. What factors show that Mary might be a satisfactory credit customer? An unsatisfactory credit customer?
2. For which of her responses would you seek additional information concerning her credit application?
3. What is Mary's estimated available (disposable) income for credit payments, after deducting necessary living and fixed expenses?
4. Would you give credit to Mary, based on the available information?
5. Why or why not?
6. If you would grant credit, under what repayment conditions and credit limits would you offer such credit?
7. On what discussion points is your group in least agreement? Greatest agreement?

CASE STUDY

The new All-Seasons Sports Store is scheduled to open in three months. It is located in a city with a population of about 90,000. The entire business region includes many small towns in a radius of about fifty miles around the city.

All-Seasons Sports will be the third sporting goods store in this city. It will compete with several sporting goods departments in large stores for certain lines such as tennis, golf, and camping equipment. Because of the varied competition from these sources, the goal of the All-Seasons Sports Store is to have the widest inventory of sporting goods in the area. The store will have good assortments of products in camping, hunting, fishing, games, hobbies, sports, and many related sports products. Products will range from hobby items to tents, boats, and gymnastic equipment.

A decision was made to have some type of customer credit service. The other two highly competitive sporting goods stores have their own charge account systems and also accept two leading bank credit cards.

In spite of the cost of offering credit and the risk involved, the management of All-Seasons Sports realizes it will have to offer some type of credit. Because they have considerable capital tied up in the store building, fixtures, and inventory, they are anxious to get their share of the market as soon as possible. At present, the bank that loaned them their capital is reluctant to loan them more money until they have a proven sales record. The managers have not decided on the type(s) of credit that would be best for their store to offer.

1. Identify the basic credit management problem.
2. What are some of the important facts in this problem?
3. List some possible solutions.
4. What is a possible result of each solution?
5. Which solution do you recommend? Why or why not?
6. If you would grant credit, under what repayment conditions and credit limits would you offer such credit?
7. For what discussion points is your group in least agreement? Greatest agreement?

ASSESSMENT

Directions: Review the following statements to check your own knowledge of these topics. When you feel prepared, ask your instructor to assess your competency on them.

1. Identify and discuss five reasons why a business would grant credit to customers.
2. Identify and discuss four factors that would influence how easy-going a credit policy should be for a certain type of business.
3. Explain the three "C" credit evaluation guidelines. Discuss how important each is when evaluating a credit applicant.
4. List eight types of information that could be included on a credit application.
5. Discuss three procedures to follow when rejecting a credit application.
6. Explain four procedures normally followed by a business when using a credit card plan.
7. Identify the three parts of a simple formula that can be used to calculate the benefits of offering credit.
8. Identify four costs that a business may have when granting direct credit.

**SOURCES USED TO DEVELOP
THIS UNIT**

Dible, Donald M. *Business Start Up Basics*. Fairfield, California: The Entrepreneur Press, 1978.


Rosenberg, R. Robert; Whitcraft, John E.; and Brown, Gordon W. *Understanding Business and Consumer Law*. 6th ed. New York: Gregg Division, McGraw-Hill Book Company, 1979.

U.S. Small Business Administration. *Business Basics, Consumer Credit. A Self-Instructional Booklet 1013*. Washington, D.C.: U.S. Government Printing Office, 1980.

U.S. Small Business Administration. *Business Basics, Credit and Collections: Policy and Procedure, A Self-Instructional Booklet 1014*. Washington, D.C.: Government Printing Office, 1980.

For further information, consult the lists of additional sources in the *Resource Guide*.

PACE

- Unit 1. Understanding the Nature of Small Business
- Unit 2. Determining Your Potential as an Entrepreneur
- Unit 3. Developing the Business Plan
- Unit 4. Obtaining Technical Assistance
- Unit 5. Choosing the Type of Ownership
- Unit 6. Planning the Marketing Strategy
- Unit 7. Locating the Business
- Unit 8. Financing the Business
- Unit 9. Dealing with Legal Issues
- Unit 10. Complying with Government Regulations
- Unit 11. Managing the Business
- Unit 12. Managing Human Resources
- Unit 13. Promoting the Business
- Unit 14. Managing Sales Efforts
- Unit 15. Keeping the Business Records
- Unit 16. Managing the Finances
-  Unit 17. Managing Customer Credit and Collections
- Unit 18. Protecting the Business

Resource Guide

Instructors' Guide

Units on the above entrepreneurship topics are available at the following three levels:

- Level 1 helps you understand the creation and operation of a business
- Level 2 prepares you to plan for a business in your future
- Level 3 guides you in starting and managing your own business

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