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Toward closer credit-sales cooperation in mercantile credit management

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THESIS

Toward Closer Credit-Sales Cooperation in Mercantile Credit Management

by

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Submitted in partial fulfillment of the requirements for the degree of
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1. Introduction

A. Credit-The Economic Catalyst

1. Capitalism Dependent on Credit

The fortunate combination of economic capitalism and political democracy which characterizes the current American scene and to which some have assigned the intriguing name of "free enterprise" can flourish only with the aid of the various complex mechanisms which constitute, in the aggregate, our credit system. The awesome projects which are undertaken on a credit basis (1) plus the ever-present statistical verification of the accomplishments of credit constantly emphasize the vital nature of this rather nebulous entity. (2)

2. Credit Identified

Credit can be more easily identified than defined, more readily explained than given any precise signification. Generally speaking, credit involves confidence in the truth of something, being derived from the Latin, "Credo", or "I believe". The simple establishment of this common basis, however, is deceiving because most attempts to evolve a definition of credit which will cover all the various types of economic activity associated with the word generally end in the utmost confusion.

(1) The epitome of this is probably the financing of the obligations of the United States Government through the National Debt.
(2) See Figure 1.
Definitions seeking brevity are often generalized to such an extent that they become meaningless. Correction of this fault tends to make them extensive to the point of being dissertations rather than definitions. As a further complication, attempts at precision rarely are of sufficient scope to include more than one or two of several legitimate points of view. Professor Chapin (1) lists a dozen divergent attempts at definition, examination of which emphasizes the essential sameness of the basic ideas expressed while, at the same time, showing how different facets or points of view provide concepts which, although complimentary, may seem at first glance to be antagonistic.

The confusion which inevitably arises in the mind of the student of the problem could probably be avoided if writers would consistently distinguish among:

(a) The credit transaction - one in which present goods are exchanged for a promise of future payment.

(b) The credit standing - the business world's current opinion as to the likelihood of the prospective buyer or borrower fulfilling his obligations, based on the well-known three "C"s of credit; Character, Capacity and Capital.

(c) The debt incurred as a result of the transaction.

(d) The legal instruments or documents which evidence

the transaction and resulting obligation. (1)

Our concern for the moment is with credit transactions, and the common denominator of all these must be trust, this being requisite because of the element of futurity involved in any credit dealing.

3. Functions of Credit

Credit serves basically as a medium of exchange. As such, it naturally aids the general functioning of our specialized and interdependent economy. When not abused, it serves as the initiator of productive activity, whether agricultural (through the various private and public agencies granting agricultural credit), industrial or service (through investment banking, commercial banking and mercantile credit). More specifically, it is the further function of credit as handled by commercial banks and mercantile credit houses to aid in moving goods through the various channels of distribution from manufacturer to jobber to wholesaler to retailer to consumer. Whether we consider production, exchange, distribution or consumption, the importance and significance of the credit mechanism are everywhere apparent.

4. Volume of Credit

To the layman who conducts the bulk of his transactions on a cash basis, one of the most astounding facts about our economy is the percentage of the nation's business

which is done on a credit basis. Estimates vary, but probably more than nine-tenths of all goods moving in the channels of trade (excluding consumer sales) and over one-third of all goods sold to consumers are sold on a credit basis. (1) In addition, many of the services rendered by the professions and by service industries of various types are "on time", and, of course, the entire banking structure is based on credit dealings.

Whether we measure consumer credit, commercial bank loans outstanding or mercantile credit outstanding, the figures are all quite impressive, although perhaps most striking in the area to which our current study is directed, the mercantile field. (Table 1)

5. The Credit Mechanism

One of the phenomena which constantly confounds the advocates of the planned economy is the way in which a capitalist economy such as that of the United States, essentially controlled by individuals acting in their own interest, acts in a more or less predictable fashion. This is the paradox of economic order amidst a large degree of economic anarchy, and theoreticians have written volumes in praise of this "remarkable efficiency of unorganized cooperation." (2) Just

### Field Of Business

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Amusements, sporting goods</td>
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<td></td>
<td></td>
<td>59.2% 71.2% 79.9%</td>
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<td>96.5</td>
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<td>99.4</td>
<td>99.0</td>
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<td>Drugs (full line)</td>
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<td>91.0</td>
<td>99.5</td>
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<td></td>
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<tr>
<td>Drugs, drug sundries</td>
<td></td>
<td>89.6</td>
<td>87.6</td>
<td></td>
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<td>98.5</td>
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<tr>
<td>Dry goods (full line)</td>
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<td>93.7</td>
<td>94.9</td>
<td>99.0</td>
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<tr>
<td>Dry goods (specialty)</td>
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<td></td>
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<td>97.2</td>
<td>97.6</td>
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<td>88.1</td>
<td>94.3</td>
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<td>81.6</td>
<td>45.0</td>
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<td>Farm products (consumer goods)</td>
<td>74.1</td>
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<td>78.2</td>
<td>64.1</td>
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<td>62.0</td>
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<td>32.2</td>
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<td>83.6</td>
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<td>Groceries (specialty)</td>
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<td></td>
<td>79.9</td>
<td>78.4</td>
<td>87.7</td>
</tr>
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<td>Hardware</td>
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<td>88.9</td>
<td>93.1</td>
<td>99.0</td>
<td>98.4</td>
<td>94.0</td>
</tr>
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<td>Jewelry, optical goods</td>
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<td>89.8</td>
<td>88.4</td>
<td>97.9</td>
<td>97.1</td>
<td>86.0</td>
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<td>Lumber, materials</td>
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<td>94.6</td>
<td>98.2</td>
<td>95.7</td>
<td>97.9</td>
</tr>
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<td>Machinery, equipment</td>
<td>85.6</td>
<td>90.0</td>
<td>90.8</td>
<td>93.6</td>
<td>88.7</td>
<td>97.5</td>
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<td>Metals, metal work</td>
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<td>94.0</td>
<td>88.1</td>
<td>99.5</td>
<td>98.0</td>
<td>97.9</td>
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<td>Paper, paper products</td>
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<td>91.9</td>
<td>94.2</td>
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<td>Petroleum, products</td>
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<td>79.8</td>
<td>86.0</td>
<td></td>
<td></td>
<td>91.1</td>
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<td>Plumbing, heating</td>
<td>79.9</td>
<td>87.6</td>
<td>91.7</td>
<td>94.0</td>
<td>96.7</td>
<td>99.2</td>
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<tr>
<td>Tobacco, tob. prod.</td>
<td>70.0</td>
<td>65.7</td>
<td>65.7</td>
<td>99.6</td>
<td>99.3</td>
<td>99.8</td>
</tr>
<tr>
<td>Waste materials</td>
<td>81.9</td>
<td>88.4</td>
<td>76.5</td>
<td></td>
<td></td>
<td></td>
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<td>All other products</td>
<td></td>
<td></td>
<td></td>
<td>88.0</td>
<td>81.1</td>
<td>98.0</td>
</tr>
</tbody>
</table>

**Fig. 1** Ratios of Wholesalers' and Manufacturers' Credit Sales to Total Sales by Fields of Business

as there is no "National Planning Commission" directing and allocating our productive means, neither is there in "normal times" any central control over the nation's basic exchange medium, either at the mercantile or at the consumer level. The granting, extending, or recognizing (as you will) of credit is at the discretion of individuals who necessarily operate in narrow and restricted areas of economic activity and who have but little concern for or even knowledge of the broader aspects and implications of their duties. (1) The creation of the basic exchange medium in an economy where exchange itself is basic carries with it a degree of responsibility which is rather frightening when considered in the light of the aggregate effect of such action on the nation's economy. Yet, individual credit men and others who create the national credit structure must continue to perform their duties, largely on their own initiative. The need for them to act in the public interest, if such can be defined, should be obvious.

6. Credit in Transition

The widespread use of mercantile credit as a medium of exchange dates from the American Colonial era, (2)

(1) This does not ignore Federal Reserve and state control of banking nor measures such as the recently defunct Regulation W. FRB regulations tend to limit malpractice rather than allocate credit, are often ineffective, (see Samuelson, P.A., "Principles of Economics", McGraw-Hill Book Co., New York, 1948, p. 353-4; Prather, C.A., "Money and Banking," Irwin, Chicago, 1946, p. 591) and control mercantile credit only indirectly if at all.

although the fact that our economy had not yet, at that time, become so dependent on exchange makes the total volume of then-recorded credit transactions seem rather insignificant by comparison with present-day statistics. Transacting most of our business on a credit basis is a comparatively modern phenomenon with the greatest development accomplished within the last eighty years or so or, roughly, since the Civil War.

Also worthy of consideration here is the change in the community point of view toward credit and indebtedness during the last one hundred and fifty years. Until we approached the mid-nineteenth century, the penalties which hung over the head of the delinquent debtor were both harshly drawn and rigidly administered. Incurring a credit obligation was a matter fraught with danger when one considers the potential penalties (1) plus the degree of risk which is always involved in any business undertaking. Bogart notes that, as late as the 1820's, "for a debt as small as a cent, a debtor could be seized and thrown in jail, there to remain until the debt and prison charges were paid in full." (2) Such conditions persisted until the next decade when a growing social

(1) Imprisonment, enslavement and even (although not in the U.S.) death. Chapin, A.F., "Credit and Collection Principles and Practice", McGraw-Hill Book Co., New York, 1941, p. 113

consciousness plus the sheer economic burden (1) of the prisons indicted the system so clearly that it could not survive in the U.S.

Modern U.S. law with regard to debt (2) is not punitive except where a court decision finds that fraud is present. Even then, punishment is not undertaken so much with the spirit of vengeance or redress but with the expectation that an example may prove to be a deterrent to others. The debtor-creditor relationship of today is entered in a different spirit, one characterized more by a concept of partnership in quest of profitable business. (3) This condition or point of view and some of its ramifications receive further treatment subsequently. (4)

The development of our modern credit economy over the last two generations has been, of course, a means to an end rather than an end in itself. Man's attempts to raise his economic standards have taken him far into the by-ways of labor division and specialization. Developments in the fields of transportation and communication have broadened potential markets and have continued to justify even fur-

(1) "The keeper of the Philadelphia debtors' prison reported in 1828 that, 'during that year there were confined 1085 persons whose debts amounted to $25,409; the creditors recovered $295 and the cost .... of supporting the prison and the debtors was $285,000". Ibid., p. 415
(2) Chandler Act of 1937
(4) See Chapter 3
ther atomization of tasks and functions. (1) With personal and local self-sufficiency but a vestigial remnant of a departed agricultural past, interdependence and exchange are now emphasized to such an extent that the final (consumer) dollar is being allocated to an increasing degree to agencies of distribution rather than to fabricators or manufacturers. (2) About forty cents of a typical consumer dollar spent for manufactured or processed goods goes for marketing and distribution services. The changes in employment and occupations (Table 2) are also indicative of this trend. The foregoing is germane to our discussion because it makes our revolution in the medium of exchange more understandable as a by-product of a revolution in the organization of production and exchange.

Another central factor here is the roundabout nature of modern production. (3) This fact, familiar to all beginning students of Economic Principles, has brought the element of futurity into economic activity to a greater extent than ever before. The fruition of business plans may be years removed from their inception. All through this waiting period, the elements of credit, trust and confidence,

<table>
<thead>
<tr>
<th>Year</th>
<th>Agriculture</th>
<th>Manufacturing</th>
<th>Trade and Transportation</th>
<th>Domestic and Personal</th>
<th>Professional</th>
<th>Clerical</th>
<th>Mining</th>
<th>Public Service &amp; Miscellaneous</th>
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<td>1890</td>
<td>45.8</td>
<td>27.5</td>
<td>13.1</td>
<td>10.0</td>
<td>3.8</td>
<td>4.0</td>
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<td>1900</td>
<td>35.6</td>
<td>29.4</td>
<td>16.9</td>
<td>10.0</td>
<td>3.8</td>
<td>4.1</td>
<td>1.3</td>
<td>1.3</td>
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<td>1910</td>
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<td>29.4</td>
<td>17.5</td>
<td>10.6</td>
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<td>1920</td>
<td>26.7</td>
<td>31.3</td>
<td>16.3</td>
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<td>1930</td>
<td>21.3</td>
<td>29.4</td>
<td>21.9</td>
<td>11.3</td>
<td>6.0</td>
<td>8.0</td>
<td>1.3</td>
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<td>1940</td>
<td>18.7</td>
<td>30.0</td>
<td>25.0</td>
<td>9.3</td>
<td>7.5</td>
<td>7.5</td>
<td>1.1</td>
<td>1.1</td>
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<tr>
<td>1946</td>
<td>12.5</td>
<td>35.0</td>
<td>26.3</td>
<td>9.3</td>
<td>6.3</td>
<td>6.3</td>
<td>3.8</td>
<td>5.6</td>
</tr>
</tbody>
</table>

Table 2. Percentage of U.S. Employed Workers in Major Occupational Groups, 1890-1946.
Source: U.S. Department of Commerce
must be in the foreground. Otherwise, activity must slacken and production revert to primordial, non-specialized techniques with resulting loss of productive efficiency.

Other changes, in managerial techniques, marketing practices, and risk assumption have also been causal in the overall transition but are not necessarily pertinent to the point of inclusion in this discussion. However, of vital importance to our later argument is the realization of credit coming to the fore as a special servant of a highly-specialized economy.

7. Credit, Prosperity and Depression

An understanding of the importance of the central problem of this thesis requires inquiry into the relationship between credit management and the business cycle. It is probably no coincidence that the business cycle in its modern form dates roughly from the founding of our modern credit system. Explanations of the business cycle are to be found wherever one turns, but there would seem to be little dispute over the fact that cycles have been "closely associated with the widespread use of credit...especially since the Industrial Revolution." (1)

The so-called "Monetary Theorists" (2) of recent

(2) Those who attribute the incidence of cyclical activity to the size or manipulation of the volume of exchange media outstanding.
years, including Hayek, (1) Hawtrey, (2) and Fisher (3) see the business cycle variously, but they are all concerned with the effects of credit contraction and expansion, whether on prices, the volume of business transactions, or the volume of investment; i.e., the rate of activity in the capital goods industries. There can be little doubt that, while an expansible, privately-controlled credit structure may not be basically causal to extreme fluctuations in economic activity, such a system as ours does provide a wherewithal for the commission of speculative excesses. (4) These, for whatever reason undertaken, have traditionally led us into the familiar pattern of economic events characterized by successive overexpansion, collapse, contraction, depression and recovery.

The connection between credit and cyclical activity is emphasized here because of the transition which we have lately experienced in our economic, social and political attitudes toward the business cycle. Late nineteenth and early twentieth-century economic thinking tended to regard cyclical extremes as either desirable, inevitable or theoretically impossible. (5) Advocates of such points of view

(2) Hawtrey, R.G., "Currency and Credit", 1919
(3) Fisher, I., "Booms and Depressions", 1933
(4) This acknowledges FRS control over security exchanges. Reference here is to general speculative enthusiasm on the part of business managers and entrepreneurs.
could not logically, and probably did not care to, put forth policies of a remedial nature.

Even the depression of the 1930's was looked upon by some as a desirable check to extravagance and expansion and (prior to the Wagner Act's passage in 1935) as affecting a better balance between capital and labor. However, the experience of the decade, 1929-1939, has removed from the minds of most any ideas as to the desirability of such fluctuations, regardless of their corrective measures. The lowered national and personal living standards, the wastes of idle men and machines, and the social and political facets of widespread unemployment are too inhuman and frightening to be tolerable.

Current attitudes and legislation (1) show a distinct intention never to tolerate a recurrence, even though the preventive measures required might radically alter or even destroy much of our current economic organizational structure. Those who feel, as the writer does, that further government regulation of the extension of credit is to be avoided if at all possible, will do well to prevent this potent financial tool from being excessively exploited. Although dishonesty and manipulation had characterized various stock exchange activities for many years, the basic reason why the stock exchanges have come under government control

(1) Full Employment Act of 1946. Prior precedent is available in the various New Deal measures of the 1930's.
was that the general public identified the exchanges with the misery of the 1930's. Credit in general, and mercantile credit in particular, contains within its institutional framework the wherewithal for the speculative excesses leading to collapse. Should this field become identified with public catastrophe the days of private control would be numbered. The responsibility of the credit profession generally for our economic stability is such that it may well be cause for concern on the part of every credit executive. When the typical credit manager's relationship to his co-workers in the sales department is more fully developed, this responsibility will become more apparent.  

B. Selling and Economic Freedom

1. Selling Vital in American Economy

Selling, as a type of economic activity, has frequently been under fire as parasitic and generally unproductive. Different authors have, from time to time, indulged in hair-splitting semantic exercises in an effort to prove this. The arguments usually center about the claim that selling (including advertising) which informs the customer of the existence of a hitherto unknown product may be considered productive whereas selling which attempts to change purchases from one product to another which is essentially the same must be classified as non-productive.  

(1) See Chapter 4.
pects of monopolistic or imperfect competition as brand names, packaging differences, and premiums "artificially" differentiate similar items in our markets, such a discussion would seem to be impractically pedagogical. (1)

2. The Paradox of Plenty

On an even broader basis, one may go back to the fundamental concepts on which the social science of Economics rests; i.e., the general insatiability of man's wants and the general scarcity of the wherewithal for their satisfaction. Man's desires being thus incapable of satisfaction, one may question the need for selling, on the grounds that the mere availability of goods to a needy populace should be an effective guarantee of the distribution and consumption of these goods. Why must man have the various techniques of merchandising available? He should be aware of his needs and deficiencies. Must he constantly be reminded?

The answers to these questions will be more clear when we become aware of two conditions which are peculiar to the United States. First, ours is not a subsistence economy. The current Labour government in Great Britain may be turned out of office in the next General Elections because of its inability to cope with certain vital shortages and the nation's subsequent impatience with further austerity. Contrast this

(1) The writer takes no part in the "brand labeling-grade labeling" controversy, feeling merely that the cries of those who bemoan the absence of "perfectly competitive" markets are something less than constructive, considering America's necessary industrial integration.
with the fact that the U.S. Republican Party lost vital votes, and possibly the 1948 American Presidential election, due in part to its failure to enact, while in control of Congress, legislation to provide what the American farmer felt were necessary storage facilities for, and administration of, recurrent surpluses.


The fact is that the bulk of the U.S. populace engages in economic activity, not with the mere concern for sustaining life which motivates most of the inhabitants of the earth, but rather in an effort to advance its comfort or luxury consumption. Those who provide us with necessary food, clothing, and shelter constitute, by comparison, a small percentage of our working force and this percentage is on the decline (Table 2).

Now the person who lives at the comfort or luxury level may have wants just as insatiable as those of the starveling. But, the variety of possibilities for consumption of comforts and luxuries is infinitely broader, (1) and here, too, the consumer is not driven by a primal urge to survive. The expenditure by a person or nation of income on goods of a non-essential character can be undertaken with a comparative degree of leisure, with the knowledge that

(1) From merely feeding, clothing and sheltering oneself, one passes to questions as to which of the various gratification drives (sensual, social, aesthetic) will be indulged.
many alternatives exist, and without any feeling of urgency. (1)

4. Comfort Spending Unpredictable

The question arises, then, as to how our populace, concerned with comforts, will spend that portion of its income not used for necessities. The answer, naturally, will depend on what goods are available, which in turn depends on how we allocate our nation's productive facilities over any given period.

The allocation process can be effected either by some central authority, public or private, or it can be left to individual entrepreneurs to decide what they think they can sell, to bid competitively for the use of the necessary productive tools and materials, to make their product, and then try to sell it at a price which will properly compensate all those who aided the productive process. This latter procedure roughly approximates the way in which the productive resources of the U.S. are employed. This system has produced the world's largest quantities of useful goods, has given these goods a latitude of distribution unapproached elsewhere, but has put on the sellers as well as on the credit executive a decidedly weighty responsibility.

5. Comfort Industries and Prosperity

If a large part of our productive facilities is

(1) Social critics must censure such living amidst world privation but such matters are beyond our scope here.
concerned with turning out comfort and luxury goods (and this of course, includes appreciable sections of the food, clothing, and building industries), then the economic solvency of such industries, while not essential to our mere existence, is certainly pertinent to any consideration of general economic stability and full employment. The limited areas of general agreement in the economic field include the consensus as to the inability of our economic system to withstand another upheaval such as we experienced during the 1930's without the system undergoing drastic alteration. Although perhaps more symptomatic than causal, unemployment is certainly symbolic of such difficulties.

But unemployment occurs when businesses are no longer able to sell all their products or, from the other point of view, when consumers are no longer willing and/or able to buy. For our purposes, we may consider the inability to buy as virtually insoluble from the sales point of view. However, unwillingness or reluctance to buy is something else again. Unwillingness (to buy comforts) often arises in the midst of great buying potential. (1) Under such circumstances, aggressive selling is needed to keep the economy active.

The dependence of the American economy on comfort industries and the concern with which these firms, in turn,

(1) The moderate decline in business activity Nov. 1948-July 1949 at a time when consumer liquidity was at near record high levels would seem to validate this.
view various indications of consumer fickleness, is well illustrated by this quotation from the President of America's largest industrial giant. In noting that Americans got along reasonably well without buying new cars for four years during World War II, he stated:

"I think it's easily possible to underestimate the capacity of the American public to consume goods if we could avoid scaring the people."

"Now any time they get scared, they can stop buying cars. That's one of the main problems, actually, in regard to sustained employment. Instead of being like some countries, (with) 80 percent (of productive facilities needed) for subsistence and 20 per cent for luxuries, or 95 percent for subsistence and 5 percent for luxuries, we've got about 40 percent for subsistence and 60 percent for the things we can postpone. It means that we must not scare the people or scare ourselves." (1)

Merely postponing purchase in the manner indicated may put the American economy into serious difficulties. Selling helps to overcome this tendency and maintain stability.

6. Variety Requires Selling

Because of the wide variety of choices presented to the consumer for disposal of his non-subsistence dollars, goods must be aggressively sold in order to distribute them at profitable prices. In the words of Mr. Arthur Wilson, President of the British Board of Trade, "Americans don't buy things, they are sold things." (2)

(1) Mr. C.E. Wilson, President of General Motors, quoted in the Christian Science Monitor, Dec. 27, 1949, p. 13
(2) Time, May 16, 1949, p. 31
It is almost as if the American people were not sufficiently eager to advance their material standards and had to be goaded into consuming more goods and services. Progress in the advancement of living standards would seem to necessitate activity to create dissatisfaction with economic status quo, since the marketing of luxury and comfort items leans heavily on this technique. It is perhaps properly paradoxical that we spend billions annually to stimulate this feeling of discontent on an individual basis while looking with a jaundiced eye upon those whose approach to the matter is general and collective in nature.

Thus perceived, selling, like credit, is a productive and necessary aid to distribution although, like credit, it is subject to abuse and misuse at the hands of fools and knaves. (1) Our economy, as presently constituted, needs selling to help maintain full employment and economic stability. The ability to distribute goods and services widely and consistently is the criterion by which our system is and will be judged, and is the best refutation of the advocates of radical change. Since the role of selling is vital, credit in its relation to sales must be both an encouraging stimulant and a moderating restraint. The restraining or negative aspects of mercantile credit work are all too well-

(1) The writer realizes, of course, that selling would not be needed to distribute goods in a socialist-type economy and awaits evidence of the ability of such an economic organization to produce goods in such quantity as to make the distribution thereof a real problem.
publicized, but the stimulating or positive side of the relationship has been neglected, both from the practical point of view and from the point of view of published evaluations. This research effort is directed toward such positive emphasis.
2. The Problem

A. The Statement

1. Importance of Proper Perspective

The foregoing introductory discussion has been, of necessity, general and rather broad in scope. It was undertaken with a view toward establishing with the reader what might be called, "a proper degree of duality of focus". More specifically, the discussion in the main body of this paper is concerned with a single facet of our complicated distributive mechanism; i.e., the possibility of a more constructive contribution on the part of mercantile credit managements to the selling efforts of the businesses of which they are a part. This results in what might be termed, "pin-pointing the discussion". While this is necessary in any undertaking of this sort which hopes to escape voluminousness, concentration on the specialty may tend to create the undesirable obscurcation characterized by the well-known platitude concerning the forest and the trees. Occasional reference to or recollection of the introductory material may link the specific to the general and help to maintain proper balance and perspective.

The importance of the specific issue is pointed up by understanding its relationship to the broader issues. These, of course (full employment, economic stability, etc.), are among the most pressing and challenging questions of our times.
2. What Is The Problem?

The issue at hand may seem, at first glance, not to exist. One can logically argue that in any business, profitable operation provides a common objective which cannot be questioned by any conscientious executive or department head. A common end or goal having been established, elimination shows the problem, if existent, to be one of means. Obviously, the basic means toward profitable operation is profitable merchandising of whatever goods or services the firm is offering for sale. Here we begin to see bases for divergency of opinion.

It is both a truism and a cliche' that no sale is complete until the invoiced amount has been collected. "Collection is the ultimate aim of each transaction". (1)

Although the common goal of profitable sales should be apparent, the aspects of the sales problem which are customarily dealt with by the Sales and Credit Departments, respectively, often seem so diverse as to cause both executives and operating personnel to lose sight of their unanimity of purpose and to feel they're not even playing on the same team.

Perhaps much of this is generic to modern industry, being a by-product of the very necessary specialization and division of labor. Certainly no individual proprietor would be likely to sell goods to a questionable risk without giving

a good deal of thought to whether the bill would be paid voluntarily or not, whether promptly or at some distant date, and to whether or not he could effect collection with the aid of the courts, if necessary. On the other hand, one would look doubtfully on the chances for survival of any proprietor who was so obsessed with selling only to 100% risks and with collecting his bills the moment they became due that his customers began to forget the excellence of his goods and the quality of his service and think of him only as a combination busybody and Shylock. Yet, many businesses through their (unfortunately) separate departmental policies, present just such a picture to their customers, some of them portraying both extremes at the same time.

Also, both the sales and credit organizations in any business have aggressive and defensive aspects to their work. The sales force must, of course, aggressively promote and sell the company's products and services. But it must also be on guard against putting goods in the hands of those from whom payment will not be forthcoming in a reasonable length of time, or losing goodwill for the firm by writing orders for customers which will later have to be refused. The credit department must guard against allowing its firm's accounts receivable to contain undesirable risks, while yet remembering that revenues and profits cannot arise from rejected orders, and that the department's every contact with a customer should be used to build goodwill and sales
to the greatest extent possible. Unfortunately, American business practice has in the past emphasized the aggressive or positive side of the sales function while also stressing the defensive or negative side of the credit function. (1) The result has been the creation of relationships between Sales and Credit Departments which vary from apathetic ignoring of each by the other to downright hostility. This is basically a problem of misplaced emphasis, bred by insularity and nurtured by incompetence and/or indifference on the part of top management. The effects of such conditions cannot but be detrimental and may be fatal.

Remedial measures are in order for all three concerned parties, management, credit, and sales. No corrective program can be completely successful without the coordinated, cooperative efforts of all three although local efforts in the right direction cannot but be of some assistance.

B. The Approach

1. Scope of Treatment

The issue, even as reduced above, is still too broad to be given complete coverage here. We are forced, in order to achieve any degree of thoroughness, to confine the discussion to two of the three broad facets of the problem including:

(a) A broad discussion of the problem's essence, as

(1) A most pertinent example of this negativism is the slogan of the National Association of Credit Men (NACM), "Guarding the Nations Profits".
it should be approached and understood by top management, with general policy recommendations.

(b) A more detailed discussion of the ways in which credit managements and departments can realign their thinking and their policies salesward, with specific recommendations.

This is not to minimize the importance of changes, both in points of view and in actions, which could be beneficially undertaken by many sales executives and their departments. These will be touched upon inevitably, since reform always requires two-sided effort, but no attempt is made to give them exhaustive examination.

2. Method of Treatment

If the writer were called upon for a statement of the single idea or precept which has most impressed him since beginning research in this field, the answer would be of necessity, "Human Relations". This presents complications. Those who study intensively in the field of the social sciences know from frustrating experience the difficulties which evolve from man's refusal to react consistently to identical social stimuli. Whereas the physical scientist can speak confidently of facts and the laws derivative from them, the social scientist tries in vain to state his conclusions in the form of laws. From the mountains of data available, he brings forth a comparative mouse consisting of carefully qualified statements of tendencies, propensities and trends.
The efforts of credit managements to become more sales-minded and to direct their activities more toward the expansion of sales volume constitute what are essentially problems in human relations. This understood, we are faced immediately with an abstraction which will successfully defy any attempt at an absolute, statistical type of analysis. This is perhaps confirmed by the inability of the writer, after considerable research, to discover any productive, statistically-based treatment of the problem or even any useful body of data. It may be argued that the large merchandising agencies work on the basis of carefully computed, statistically-based formulae when planning their campaigns, but these are directed primarily to mass retail markets. Few credit managers have to deal with a number of customers so large as to provide an honest statistical sample. Dealings are with individuals rather than with a mass, and with rather intelligent individuals, too, if the relatively favorable economic status of purchasing agents and business proprietors can be assumed as a standard of measurement.

Confronted with a field where policy decisions would seem to be highly individual and strongly influenced by local, personal factors, the researcher must ask himself how any treatment thereof can have either general interest or widespread applicability. Where is there room for generalization? The answer is found in the fact that there exist certain principles of human relationships and social...
intercourse which are basic to goodwill and the promotion of friendly associations. These are, of course, only tendencies but are of a sufficiently general nature to be employable at any time and in almost all relationships, business and social. There are certain procedural and policy adjustments, based on these concepts, which can be undertaken to advantage by almost any business. The subsequent chapters will outline the types of routine work which are common to most credit managers and credit departments and show how almost every phase of credit management and routine can be a positive factor in building sales volume and goodwill, without detriment to the very necessary safeguarding aspects of credit work. There will be included, also, many specific programs which have been successfully adopted by businesses and which seem to the writer to be of sufficiently general interest and validity.

C. Significance of Previous Scholarship

1. General Poverty of Material

Insofar as the writer can ascertain, there is not currently available any treatment of this problem so extensive as that which follows herein. Moran (1) approaches the problem by outlining briefly what a good salesman should know about credit, but the "Selling Side of Credit" has yet to appear in any lengthy form.

There are currently in general use four texts in Credit and Collection Management (1) and none of these gives the problem more than a very general summary discussion. (2) This is not, however, due to any lack of lively interest in the subject on the part of credit men. Symposiums and panel discussions of the problem have been frequent, (3) it appears as the keynoting theme on the programs of the National Institute of Credit, (4) and it has been the main topic or an important subordinate theme in over seventy-five articles which have appeared in "Credit and Financial Management" in recent years. (5) Incidentally, should the scope of the periodical references in the footnotes and bibliography seem unduly limited, the writer would point out that "Credit and Financial Management" is the only substantial periodical in its field (6) and except for textbook references of the inadequate type noted previously, has been the main source of

Shultz, W.J., "Credit and Collection Management", Prentice-Hall, New York, 1947

(2) That contained in Chapin, A.F., op. cit., p. 148-9 is typical.

(3) Credit and Financial Management, Jan. 1948, Jan. 1941 and others.

(4) The educational department of the NACM. "The Selling Side of Credit" is programmed by the Boston Chapter in its 1949-1950 Program.

(5) The bibliography (p. 121) lists many of these.

(6) Credit World (Retail) and Banking (General & Fiscal) cover other aspects of credit. Only C&FM is devoted to Mercantile Credit.
published ideas on the specialized problem here at issue.

Most of these magazine articles have been very brief, being recounting of personal experiences with few if any conclusions drawn or principles established. Few, if any, of the public discussions have been carefully planned and/or adequately reported, to judge from available data. As far as the writer can ascertain, the organizational plan of the material herein is original and the collative and correlative work is being undertaken for the first time. At least, the writer is working without the conscious aid or hindrance of known precedents.

2. Plagiaristic Possibilities

During the research period, the writer has seen the topical problem become a part of almost every conversation with acquaintances in the business and financial world. This is worthy of mention here because any constructive contribution by this paper will be in the realm of ideas, the development thereof or the correlation thereof. Correlation is frankly derived from previous effort, but development implies originality. Intensive and frequent discussion of a topic may result in the absorption of ideas at times and places where recording the origin of these ideas is difficult. Memories are fallacious. Also, after a period of time, the line which divides those ideas which one has culled from others from those which represent one's own conclusions and observations can easily become less fixed and less distinct.
(1) The source of a statistic is more easily retained or reascertained than that of an idea. Reference will conscientiously be made hereinafter to all known idea sources, although the writer cannot but feel that the fruits of others intellectual toil may be included in paraphrase, frequently but unintentionally, without proper acknowledgement. Those who are thus wronged should be considered as blameless with respect to the views presented as indeed they are defenseless against this involuntary intellectual poaching.

(1) Besides, there exists a very real doubt in the writer's mind as to the possibility of original thought in an effort such as this which makes no pretense of extending intellectual frontiers.
3. The Challenge to Top Management

A. Sales and Credits—Possible Extremes

1. The Credit Curmudgeon

The need for intelligent redefining of the Credit-Sales relationship generally can perhaps be pointed up by an illustration of the type of confused thinking frequently found concerning the functions which Credit Management and Sales Management, respectively, should perform in a typical enterprise. Witness the following, an exaggerated but reasonably lifelike outpouring of the enraged feelings of many a Sales Manager:

DEFINITION OF A "CREDIT MAN"

"Nobody loves him. In frigid majesty he casts a fishy eye over all incoming orders, picks out the gilt-edged risks and bangs all others with a well-worn rubber stamp, "COD". The salesmen put up with him as they endure expense sheets, as just one more penalty for being alive. The management endures him as a traditional fixture, about as useful as an appendix, and at times much more aggravating. So he sits among his dusty files, a forlorn friendless creature, damned by hard luck and soured by experience. In his hand he holds a diploma from the most illustrious college of kidders." (1)

Even when the facetious nature of the above is discounted, there remains a sufficiently accurate likeness of many a "modern" credit man. Such an anachronism should obviously have no place in a modern, progressive business

(1) Carnahan, H.L., - quoted in Credit and Financial Management, April 1938
although the writer's personal acquaintances number some credit men who are either prototypes of this or, which is equally bad, who give the impression to reasonably objective fellow-employees that their attitude toward their work approaches rather closely the ridiculous standards described above. It requires but little imagination to visualize the loss of goodwill without and the demoralization within an organization which tries to translate such thinking into a credit policy.

2. The Volume Vulture

At the other extreme is the ultra sales-conscious executive who regards selling as the only important phase of the business, with the possible exception of the accounting and payroll division which tallies his commission and bonus checks. This type of individual justifies selling below cost in terms of increased volume and is likely to encourage top management to promulgate such edicts as the following:

"MEMORANDUM TO ALL EXECUTIVES"

It must be remembered that it is the function of the Sales Department - while aiding the Credit Department in every way - to get the maximum sales billed on the books and let the "watchdogs of the treasury" do their function. Remember this and note it well, that if the Sales Department never tried to sell to anyone but perfect credit risks, the credit profession would soon become an ornament which only the luxurious would afford.

"From the company's point of view, the Sales Department is always reckless and should be: and the Credit Department is
always conservative and should be: and it is only in each fighting for its ideas that the middle road is reached, and it is the middle road that should be." (1)

Any astute Credit Manager would do well to look twice at any "aid" proffered by a Sales Department whose top executives derived their policies from such principles. The aid would probably involve filling the "C0D" stamp with disappearing ink. The implementation of such a policy as that above would force a business to operate in an atmosphere of constant conflict. It would seem to necessitate, among other things, some sort of appellate tribunal to pass on all disputes relating to the granting of credit and would tend to relegate the Credit Manager to the status of a sort of glorified clerk whose every "decision" would be subject to question and compromise. The best salesmen tend to be those with the fewest bad accounts and not those who spread the company's merchandise throughout the countryside with the single objective of getting sales billed on the books. Credit-Sales cooperation is unable to completely eradicate credit losses and the situation would obviously be worsened under the conditions described. A majority of credit managers who were asked about it said that they would find it impossible to work for a firm whose policies reflected this type of thinking. (2)

(1) Credit and Financial Management, Dec. 1936, p. 12. The quotation, although unsigned, is represented as having actually been issued as a policy directive by a large manufacturer.

In spite of the disruptive possibilities of such policy, it must be admitted that some might be attracted by the sentiments therein expressed because the statements do have a ring of truth to them and may represent a situation close enough to the experience of some to seem reasonable. The fact that the quotation contains so many half-truths may be the reason why the refutation of such ideas throughout the business community is so difficult at times. There is no question but that many credit managers tend to become over-cautious, that sales managers are often reckless optimists, and that the most profitable course for many businesses lies somewhere between where either would direct his efforts were he the unrestricted boss of the business. The goal of the "middle way" is then seen to be indeed desirable, and we are again to the point of realizing that differences of opinion arise over means rather than ends.

In physics we learn that a force can be exerted in a certain direction as a resultant of two other forces, neither of which is moving toward the desired goal. Nevertheless, these forces tend to offset each other and create a single force different in direction and intensity from either of the two components. We learn also that if the two previously divergent forces are brought to bear on a single objective, its accomplishment is more readily achieved due to the fact that a much greater pressure may be brought to bear as a result of the cooperative activity.
The sentiments expressed in the directive are partly true. No sales manager should be constrained to contact only "perfect credit risks". The successful sales to the marginal customers are the ones which spread overhead, boost volume and multiply profits. The difficulty lies in establishing accepted definitions of marginality. This responsibility rests with management and must be recognized and accepted. Further development of the physical analogy and recommendations based thereon will follow shortly. (1)

3. The Basic Issue - A Restatement (2)

The devotion of this chapter to the contribution which general management can make toward solving our basic problem requires a restatement at this time as the problem will appear to the managerial side of the business. Sound managerial technique involves much which is positive and dynamic. An important and constructive negative aspect however, is the avoidance of extremes. It is this aspect, involving the coordination and compromise of apparently conflicting principles, which is particularly applicable here. Management's basic responsibilities center around creation of organization, policy and, to a lesser extent, procedure. Constructive work could be done in each of these fields in many businesses which are really interested in achieving Credit-Sales cooperation.

(1) p. 48
(2) p. 26
B. The Properly Integrated Organization

1. The Credit Department - Independent or Subordinate?

Organizationally speaking, the primary decision required is the one regarding the place which the Credit Department should be assigned in the firm's organizational structure. The writer realizes that the size of the particular business concerned will be a basic influencing factor here, particularly if the business is small. Under such circumstances, although the firm's credit work may be regarded as a separate aspect of the business, personnel limitations (quantitative) may require that it be performed or supervised by someone whose basic job may be accounting or even selling. Problems of this sort tend to be solved on the basis of factors which are both personal and local. They therefore represent a field unsuited to the generalizations which are basic to treatment such as this. However, in a business where credit work assumes such a volume and significance as to justify a separate staff or departmental function, the question arises first as to whether the type of cooperation we are seeking and, of course, the general welfare of the firm, can best be promoted by having the credit department as an independent staff function or as a subordinate division of one of the major financial divisions of the business.

2. Basic Interdepartmental Relationships

Although the various departments of any business have but a single reason for existence, (the building of prof-
itable sales through cooperative effort), interdepartmental ties are closer and interdepartmental relationships are more obvious in certain instances than in others. Admitting the need for overall cooperative effort, it is nevertheless apparent that certain departments and operating groups are more consistently in close touch with each other than are others. In the effort to decide whether or not the Credit Department should be an independent one, it may be helpful to examine those relationships of the Credit Department with other departments in what might be a reasonably typical instance. These relationships will be stated in terms of basic simplicity, without regard for possible refinements which would inevitably result from the carrying out of the indicated functions.

The Credit Department's obvious connection with Sales is two-fold. First, every order coming onto the books must be checked for acceptability. Second, sales personnel ordinarily provide some credit data with their reports and orders. Credit is in constant touch with the Financial Department due to their joint concern with receipts and disbursements. Credit will communicate regularly with the Order (Shipping) Department since credit O.K. must be had before orders can be packed and shipped. Credit draws frequently on the services of the Accounting Department for ledger data and is dependent on the Billing Department for up-to-date information concerning invoicing. Credit's immediate dependence upon and association with the above departments, then,
is readily established. For further clarification, the relationships are functionally indicated in (Figure 2).

3. Degree of Independence Necessary

In spite of the fact that the Credit Department is obviously not an island separated from the rest of the firm, there are certain aspects of credit work which require a considerable degree of independence in everyday relationships. Perhaps the first and most obvious of these is that credit decisions should be made in an atmosphere where personal sentiments are less decisive than the evidence at hand. This is manifestly impossible where the fear of displeasing a superior is constantly imminent. A clearly defined, independent authority is the only answer to this dilemma.

Secondly, modern credit work is both specialized and intricate to an extent which is belied by the apparent simplicity of the basic function of passing on customer qualifications for open-book credit. A credit executive will need specialized training combined with broad knowledge and experience to such an extent that the prerequisite talent is unlikely to be found in other department heads who are not credit specialists. A good Credit Manager must include in his personal makeup such diverse qualities as gregariousness and discretion, conservatism and curiosity. His professional and educational background should include economics, law, psychology, accounting and auditing, statistics, office man-
agement, money and banking and marketing. (1) Other depart-
ment heads whose responsibilities have stressed specialization
may well lack the necessary breadth of training and experience
to properly supervise a Credit Department.

Finally, the temperate point of view which avoids
ultra-conservatism as well as feckless optimism can perhaps
best be expressed by a diligent, progressive credit man-
ager. Management definitely needs this qualified voice in its
councils but may well be deprived thereof if the credit man-
ager is subordinated to some other department head whose point
of view differs. Another aspect of this same problem sees
the ability of the credit department to operate and to pre-
sent its case properly to management greatly diminished if
representation in conference is through a prejudiced or dis-
interested superior unfamiliar with the details and problems
of credit management. (2)

4. Credit Subordination - To Whom?

Without delving minutely into organizational de-
tail, we can nevertheless examine some of the arguments pro
and con the affiliation of the Credit Department with certain
other departmental organizations with which, as we have seen,
it is closely allied in the performance of its everyday functions.

(1) Training and study in each of these fields is requisite
to certificate awards from the National Institute of
Credit.
(2) Beckman, T.N., and Bartels, R., "Credits and Collections
in Theory and Practice", McGraw-Hill Book Co., N.Y.,
1949, p. 550 et seq.
The possibility of placing credit work under the supervision of the Sales Manager has at least two strongly favorable aspects. It would provide an opportunity for obtaining the greatest degree of cooperation from the sales department in the gathering of credit information, in following up accounts, and in making collections. Also, the obviously needed cooperative effort on the part of credit and sales which concerns us in this study might well be encouraged by the close contacts which often bring better understanding of mutual problems and therefore a better joint effort.

Those advocating merger of the Treasurer's and Credit Department's functions argue that the close tie-in created by their joint preoccupation with financial affairs makes such an affiliation both functional and compatible. Certainly, credit policies are causal with respect to a company's present financial status in addition to being the fruits of previously established financial policy.

Sound arguments can be advanced for the administrative combination of Credit with Accounting. Both are using the same records constantly and considerable savings can be effected in record-keeping by such a combination. Credit—Accounting merger, too, is subject to none of the disadvantages of the previous two since there is nothing inherent in the relationship which would tend to make the credit department digress from moderation in credit granting and in its
collection policies. Of course, Credit-Sales and Credit-Finance combinations offer no inherent administrative difficulties per se. The danger lies in the possibility that administrative combination may in practice include policy control as well. However, those charged with record-keeping have no vested interest in either recklessness or ultra-conservatism.

5. Summary

A recapitulation would show, then, that the Credit Department must have sufficient independence so that it can make unbiased, factually-based decisions, employ a specially-trained, professional credit man as its head, and contribute substantially to management councils, unfettered by departmental lines of authority. Whether this can best be accomplished by a business which has its Credit Department subordinate to Sales or Accounting or Finance must remain a moot point in this discussion. The important thing to remember is the degree of independence which must be present in order to have the department do its work properly. The organizational details which permit the accomplishment thereof are beyond the scope of this paper. The basic ingredient, however, is intelligent cooperation rather than reliance on any particular structural form or system. The writer believes that any reasonable organizational structure can provide a favorable atmosphere provided that general management understands the essence of the problem and the nature of the work that an effective
credit department must perform.

C. Policy, Pitfalls and Progress

1. Credit's Contribution

The broader responsibilities of business policy-making must inevitably classify Credit Management as but one of many facets of a very complicated task. There are, however, certain mistakes which come very easily to managements which, for one reason or other, are deprived of credit counsel. The usual reason is that no member of the board has ever been in intimate contact with the credit aspects of the business. On the positive side, a good Credit Manager can and should definitely contribute to policy making. The necessity of having sound credit advice in management councils can be easily demonstrated.

2. The Circular Flow

The Sales Department disposes of the merchandise or manufactured product, converting a large part thereof to accounts receivable. At certain peak seasons of the year, a firm will place a substantial portion of its capital in the hands of its customers, having only its ledger accounts of the transactions as evidence. The Credit Department must determine in what hands these accounts shall be placed and, in taking control of these accounts, must assume the responsibility for their eventual conversion into cash and the restoration of the firm's capital through its bank account. As Sales is charged with the profitable disposition of all
merchandise, Credit must make sure that all accounts thus opened are likely to be paid at maturity, and follow the accounts through to their final disposal, with losses from bad debts and failure to collect reduced to a reasonable minimum. The self-evident necessity of cooperation in this vital task is, of course, the keystone of our discussion.

3. Policy Contributions

A well-defined, properly thought-out policy is of the essence in obtaining this joint goal for reasons which will be apparent. Any properly cooperative organization will see the Purchasing Department consulting with Sales in all buying in order to capitalize on sales' "feel" of the market. Similarly, the Credit Department should be consulted before every selling campaign with respect to the type of account which is to be solicited and taken on. It is no more logical to load down a Credit Department with a large number of uncollectible accounts than it is to burden the Sales Department with unsalable merchandise. Unfortunately, the necessity of this interdepartmental consultation is not always apparent to departmental executives, understandably burdened with their immediate problems and unaware of the broader aspects of the decisions to be made. Management must initiate this type of interdepartmental exchange of ideas and enforce the policy once established.

Going farther than this, management must realize the need of constant supervision of and attention to interdepartmental
difficulties. Even the most whole-hearted attempts at Credit-Sales cooperation will meet with snags, these stemming usually from two causes:

(a) The character of the line of goods handled or produced and the conditions under which they must be marketed.

(b) The business policies which some houses may at times find necessary to follow in order to dispose of merchandise.

An excellent example of the type of difficulty which may arise is that of the firm which finds itself on the brink of a new selling season but with an uncomfortably large stock of last year's line still on its shelves. The question will often arise as to whether it is better to hold the stock and let the inventory show the loss or to force the goods on the market regardless of credit risks, with the almost certain result that the loss will show up in the form of bad debts. In either case there is a loss to be absorbed, but there is a significant difference in the incidence thereof. Should the goods remain on the shelves, the sales force will tend to be put in a bad light whereas a high percentage of bad debt losses will tend to reflect on the judgement of the credit manager. A loss is inevitable! But the way in which it is assumed is of vital importance.

Cognizance of and familiarity with such difficulties must be within the province of management in order to forestall
the antagonisms which all too often are created when attempts are made to settle such problems at lower administrative levels. Especially where credit-sales cooperation has been instituted, the Sales Manager will be tempted to urge acceptance of doubtful orders on the Credit Manager in order to build volume. The Credit Manager, not wanting to seem unreasonable and not wanting to seem to "squeal" to his superiors, may be tempted to be a "good fellow" and pass the orders. Or, feeling that the risks are unreasonable, he may turn them down outright and thereby cause bad feeling between himself and the sales manager.

The point to be emphasized is that such situations call for a policy decision by management. Neither the Credit Manager nor the Sales Manager should be charged with the responsibility of determining the company's policy with respect to the overstock. Both should be consulted with regard to the final course taken, and it is quite likely that proper steps will lie somewhere between those which would have been taken by either had he been the unquestioned manager of the business. To return to our previous analogy of the resolution of forces (1), cooperation can achieve the same objective with less effort. To be sure, the resolution of the conflicting ideas must still be accomplished, the divergent plans and ideas must have an audience, but this creation of a single purpose from opposing ideas must be accomplished at

(1) Chapter 3, P. 39
the policy level as the result of open discussion. It most emphatically should not take place as a sidelight to the "normal" operations of the business, with the interdepartmental struggle being concurrent with the attempt of the firm to maintain a competitive position.

Management's responsibility here is most vital and demands acute awareness of the day-to-day status of the business. Management's contribution here must be its consistent attention to the long-run interests of the firm, based on the ability to distinguish situations requiring policy decisions from those which are local and departmental in nature.

4. Creating the Cooperative Atmosphere

Although it is rather a truism, our discussion must include at least the bare statement of our awareness that all procedures requiring a large degree of cooperation are both personal and personnel problems. Institution of any policy is useless if the predisposition of those charged with its effectiveness is basically negative. The accomplishment of such a program as the one proposed here is difficult enough even when complete cooperation is obtained. Assuming a staff point of view that is favorable, however, what general steps can management take to set the stage for better credit-sales cooperation?

First, a combination of consistency and aloof awareness in relationships with the credit department will
go a long way. One writer has described credit policies which he has observed in the following categorical way:

(a) **Managerial** - this is characterized as reflecting mainly the ideas of the owners or the top management of a business. It is rarely fixed, usually in a state of flux, is childishly easy in good times and churlishly strict in bad. Other members of the organization, knowing where the real authority rests, are prone to go over the Credit Manager’s head to top management whenever a decision is reached which seems unfair to them. The obvious results include demoralization of the Credit Department and the reduction of its status to that of a rubber stamp, available to take the blame for bad debt losses but without the authority to prevent them by withholding goods from poor risks.

(b) **Destructive** - where the Credit Manager’s soured and suspicious nature drives customers away faster than any sales force could ever attract them.

(c) **Cooperative** - where sales-credit relationships are characterized by such work as joint territory analysis, with each area being scanned on the basis of that particular locale’s ability to absorb the firm’s product, with the possibilities of each dealer as a customer being jointly guaged and the segregation of
customers according to financial responsibility. (1)

The type of cooperation recommended in (c) above requires a great deal of time, tolerance, and a genuine will to build profitable sales on the part of both departments. Such an achievement should not be impossible. Its initiation must come from management, however.

Just as management would not expect legal counsel to recommend "No action" in every controversial matter so as to remove all possibility of suit or legal difficulties, so management must make sure that its Credit Manager is one who will try to cover the broadest possible field with the minimum amount of loss. Those familiar with production problems may appreciate the situation better if we compare the Credit Manager to a Designing Engineer. In most cases, a completely satisfactory product which will approximate 100% performance can be built for almost any task. Using nothing but the finest materials and employing jewelers' tolerances, however, tends to make the product too costly. Certain risks with regard to clearances, the quality and ratio of materials must be taken in order to have a product which is competitive on the basis of cost. (2)

One roundtable panel on this subject recommended that there be instituted, where possible, monthly credit meetings where the Credit Manager and Sales Manager reviewed

(1) "Types of Credit Policy", C&FM, Feb. 1937
(2) Seybold, R., "Credit Department Functions in a Large Corporation", Credit and Financial Management, April 1947
jointly all questionable accounts and made decisions relating to collection policy and further extension of credit. The Credit Manager and the Sales Manager were expected also to work out the matter of customer calls by the Credit Manager. (1)

In addition to policy consistency, the Credit Department needs from management responsibility, authority, cooperation and understanding. Responsibility for matters concerning credit should be centered within the credit department or else the fiction of the existence of such a department should be abandoned and the fact forthrightly faced that credit policy is being determined by management or Sales or Finance.

With the responsibility must go the authority commensurate with the general implementation thereof. The clear definition of authority is particularly necessary here because the term "Credit Work" is not necessarily definitive. Credit work, in addition to passing on applications, may or may not include the maintenance of accounts receivable, all adjustments, all credit correspondence, legal advice, market surveys and certain types of customer service. Limits of authority are not automatically apparent.

The cooperation need is obvious and is best accomplished when management makes a studied attempt to understand

(1) Chicago Management-Credit-Sales Symposium, reported by Credit & Financial Management, April 1947.
the problems peculiar to credit management. A definite effort is often necessary because it is very possible to have a policy committee where familiarity with credit problems is either academic or lacking altogether.

Of course, cooperation and understanding must be a "two-way street". An astute management will realize that many Credit Managers have talents and knowledge which are not bounded and limited by their particular specialty. For example, the Credit Manager is often the only person in an entire organization who is familiar not only with his own business but, due to his intimate inquiry into the functioning details of his customers' businesses, also has a thorough understanding of the industries served by the organization.

A Credit Manager's knowledge can also be usefully employed in certain phases of buying. When starting a new sales campaign, a firm will usually promote the new product rather extensively prior to its actual receipt from the supplier. Some organizations have done so without giving too much thought to the financial status of the supplier. Credit standing of suppliers is often as important as that of customers. Many a firm has undertaken an expensive promotion, obtained a ledger full of orders, only to have the potential supplier incur financial difficulties and fail to supply as contracted, with the obvious result that the firm loses face, money, customers and goodwill. In some cases, this could be avoided merely by consulting the Credit Manager.
Other instances where Credit can assist management include verification of the status of sub-contractors, including both financial solvency and reliability of work. Manufacturers, particularly, are often asked to advance funds to their suppliers and sub-contractors and whereas the ability of the Credit Manager to be of service under such circumstances would seem rather obvious, management nevertheless is prone to overlook this information source within its own organization. This sort of situation, incidentally, offers the Credit Manager an excellent chance to show his interest in the overall problems of the company by bringing pertinent facts to the attention of management and by volunteering his services. (1)

5. Summary

Management's responsibility, then boils down to its need to see the extreme points of view which can be held by Sales and Credit practitioners, to choose a middle course between them and, most important of all, to see that the resolution of the conflicting ideas is carried out at the policy level and is not allowed to hamper the normal operation of the business. The task further requires understanding that while certain aspects of sales and credit work are such as to require specialists, certain other aspects of each are of interest to the other and must be discussed as joint

(1) Sommers, H.M., "Credit as a Management Aid", Credit and Financial Management, January 1948
problems. Management must tread the fine line here, compelling cooperation where necessary while yet leaving a degree of responsibility and authority with the department head which will stimulate first-rate effort and maintain administrative self-respect.

Management's responsibility and obligations to the Credit Department can be summed up as follows:

(a) **Respect for the judgement and opinion of the credit executive** - this would include getting the Credit Manager's opinion when making or changing policy, allowing the Credit Manager to operate his department in his own way once policy is laid out, sustaining the Credit Manager in his decisions, pointing out mistakes but not allowing other officials to go over his head, welcoming suggestions and requiring achievement reports, encouraging the Credit Manager's participation in the National Association of Credit Men.

(b) **Encouraging the credit executive to travel** - the importance of association with customers and salesmen is stressed in Chapter 4.

(c) **Giving the credit department a voice in training the SALESMEN** - more treatment in Chapter 4.

(d) **Using the credit man's analytical ability in problems within the business** - and the credit man must volunteer this type of service, too.
(e) **Giving the credit department the tools to do the job** - credit departments often seem to be treated like poor relations when budget appropriations come around, due in part to credit managers' inability to sell the importance of their work. Management's sympathetic appraisal should help here.

(f) **Pay credit personnel salaries commensurate with the job to be done** (1)

In conclusion, the credit-sales impasse is the type of problem which every management is called upon to face and as such would seem to pose no insuperable difficulties. As with most problems which seem basic and difficult, a large measure of the solution is effected by familiarity with the difficulty and realization of its importance.

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(1) Greisinger, F., "Management-Credit Liaison", Credit and Financial Management, January 1948
4. The Credit Manager as Salesman

A. Creation of a Point of View

1. The Objective

This chapter will deal with those positive steps which an alert Credit Manager will want to take in order to make himself a more effective contributor to his firm's efforts to build an increased volume of profitable sales. The subsequent chapter will then show how salesmanship and credit-sales cooperation can be injected into almost every function that a Credit Department performs. An objective reader may question the wisdom of trying to separate the personal activities of the administrator from the functions of the department which he administers. Justification of this, if needed, may be found in the fact that, although a manager cannot divorce himself from the credit or blame for departmental functioning, there are still certain duties and routines which he carries out as an individual and which have no immediate connection with departmental routine and operation. Also, certain departmental actions tend to be in the nature of routine, dissociated entirely, in the short run, from executive direction. In spite of the evident inability to ever achieve complete separation, one might say that the goal is to see what the Credit Manager can do to become a more sales-minded individual, and, later, to see what can be done to create a more sales-minded credit department. At this point, too, it might be well to reiterate the previous
statement that we understand the necessity of cooperation from the other side. (1) Sales managers could do much to make themselves and their departments more credit-minded, and a sincere effort to do so must be part of any cooperative effort. Methods and techniques are beyond the scope of this discussion, however.

The general objective, then, is the creation of a degree of interdepartmental amity wherein the Sales Manager is likely to remark,

"John Blank, the Credit Manager, is perhaps the best salesman in our entire organization."

This, in turn, requires that the Credit Manager develop a certain point of view toward his function and position in the business. This in itself is no mean achievement.

2. Natural Occupational Obstacles

All business, however well-established involves a calculated risk. We justify profit as a social return due to the assumption of this risk. But a paradox then confronts us in that the Credit Manager often is taught to appraise his function as a guardian of profits in a completely negative fashion. Although his job seems to involve the attempt to remove much of the risk from business, yet he must not allow his preoccupation with this duty to destroy his willingness to take any sort of chance.

Additional obstacles of even greater stubbornness

(1) Chapter 2, p. 27
can be discerned. Reasonable prudence requires that the Credit Department survey and scrutinize closely the financial qualifications of each new customer whose account is opened, combining this original examination with close supervision during the life of the account. Common sense requires that one begin warily that which he would continue over a long period. Every good credit man realizes that his decisions may lead to disaster as well as to profits. Thoroughness is therefore imperative. But this investigative aspect of credit work cannot but make the opinions of many credit men ultra-conservative. There are very few humans or human institutions which will withstand close scrutiny without causing the inquisitor to conclude that all is not quite as outward aspects would indicate. Intimacy and familiarity will tend to disclose occasional financial shakiness in even the most consistent discount customers. There is no competitive business which is fool-proof. This uncertain side of the business picture tends to be revealed more consistently to credit men than to any other member of the creditor's executive staff.

Small wonder, then, that many an opinionated Credit Manager does not feel that he is really opposing the legitimate work of the Sales Department. His point of view sees the issue as being "Enthusiasm vs. Impartiality", he tells himself that financial data and facts are rarely part of the salesman's day, and an obstructionist policy is thereby justified in his own mind as being necessary to save the salesman
from giving away the merchandise in moments of overenthusiastic goodwill.

Then, too, none of us, credit men included, is proof against an occasional error in judgement. The difficulty arises because, after an account has soured, it is but natural to tighten up generally, to bear down on the prompt-paying, faithful customer and thereby gratuitously promote the sales of competitors. Indeed, it is not at all difficult to develop a suspicion complex after a few such experiences, even to lose faith in mankind generally.

There exists, essentially, a problem in the maintenance of perspective. The skillful credit manager must judge both credit and mankind justly. Segregation of bad accounts helps. But treating all customers as if they were potential criminals helps only one's competitors. Furthermore, we must reiterate that since all business involves risk assumption, the Credit Manager must see his position as a part of a risky enterprise and moderate his conservatism accordingly. (1)

3. Avoiding Insularity

Another of the greatest obstacles to any Credit Manager developing sales-mindedness is the belief that, since many aspects of credit work are specialized and rather unique, the basic function to be performed is narrow, limited, and dissociated from the general operation of the business. Nothing

(1) Johnson, L.R., "All Business Is A Gamble", Ibid., December 1938, develops this idea at greater length.
could be more misleading.

General agreement can be had as to the objective of the Credit Manager; i.e., transaction of the largest amount of profitable business possible with minimum charges for bad debts and collection costs. To properly accomplish this, the Credit Manager must be thoroughly familiar with many aspects of his company's operation including such matters as capitalization, terms of purchase, turnover, operating costs and profit expectations. He must be familiar with such policy matters as inventory accumulation and pricing, obsolescence, freight allowances and salesmen's commissions and salaries. Terms of sale and the reasons for them should be at his fingertips.

His understanding must extend farther, encompassing his customers' position with regard to such matters as location, operating costs and ratios, temperament, other lines handled, and competitive position.

He must be professionally alert and qualified (1), and thoroughly understand the bases of sound credit granting.

Such breadth of requisite knowledge would not seem to imply a narrow, restricted field of activity and, indeed, such is not the case. Many ways in which this broad knowledge can be put to good use in the field come readily to mind and we have already examined ways in which top management can draw upon this knowledge. (2) Subsequent discussion attempts to

(1) Chapter 3, pp. 43
(2) Chapter 3, pp. 55
elaborate these credit functions more fully.

4. **Positive Cooperation**

Beyond his immediate tasks lies the Credit Manager's relationship to sales and the Sales Department. The Credit Manager should feel a definite obligation to help the sales personnel build their volume profitably through cooperative effort. In many cases the accomplishment of this presents more of a problem than seems immediately apparent. Years of selfish short-sightedness on both sides may constitute a very real obstacle. Still, whatever the effort involved, the Credit Manager must first sell himself and his policies to the sales department. Second, he must sell himself, his company, and his company's terms of sale to his customers. These he cannot do if he confines his concept of his duties to the mere creation and elimination of accounts receivable, or if he is psychologically limited by a suspicious nature and a too limited concept of his place in the business. The acquisition of a positive and expansive point of view is a "must".

**B. Selling Credit to the Sales Force**

1. **Poor Training Widespread**

Scientific management, with its atomization of functions and duties, is like any other reforming or radical force; i.e., it can be carried to such extremes as to nullify much of the benefit bestowed by its original adoption. Nowhere is this more apparent than in the salesmen's training programs as carried on by many present-day businesses. In the attempt
to train a specialist in selling, companies neglect the credit aspects of selling. The reasons for this would seem to vary from failure to understand any necessity for such action to a belief that, since the salesman meets so many obstacles to successful selling in the regular course of his customer contacts, it would serve no useful purpose, and might even lower morale to point out the pitfalls within the confines of his own organization. These tendencies are exemplified by two personal acquaintances of the writer, both successful salesmen with large companies whose credit policies are reasonably modern. Both these men undertook their present jobs with no understanding of business organization generally. The result was that one never knew of the existence of a credit department in his firm until he first suffered rejection of an order. The other knew the Credit Department merely by the ill repute in which it was held by the senior salesmen. That such practices are not unusual is substantiated by the report of the Chicago Credit Clinic which indicated that, of the participating firms, less than 50% gave any type of credit instruction or orientation to their salesmen. (1) When one considers that this clinic was sponsored by the local chapter of the National Association of Credit Men and that the credit men in attendance would be those most likely to push through a sales-training program within their organizations whenever possible,

(1) Credit and Financial Management, February 1946.
it would not seem unreasonable to assume that the situation in the business community among those firms not affiliated with the NACM would probably be worse. Worse yet is the training situation where the Credit Manager is mentioned only as an ogre who must be hoodwinked or bypassed in order for the salesman to draw a decent week's pay. It remains a moot point as to whether relations are rendered more difficult by the salesman having no information at all or by him having a lot of misinformation. In either case, the task of reorientation requires large amounts of skill and tact. Of course, attempts to influence salesmen and sell credit will be mostly futile unless one can obtain the whole-hearted cooperation of the sales manager. One must start at the top of the Sales Department and work down.

2. Selling the Sales Manager

Spontaneous cooperation tends to be more fruitful than that which is initiated by a superior's directive against the will of one of the parties. If departmental executives can get together on their own and initiate joint cooperative activity, this is ideal. Management must, of course, be informed of what is being undertaken, and will usually be delighted. On the other hand, consistent refusal of a Sales Manager to cooperate on credit matters would probably have to be the subject of a report, reluctantly prepared, to management. Even imposed cooperation will probably be better than none. This possibility is, however, an undesirable one and will not be
considered further. The subsequent discussion assumes a reasonable degree of cooperation and teamwork on the part of Sales Management.

Two of the first rules of selling are:

(a) Know your customer

(b) Know your product

In the case at hand, (a) presents too many purely personal aspects to lend itself to our discussion. However, (b) lends itself somewhat better to generalization. Reasonableness and flexibility are two good, general concepts on which the campaign can be based. Bearing these in mind, selling of credit-sales cooperation can proceed apace with the greatest of confidence because the end result is an irresistible one; higher sales volume and higher profits. What volume-conscious sales executive would want to resist such an objective?

Basic to any general program, of course, are increased contacts with the Sales Department; i.e., regular meetings and conferences. At such times, it should be emphasized that the Credit Manager's mind is ever open with regard to credit decisions, that he understands that the credit department is only a means to an end, and that any service which the Credit Department can render is per se successful if it secures additional, profitable business. This may even involve the violation of some "rules" of credit granting which are usually rather rigidly enforced. This does not advocate abandonment of sound judgement in an effort to curry favor
but rather a realization that no rules should be inflexible in such matters and that a reasonable explanation of a seemingly marginal order will often result in acceptance.

Assuming then, joint realization of the need and of the job to be done, what concrete constructive ideas could any Credit Manager offer? To begin, one of the most common sources of dissension between sales managers and credit managers, from the sales point of view, is the Credit Manager's apparently unreasonable habit of rejecting orders on which salesmen have spent much good time and for which they may have anticipated a substantial commission. Any plan for cutting down the number of rejections will undoubtedly be welcomed. Several sound and generally effective ideas come to mind.

For example, it will be worthwhile to periodically review past-due accounts with the sales manager, note those customers who are being shut off and decide on rough limits for those to whom some additional credit may still be extended. Emphasize that the credit department understands that the past-due account is still a customer and entitled to every consideration. Moreover, flexibility and reasonableness can well be practiced here if the two executives, jointly, can establish some sort of "Gambling" fund which will be risked on obviously marginal accounts after consultation and agreement between them. Decisions reached on such matters should be immediately available to salesmen.
There may be a further educational aspect to inter-departmental contact. Salesmanship might be defined as "the art of profitably selling or marketing the products or possessions of an individual, firm or corporation" or as "an insistent and systematic solicitation of profitable business." The fact that the word "profitable" enters in here so vitally can be emphasized in a tactful way at every opportunity.

While making it clear that he wishes to do everything within his power to sell the firm to the customer, in the interest of professional amity, the Credit Manager should take great pains to make it clear that he considers the selling of merchandise the responsibility of the Sales Department exclusively. At the same time, it can be emphasized that Credit is aware that the science of selling is only half-completed unless it is preceded and/or accompanied by the art of credit diplomacy.

One large organization (1) customarily has its Credit Manager briefly visit the offices of the Sales Manager and General Manager every morning as part of routine. Since all remittances come across the Credit Manager's desk, he is able to inform both managers each day as to the money received and of details of special interest. In turn, he keeps himself current on the subject of sales in particular and of the business in general. There is no better way to achieve the

(1) Barton, Carl, "Cooperation With the Sales Department", Credit and Financial Management, October, 1940
cooperation and esteem of the Sales Manager than to be current on his problems. Keeping in constant touch with research and developmental activities, knowing intimately new products being introduced, and offering detailed knowledge of customers and territories as an aid to formulating effective merchandising and distribution plans would seem to be a minimum here. Psychologists tell us that few techniques of building goodwill are so effective as the development of a sincere and constructive interest in the problems of others.

Emphasis can be directed to the selling side of credit. The fact that the credit man, too, is basically a salesman may present the case more sympathetically. Any experienced salesman will appreciate that selling an intangible item (your financial position and policy) to someone who is only indirectly interested, if at all, can often be more difficult than the marketing of merchandise. Not only is the product less concrete but it is also difficult to show how the wares are going to immediately, if ever, increase the profits of the customer.

3. Selling the Sales Force

Carrying on the same trend of thought, the program of selling credit to the main body of the sales force can be a bit more finely detailed because, except for the use of a little psychology and some public relations techniques, all basic, it consists largely of a definite educational program. Credit awareness and appreciation on the part of a sales force tends to stem from two sources:
(a) Indoctrination at the time of original training
(b) Selling assistance rendered by the Credit Department to salesmen on the road.

Each is of prime importance in creating healthy attitudes toward credit.

The education of sales personnel is vital here because, although we previously noted the Credit Manager's position as a salesman of financial policy, the merchandise salesmen are the ones who really have to sell the credit terms to most of the customers. The salesman sells himself, his firm, his goods, his tact and his terms. He must be made to understand that profit margins are based on terms, and that longer terms automatically reduce profits by the extra money charges involved or by the fact that working capital is tied up for unreasonably long periods. Anyone can give goods away without hoping to collect. Conversely, collections are facilitated greatly when terms have been clearly stated and understood.

4. Salesmen's Training Aids

Assuming the Credit Manager's ability to have Credit Orientation made part of the salesman's training program, this should include a period spent in the Credit Department. Insofar as time permits, the trainee should be told of the relationship of credit to his future job, the services that he can render to the Credit Department and, most important, how the Credit Department can help him to be a consistently high man on
commissions. Impress the fact that the term, "traveling salesman", is a misnomer. This title represents a too limited viewpoint. The trainee will really be a traveling representative. In many cases, he will be the only medium by which many of the departments of the business can personally contact the customer. He represents sales and credit, of course, but also engineering, production, advertising, accounting and all the rest.

Probably no single tool orients a new salesman so well as a brief, "Credit and Collection Manual for Salesmen." His training program should include thorough acquaintance with the manual, its contents, purpose and usefulness. It has to be the type of informative, compact and handy publication which the salesman will always want to carry with him. A well-thought out pamphlet should include such matters as correspondence, datings and extensions, credit limits, new accounts, financial statement forms, guarantees, orders held for credit reasons, personal calls by credit men and terms of sale, all discussed at length and in detail. Explanatory material such as the following is also of great assistance:

"The purpose of this manual is to acquaint the salesmen with a few of the fundamentals of credit science, and to encourage closer cooperation between the salesmen and the credit men.

Throughout the reading and study of this manual, please keep your mind firmly focused on the fact that no sale is consummated until the customer pays for the fasteners delivered."
Further, every dollar lost on a bad debt, like lost sleep, can never be recovered.

With both of these thoughts before you, there should be a sincere appreciation of the fact that your credit department is vitally interested in the successful completion of sales, and it is willing to lend any cooperation which will be in accord with credit policies established by the management.

No salesman is to feel under any obligation to gather and relay any of the information suggested in the pages to follow, but merely an optional activity resulting in a benefit, not only to the individual salesman or credit man, but to the entire organization. (1)

From the same source, a paragraph from the chapter entitled, "New Accounts". After detailing an optional questionnaire to be submitted by the salesman after he has called on a new account, the manual gives the following advice concerning the writing of doubtful orders:

"At one time, all applicants for credit were thoroughly investigated before any shipments were made but this procedure resulted in some hard feelings for the reason that there are many financially strong firms who, for personal reasons, refused to give Mercantile Agencies any information regarding their affairs. In an effort to avoid "Treading on the toes" of such firms, the Credit Department has followed a practice for a number of years of shipping all first orders valued at less than $50 without completing the credit investigations unless, of course, we came into possession of decidedly adverse information, in which case the order will no doubt be shipped on a C.O.D. basis. If the Salesman has

(1) Talon Fastener Co., Credit Manual, P. 2
determined in advance, by referring to the Dun and Bradstreet book, that the prospective customer has a third or fourth rating, the obvious question to ask is whether he will accept the fasteners if shipped C.O.D.

In most cases, customers on new accounts are opened on either Regular or Preferred terms, both of which will be discussed later."

(1)

There will be, of course, those who disagree with the credit granting techniques employed here but this is not the point at issue. The important thing is that the salesman knows just where he stands and knows exactly what the company's policy is with regard to new accounts. The writing, both here and in the original sample, lacks style and grammatical correctness but it leaves little doubt in the mind of the salesman as to the position of the Credit Department or as to what is expected of the salesman.

Every firm is not sufficiently large to justify having such a booklet printed. In such cases, a multigraphed handout may be employed, the Credit Manager may be able to address the salesmen at periodic meetings about the importance of these matters or, if the firm is small enough, the Credit Manager may be able to interview and talk with each salesman personally before he ever goes out on the road. This last is, of course, the most desirable of all.

There probably should be mentioned here two aspects of salesman training which are frequent sources of

(1) Ibid. Chapter 2
controversy. Every firm must decide if it will rely on its salesmen as sources of credit information and as collectors. The possibility of not ever employing them thus is not considered because there is probably no Credit Manager who would not urge a salesman to take a check if it were offered by a customer nor is there one so suspicious that he would never credit any information coming from a salesman. The problem becomes once again one of degree. Salesmen tend to be opposed to doing either of the above on any considerable scale since one involves detail and the filling out of forms and the other entails possible unpleasantness with the customer, both of which are vocational poison to the average salesman. It is the firm's general interest, however, which must be considered in such matters.

5. Salesmen as Credit Reporters

In cases where the Credit Manager's customer visits are necessarily few and far between, the Salesman is the only consistent source of vital information. We are not here concerned with the type of information which should be reported nor the form in which it should be submitted. Complete and adequate coverage of this can be obtained from any standard Credits and Collections text. Our concern is with selling the salesman on the necessity of diligent application to an aspect of his job which may interest him little and may actually be a source of displeasure. Probably the best argument that can be offered here is that the proper management
of credit depends on good information and reliable sources and that many orders are turned down over a period of time due to the inability of the Credit Department to obtain certain vital information concerning the prospective customer. The hope can then be expressed that the Credit Department will never have to refuse any order due to lack of information which the salesman himself might have supplied but neglected.

6. Salesmen as Collectors

This subject is more controversial than the last, and probably fewer firms use their salesmen as collectors than rely on them for information. Reasons for this are detailed hereinafter. (1) Once again we are not concerned so much with pros and cons as we are with selling the salesman the idea of becoming a credit assistant. The problem is admittedly different in this case because the collection of funds is involved. The salesman is more likely to take collection assignments more seriously than reporting because, in a firm where collection was part of the regular sales function, non-performance would ordinarily result in dismissal whereas failure to collect data would tend to be looked upon as a lesser offense, particularly if the salesman's volume were sizable.

Every salesman knows, however, that collections

(1) Chapter 5, p. 104
pave the way for new sales. He knows that if his accounts are overdue that his order will be rejected and will call attention to the fact that his customers are delinquent. He can understand, too, that his customer's long-run prosperity depends on his not overextending himself and committing himself to obligations which he cannot discharge. This long-range prosperity will net the salesman more commissions than any temporary collection laxness on his part or on the part of the Credit Department.

7. Cultivating the Salesmen

Aside from the educational aspects of this training period for salesmen, another undertaking which, if successful, will more than justify the time and effort expended is the creation of a genuine feeling of cordiality between the Credit Department and the salesmen. Make the travelling man feel that the Credit Office is as much his "home port" as is the Sales Office. Provided that it does not interfere with administrative chanelling of information, have credit complaints come straight to the Credit Manager. This not only enables him to deal with the difficulty first hand, but often takes a burden from the Sales Manager's shoulders and leaves him free for other constructive effort. Extend every courtesy to any salesman who may drop in and take a pleasant interest in what he may have to offer conversationally.

Finally, emphasize to salesmen that credit is a service second to none and that their success in their jobs
depends in part on their understanding of the relationship of credit terms to profits. No work ever done will be more likely to be productive. Once credit is sold to the Sales Department, credit immediately acquires a whole new group of assistants and a very vocal sounding board. A sympathetic salesman is in a position to present almost any kind of program to a prospective customer. There may even be instances where the salesman will willingly perform some distasteful task which had just about been given up, such as convincing a customer to settle up some long past-due balance which had grown into a rather touchy situation. The salesman is well-equipped. The important thing is to get him on "your side." (1)

8. Assistance to the Salesman on the Road

The Credit Manager can perform two general types of service for the travelling man away from the home office:

(a) Keep him informed of the credit status of prospective customers

(b) Help him out of difficult situations by consulting with him or by making a personal call on the customer

Every salesman in the organization should have with him at all times a territory analysis, including a separate section for each established dealer and definite indications of the credit standing of each. This unquestionably involves considerable time and expense, but it is at least productive and

(1) McDermand, P.W., "The Credit Man As Service Salesman," C&FM, 4/40
probably costs no more than the solicitation and writing of orders which then have to be turned down.

Even when this is done, troubles are by no means eliminated. A very real problem arises oftentimes over the opening of a new account when, as is sometimes the case, the factual data on the customer put him below your risk standards although your competitors have been selling him. Much the same problem is involved in deciding whether or not to revise existing credit limits upward. (1) Most credit managers will feel it necessary to give preference to agency reports over the opinions, reports and references of the salesmen and this can easily create hard feelings if the situation is not handled with exactly the right degree of tact and sympathetic understanding. The situation is compounded with complications if the company's credit manager has done his job of indoctrination well, since the salesman, as a result, will probably be respectful of the general conservatism of credit men. He might feel, logically, that the Credit Manager of the competitive firm probably wouldn't have opened up the customer unless he had adequate information to back up his judgement. This naturally makes the salesman skeptical of the Credit Manager who opposes opening or extending the account. Standards should probably be maintained in most cases, however, even at the risk of disillusioning the salesman with regard to the financial acuteness of the competitor's Credit Manager. At the same time, however the matter

(1) See Chapter 5
must be handled in the most tactful way possible.

Situations such as this demand the ultimate in selling by the Credit Manager. If possible, arrange a personal discussion with the salesman concerning every order that is rejected. Start the discussion with some sincere compliment to the salesman concerning his past work, emphasizing perhaps his long service, the good collections record in his territory or his cooperative attitude toward the credit department. Then follow this with a series of selling statements as to why it is necessary to turn down the account (or decrease the credit limit), justifying the course of action step-by-step by showing how it helps both the salesman and the company. A reasonable and salesmanlike explanation might touch on the following causes and effects. "Refusal of this account (or refusal to extend this customer's line) (policy) means that we'll have less trouble collecting (gain). If we raise his limit over his capacity to pay (policy), we'll get into deep water (loss), he'll be unable to keep his account current or satisfactory (loss), we'll have to call on him more frequently (loss), you'll have to ask him for money on account every call (loss), there'll be more work and worry for both you and the customer (loss), and our relations with this customer may become strained or even ruptured (loss). But if we follow good business principles (policy), and leave his limit at $____ which investigation shows is all he's able to carry (policy), then we'll all be better off (gain),
collections will be easier and quicker (gain), the company will get its money on time, in full (gain), the customer will be operating within his financial capacity (gain), and he'll be better satisfied with both you and us (gain). But just to show you that we are on both sides of this question, we'll call up for a new interchange on this account and see if the facts have changed since our last information was compiled."

(1) Cause and effect need not be spelled out so obviously as this in actual conversation, of course, and the data emphasized will differ every time. However, the emphasis should be on logic, reasonableness, and willingness to see the other fellow's point of view while all the time working in his interests as well as your own.

The credit manager may do well to keep track of the earnings of men on the road, and help those who are doing poorly to work out plans whereby they can obtain additional sales in their territories. He can draw up lists of customers who are well-rated but have low balances and bring them to the salesman's attention. On new accounts it will be helpful to write to the salesman the moment the order is approved, giving the limits which have been established for the account so that the salesman will have an immediate basis for increasing or restricting further orders from the same source.

Salesmen must, naturally, be kept informed of any changes in account status; they should receive copies of all collection

(1) Park, S.Z., C&FM, Feb. 1948
letters written to their customers and should be given some notice before any legal action is taken.

Sincere interest in and sympathetic understanding of the salesman's problems is, of course, the basic answer to this entire problem. Once this is understood, the means will become apparent although they will change from time to time and from firm to firm.

C. Selling Credit to the Customer

1. Credit—Both Science and Art

Credit executives are often prone to look upon their work as a science and to forget that it is also an art. The scientific aspect, whereby there is undertaken an orderly compilation of facts whence generalities may be deduced, is not to be discounted. Any good credit man must assemble data, watch past performances, know his firm's and his customer's financial potential and establish his credit policies and limits on this basis. However, the art side involves the use of special skills and techniques in the performance of the credit function. It is in the execution of credit management as an art that the Credit Manager becomes a salesman. His disregard of the artistic aspects of his job may make him a detriment to the entire business.

One of the factors uppermost in a customer's mind, besides the desire to take possession of goods, is a concern for the financing of the purchase. He's usually quite concerned about terms and, more significantly, how he'll be
treated by the Credit Department. Now the steady performance of any job contains an occupational hazard in that the routine aspects of the position tend to become more obvious and sometimes seem more important than the service opportunities involved therein. Every customer coming in to discuss terms with the Credit Manager tends to feel that a rather important discussion is about to take place. It is a considerable event for him and chances are that it doesn't happen to him more than once or twice a year. It is very possible, too, that the Credit Manager has just discussed the very same matter with five different people. He must remember that what may be beginning to bore him is a unique experience to the customer who naturally feels that his own problems are supremely important. He will want to feel that special attention is being given to his problems. If one can impart this feeling, he is selling. One should be able to develop between the customer and the department a relationship like that of a foot to an old shoe - close contact and continued association on the basis of comfort and service.

It is necessary to approach the matter of credit and selling quite like the salesman himself and consider every sale from three positions:

(a) From the point of view of the transaction before the sale is made
The before-hand efforts consist of product designing, packaging, special advertising campaigns and other influences to build
consumer desires. The credit man must keep up with general merchandising policies as well as specific factors such as special advertising campaigns and seasonal sales efforts.

(b) From the point of view of the actual consummation of the sale

It is a common weakness on the part of salesmen to try to force unduly large orders on customers who should not be buying so heavily. Watchful credit management can protect against this tendency. However, negation of excess is not the total scope of credit work. At the same time it is the function of the Credit Department, in cooperation with Sales, to seek out those customers who will be satisfactory risks once sold. A survey of the sales potential or, more properly, the acceptance potential of one's customers can be an invaluable asset to the Sales Department. On the basis of such data, Sales Management is able to push its salesmen, to insist that those customers with potential paying ability be sold up to the limit, and to direct salesmen's calls away from the weaker group. During the actual sales procedure, the Credit Department can insure that the customer is extended every courtesy possible, given prompt service and that his statements are accurate and on time.

(c) From the point of view of the transaction after the sale

After the sale is made, the best thing to do is to try in every way possible to insure the customer's success.
Many businessmen, particularly retailers, have no time nor opportunity to study carefully all aspects of their businesses. They are particularly not conversant with standards - to what extent expenditures for rent, advertising, labor, etc., are sound or a waste of money. The ability to give this information can build goodwill rapidly. Credit men are sometimes able to give advice relating to policy in times of economic change and dislocation. Any interchange of ideas gives the customer the benefit of information which has been culled by the Credit Manager from many sources and gives the Credit Manager one more sample on which to base his own opinions. The basic principle is, of course, that every sale should lay the foundation for another sale. (1)

Disregard of any of these aspects may be the ruination of sound customer relations. To be sure, it is not possible for any Credit Executive to personally charge himself with achieving all the details of any of these general policies. Part of the answer must lie in administrative routine and this is covered elsewhere. (2) The remainder of this chapter will be devoted to specific ways in which an alert Credit Manager, by his own personal activity, can devise and carry out applications of the above general principles.

2. The Travelling Credit Manager

Year in and year out, Credit Managers complain

(1) Hendrick, T.B., "Credit Department Cooperation," C&FM Jan. 1942. See also Chapter 5, p. 111
(2) Chapter 5, pp. 106 et seq.
that one of the most difficult items to get included in their budgets is that which allows them to undertake a limited amount of travel in order to personally contact their accounts. Appropriations will generally be forthcoming if the account is both sizable and overdue, but general management casts a jaundiced eye on "junketing" around the territory for the mere purpose of "visiting". Unfortunately, the opinion still persists in some quarters that a Credit Manager should stay in his office, bury himself in his charts and trends, and not get out into the field. Nothing could be less realistic.

Not only are customer relations aided by the Credit Manager taking a personal interest in the form of a visit, but salesmen's morale is often raised by the realization that the Credit Manager does know the local background of each account, is interested in the salesman's problems and obstacles, and perhaps does have a sound reason for rejecting an order on occasion.

3. **Customer Service**

Cases wherein travelling Credit Managers have been able to resuscitate failing businesses are numerous and perhaps the relation of just one which is within the writer's experience will suffice to illustrate the type of thing which can be accomplished. (1) A large manufacturer of machinery with a regional office in Boston noted that one of its newer

(1) See also Chapter 5, Section 3
customers in one of the Southern New England states was falling farther behind in its payments every month. The account was an active one, was also a machinery manufacturer but on a specialized, smaller scale, and had been doing about $30,000 per month with the larger company. Rumor began to circulate concerning impending insolvency and bankruptcy, and by this time the customer firm had run up a balance with the creditor firm of about $125,000. At this point, the Credit Manager of the larger firm decided to make a personal investigation which disclosed a company with basically good ideas and patents, but whose management was long on men of science and engineering but short on financial talent. Although other creditors were favorably inclined toward throwing the case into bankruptcy, the Credit Manager in question made arrangements to continue the business, served for a day or two each week as Financial Manager and Advisor, and gradually got the company's accounts and financial procedures on a sound basis. The debtor company was able to make good its obligations 100%. The interest of this Credit Manager not only saved his company a large bad-debt loss but firmly established his employer as a most-favored supplier of the customer, now completely solvent.

A diligent Credit Manager will meet and know personally as many of his customers as possible, being aware, too, of the sometime distinctions between ownership and management. Ownership contacts may be a basis for selling when there is
none possible with the operating personnel. Personal calls will usually be a pleasant surprise to the customer, who expects to see the salesman but never the Credit Manager.

4. Travelling Aids the Salesman

An occasional social call on each of the firm's customers will not only aid the salesman in his work but will also make the salesman more likely to consider the credit manager's position as he goes about his tasks and to help him whenever the opportunity presents itself. Two cases within the writer's experience stand out as exceptionally illustrative and to the point.

A New England supplier of Public Utility firms was bidding on a rather extensive contract with a Utility firm in Northern Maine. The supplier's Credit Manager had accompanied his salesman on his rounds the last time this particular territory was covered two months previous and had made the personal acquaintance of the management of the customer in question. He was proudly informed at that time, having complimented the company on never having failed to take a discount in twenty-five years of dealing with his firm, that the customer was extremely jealous of its financial reputation, and that it had never received a collection letter or overdue notice from any supplier. There was some delay in awarding the contract and the salesman, curious as to whether his company's bid had been proper and in order, made an extra call on the company to check his position and to make judicious
inquiry. It so happened that the customer's remittance for this particular month had failed to cover its entire balance outstanding and the salesman's extra call, by further chance, coincided with the day when the customer would have received the first "overdue reminder." However, the Credit Manager, being aware of the customer's touchiness about its paying habits, had withdrawn the customer's card from the collection tickler file and withheld inquiry about the overdue amount until after the contract had been awarded. The results included his company receiving the contract award and the subsequent discovery that the customer had misplaced the invoice in question and was glad to have the oversight brought to its attention (personally, by the Credit Manager, at a later visit). Naturally, the salesman's appreciation of the sympathetic consideration of the Credit Manager will tend to make him most cooperatively inclined toward the Credit Department.

5. Travelling Aids the Credit Manager

To show that such an arrangement transfers benefits in both directions, the same salesman overheard conversation concerning one of his customers in which it was stated that the firm in question was about to have a receiver appointed. Apparently the firm was basically sound, but there was the chance that funds of creditors might be tied up for some time. The customer had outstanding at the time a balance of over $40,000. The Credit Manager was informed immediately, visited the office of the customer and obtained two checks of
$25,000 and $17,000 immediately. The firm went into receivership the next week.

Two factors enabled this Credit Manager to get his money out. First, his previous calls on the customer had put him in a position where, if money was being remitted to creditors, he would be one of those most likely to get it. Secondly, his acquaintance with and cordiality toward the salesman had created a situation where, when the salesman heard the news, he at once informed the Credit Manager, even before he notified his Sales Manager. When asked by the writer the reasons for this, he stated that the company's money and products were already committed in the case of the amounts owing and that these deserved first priority in such a situation. This is, of course, correct, but it represents a point of view too seldom held among salesmen. It was clear to this salesman because it had been developed by a conscientious Credit Manager.

In general, then, a good Credit Manager must know his customers, visit them in their places of business, discuss with them local plans and problems, aid them in organizing their finances and be ready with credit and financial plans to meet the customer's needs.

6. General Customer Assistance

Most of the other steps which a Credit Manager can take to sell himself and his functions to the customer will be reflected in departmental policy rather than individual
action. The task requires an alert imagination and a sincere desire to serve. It requires that the Credit Manager analyze his every action, his every contact with the customer to see how it can be utilized to sell both merchandise and credit. One Credit Executive makes it a point to compare his own opinion of his customers' financial strength with that published by Dun and Bradstreet. He has found several instances over a period of years where he could conscientiously state that he felt Dun and Bradstreet's rating was too low and back up his conviction with evidence. In a few cases, it made little difference, but in some, Dun and Bradstreet assigned investigators to revise the company's rating and even where the rating was left unchanged, the investigators let it be known how they happened to be on that particular assignment. Such an instance could not help but build goodwill. (1)

Another reason that he has built goodwill for his firm by never refusing an order by mail. Being part of a large national organization, he is able to ask dubious customers to call at the regional office and talk the matter over. Over the years, the good risks have come in and, finding that their apparently unsatisfactory status was usually due to some temporary or irrelevant factor, the Credit Manager has often made good customers of them. Those who knew their position to be virtually hopeless rarely bothered to come in, and the

(1) Horwitz, E.S., "Credit Policy as A Sales Aid", Credit and Financial Management, April 1939
company was saved the unpleasantness of having to make an
outright refusal of the order with the attendant poor public
relations involved. (1)

7. Summary

It is difficult to make a general summary of a body
of subject matter which is so dependent on subjective concepts.
Basically, the Credit Manager has three great selling jobs to
do:

First, he must sell himself.
Second, he must sell his sales force.
Third, he must sell his customers.
He will find this a continuous, dynamic process,
difficult of achievement, but extremely rewarding in its
accomplishment. He can check his progress from time to time
by asking himself four pertinent questions:

First, what have I done lately besides approve and
reject accounts?
Second, have I offered sincere cooperation to the
Sales Department at every opportunity?
Third, how much goodwill have I created by my own
actions?
Fourth, how much prestige have I brought to the
company through the performance of my duties?

Satisfactory replies to each of these hold the key to success.

(1) Forshee, R.J., "Sales Department Cooperation", Credit
and Financial Management, February 1949
5. The Credit Department as a Sales Aid

A. Areas of Cooperation

1. Basic Objectives

That degree of sales-consciousness and customer-mindedness which led the Credit Manager to realign his thinking and routine so as to give every type of cooperative assistance both to his own sales force and to his customers also applies with equal validity to the everyday functions and routine of the Credit Department. The purpose, then, of this chapter is to spell out the broad functional responsibilities of a typical credit department and to see how these can be effectively accomplished while being realistically integrated with sales department activity, the ultimate aim at all times being better customer relations and higher sales volume.

2. Scope of Departmental Functions

The basic duties of any Credit Department, regardless of size, can be outlined by tracing the history of a typical account opened up by the particular firm. The life of any account, paralleling the main divisions of credit work, shows three main phases:

(a) The account is put on the books
(b) The use of the account is controlled
(c) The amounts owed are collected or the account is closed out.

Similarly, the main divisions of credit work would logically be three:
(a) Securing new business  
(b) Controlling the account  
(c) Collecting the amounts owed  

The details differ from firm to firm but the basic functional approach must be the same.

3. **Realism Imposes Limits**

   The types of services which will be hereinafter recommended for performance, either for sales personnel or for customers, will be by no means all-inclusive. No single research effort can possibly make such a claim in a field where the basic goals involve so much that is subjective and personal.

   Also, it is not intended that the typical Credit Department should necessarily reorganize and expand its facilities and personnel so as to establish separate "Sales Cooperation" or "Customer Service" sections. The writer realizes that virtually any function can be performed and any service rendered provided that limitless funds and personnel are available. The suggestions and programs offered here are those which seem to the writer to be capable of achievement without radical alteration of existing procedures in a reasonably modern and efficient office routine. They involve, primarily, adjustments in outlook and attitudes rather than basic functional alterations. This approach offers, perhaps, a further reason why no additional facilities or functions should be added because, ideally, cooperation with the Sales
Department and concern for customer relations should be regarded as an integral and permanent part of credit routine, and not as some auxiliary function performed by special personnel and separated from regular, "real credit work."

4. Method of Approach

The subsequent sections will discuss, then, how the performance of the regular credit department functions can be made to achieve our basic aims of cooperation with the sales department and building goodwill with the customer. Although the two tend to overlap occasionally, separate treatment will be given each with cross-references provided where necessary.

B. Credit Department-Sales Department Cooperation

1. Excess Zeal a Deterrent

Perhaps one of the most important contributory suggestions to be made here is one that has basically negative implications. In a functional organization, responsibilities and prerogatives are usually quite specifically assigned and are often quite jealously guarded. Some Credit Departments and personnel have in the past entered so whole-heartedly into the project of assisting the Sales Department that they have forgotten that the planning of sales and the attraction of new business is, at the policy level at least, pretty much the exclusive function of Sales Management. Attempts on the part of Credit Departments to "take over" the Sales Department can cause more resentment than could ever be overcome by later
willingness to cooperate. The realization of the distinction between cooperation and policy determination, then, should always be prominently stressed. The fine line which marks the distinction between helping the other fellow do his job better and telling him how it should be done tends to blur or disappear altogether unless it is kept constantly in the foreground.

2. Cooperation in Securing New Business

Moving to the field of constructive assistance, the Credit Department's files should always be open to the Sales Department and Credit Department routine should include the periodic compiling of and the forwarding to Sales of the type of information which will aid the Sales Department to better plan its campaign and, as noted previously, help the individual salesmen to channel their efforts profitably. (1) Compilation and transmission of such information can assure, for example, that a new product is not launched during a period when customers are not equipped to take on additional indebtedness.

Should the Credit Department receive any inquiry concerning goods, terms, or other related matters from a firm not presently on the books, the contact would naturally be referred immediately to the sales force. But cooperation need not end here. If the prospect's credit rating is good, he should immediately be sent a letter thanking him for his

(1) Chapter 4, p. 78 et seq.
interest in the company's product. Tell him that his letter has been referred to the Sales Department for immediate attention and that any order that he may choose to place will be shipped forthwith because his credit has already been approved. (1)

Administratively speaking, it is important that those who process orders understand the essential difference between orders from new customers and those from regular customers. The speed and efficiency with which a first order is handled and the elapsed time before the goods are in the hands of the customer may well be a deciding factor in determining whether or not the customer will continue his patronage. In no instance, of course, should the interests of a regular customer be neglected for a new order. It would not do to have regular trade hear or discover that new customers were getting better and quicker service than they, and this is not implied. Any delay on new orders is usually due to investigative necessities, a first order ordinarily taking more time to process and ship than do subsequent ones. This fact is accepted and understood by most businesses. This is no excuse for complacency, however. The type of improvement which can be made in this respect is illustrated by a firm within the writer's personal acquaintance which set itself a goal, supposedly unattainable, of reducing the office handling time on new accounts to the amount then

(1) Horwitz, E.S., "Credit Policy as a Sales Aid", Credit and Financial Management, November 1939
required for processing orders on regular accounts. Not only was this achieved but, in the process, investigative analysis showed that the handling of old accounts was also inefficient and this was reduced about fifteen percent. Prompt handling and processing of new business by the Credit Department is one of the greatest assets that any Sales Department can enlist on its side in the competitive struggle.

Another administrative problem centers around making the prospect feel that his business will meet with cheerful acceptance and that opening an account is not circumscribed by the completion of reams of forms over which he must puzzle. Efficient office management must maintain a healthy skepticism concerning the sanctity of established paperwork and make sure that every form is indeed indispensable. At best, however, an organizational set-up of appreciable size will require that a customer fill out certain forms such as financial statements. Of prime importance to any form is subject matter, and this must be given careful consideration. Although perhaps not in the realm of the present discussion, there are certain other matters of importance such as typographic composition. At best a credit form is uninteresting, but by using the right style of type and proper design it can be dressed up and made to stimulate at least a moderate degree of interest. Type face styles change with other styles. Obsolete stationery should never be given the opportunity to adversely affect
sales volume. (1)

The size of a form may be rather important, too. Psychological advantage would seem to lie with him who keeps the form as small as possible without sacrificing space which is needed for vital data. Otherwise the customer may feel that filling out the form will be too time-consuming and may disregard it entirely. The inclusion of return envelopes is a nice courtesy and trouble should be taken to make sure that the form fits the envelope without too much folding.

Entertainment expense will be noted as a considerable item on the budget of many Sales Departments but constitutes an insignificant part of the same firm's Credit Department budget. At least one firm has felt that an extensive entertainment budget has brought in new customers greatly in excess of the expense involved. The reasoning behind such action, of course, is that customers expect to be taken out to dinner or for an evening's entertainment by a salesman who has a selfish interest involved but that entertainment by the credit department seems like so much sincere cordiality and unselfish hospitality. Such a viewpoint seems rather naive, but if new accounts can be thus influenced and obtained, the Credit Department should be willing to do its part. (2)

3. Cooperation in Controlling the Account

Prior to further discussion, establishment of some

(1) Johnston, M.V., "Streamlining Credit Forms", C&FM, 6/37
(2) Rosenberger, L.F., "Sales Manager or Credit Manager", C&FM, 9/37
definitive concepts would probably be of assistance. Controlling an account consists primarily of seeing on the one hand that credit limits are not exceeded and on the other, that customers buy as much from the firm as would seem to be justified by their financial status, the sales effort being expended, and their past habits. Now some collection effort may be involved here; i.e., keeping a customer within credit limits may involve collecting his outstanding accounts as much as limiting his present orders. Discussion of all phases of collection work, however, will be reserved to those sections specifically devoted thereto.

It has been suggested previously that salesmen might be aided measurably by being supplied with lists of prospects who were known to be good risks and who were not buying commensurately. Every sales department that has a record system worth mentioning will know how much has been sold to a particular customer over the months previous but this is of little help unless correlated with the amounts currently outstanding. The Credit Department can often save much wasted effort and give assistance in plotting sales drives if occasional checking of the records is undertaken with a view toward singling out those firms whose current balances are below their established limits or their previous averages. The degree of desirable interchange in such matters varies greatly from firm to firm but different companies have found it desirable for the Credit Department to regularly transmit to the Sales Department
such diverse information as copies of statements, remittances, collection letters, collection status of customers, listings of orders held for credit reasons, salesmen's progress in getting orders shipped, actual losses in each salesman's territory periodically, percentages of loss against volume and account analysis of all delinquents. (1)

The matter of credit limits, too, is a frequent source of dissension within firms and the subject of a great deal of confusion in the minds of credit men. Obviously, credit management must directly or indirectly, formally or informally, establish and use limits for each customer if any type of efficient establishment is to be maintained. Otherwise it would be necessary to completely review the status of each customer every time an additional order came in. The costs of improper estimation are considerable, in the form of bad debts when limits are set too high and in the form of lost revenues when too low. Techniques employed to establish limits need not concern us here. But we are concerned with the fact that Sales Managers frequently feel that credit limits which either are obsolete or improperly assigned are preventing them from realizing the full sales potential of good, reliable customers.

A credit limit may serve in either of two ways:

(a) As a maximum amount of credit which a customer will be allowed to have outstanding on regular terms

(1) Adams, L.S., "This Firm Has a Credit Committee", C&FM, 12/40
Milette, H.W., "Credit-Sales Cooperation", C&FM, 1/41
(b) As a maximum amount which the customer's ledger balance will be allowed to reach without review of his credit position

The use of the credit limit to indicate the maximum amount permissible under regular terms has many advocates. Here the Credit Manager calculates the amount which he feels the customer may be safely allowed. Then, when an order from the customer brings the ledger balance over the limit, the order is held up. If any part of the balance is overdue, he is asked to pay up that part. If none is overdue, the customer will be asked to "anticipate" - (pay in advance) part of the balance which is not yet due in order to keep the total balance below the limit. If the customer wants more merchandise he pays the equivalent of cash or COD.

Such a procedure has its place and can be very helpful in the case of marginal accounts which need constant supervision and surveillance. Otherwise, it is probably an unwarranted limitation on the Sales Department and an indication that the Credit Manager is not aware of the proper use of credit limits nor is he willing to take the time and trouble to obtain the information prerequisite to such use. If the customer exceeds a limit, it is a sign that he is either increasing his rate of purchases or falling behind in his payment of outstanding balances. Either development is a sign for the Credit Manager to get busy, an indication that the facts on which he based his original opinion of the customer are now
at fault. The present limit either overestimates the customer's ability to pay or underestimates the necessity for purchases and immediate steps should be taken to find out why. The course of action taken (and shipment of the additional goods may often be refused) should depend on the additional information obtained and the opinions derived therefrom but not on the mere fact that the credit limit has been reached. The present limit represents a previous judgement which may not be justified under present conditions.

Credit limits should be subject to periodic review and revision and the following are convenient times to tend to this:

(a) Whenever an order causes the customer's ledger balance to exceed the previously established limit

(b) Upon receipt of a new financial statement

(c) Upon receipt of a new agency or interchange report, or a change of agency rating.

As to whether or not customers should be informed of credit limits, there would seem to be room for disagreement. An original low limit may seem to be a reflection on the customer's character or, even worse, may cause the customer to limit his purchases to this low figure at all times even when he may have a legitimate reason to expand purchases. Those favoring notification, on the other hand, argue that if, in the future, it will be necessary to hold the customer to a particular figure, he may be less offended if he knows about
it in the first place. On the other hand, if the limit is to be used merely as an indication to the Credit Manager that he'd better recheck his previous calculations, it would seem to be bad practice to let the customer think that his sales ought to be limited to some arbitrary, restricted amount.

All the foregoing has a definite relationship to our problem of credit-sales cooperation. If the credit-sales relationship is cordial, the knowledge of credit limits can greatly assist the salesman. Knowing that limits are neither arbitrary nor inflexible, he can write additional orders and submit them along with information to justify extension of the limit. Even if he cannot himself supply the additional necessary information, he can still submit the order with the knowledge that it will not hit an arbitrary limit and be automatically rejected but that the unusual size of the order will automatically set in motion investigatory facilities to try to uncover information which will justify its acceptance.

(1) Departmental routine should immediately channel over-limit orders to a responsible executive who should see if any available information will justify acceptance. Clerical rejection of orders should be permitted only in those cases where the possibility of extending further credit is negligible.

4. Cooperation in Collecting the Account (2)

(2) See also Chapter 4, p. 80
The first and most obvious way in which Credit-Sales cooperation can be effected in this field involves quick and accurate transmittal of collection information to the Sales Department as soon as money is received. Once an account is collected, it becomes a sales prospect again and the Credit Department is often in a position to furnish a steady stream of sales prospects in this manner.

On a broader basis, the Credit Department will often be wise to request the assistance of the Sales Department in creating its basic collection techniques. Some firms have even found that their salesmen write the best collection letters of anyone in the organization. The salesmen, being accustomed to selling ideas rather than forcing them and, understanding the principles of advertising, tend therefore to create an attractive, entertaining and interesting letter. Credit men can advantageously borrow sales techniques here by remembering that credit is an inducement to sales, and the mere fact that they "get the check" is not a good criterion of a successful collection. Their position under such circumstances may be similar to that of the salesman who made the sale but lost the customer.

In this respect, it might be pointed out that many a sales department is reluctant to have its personnel concerned with collections in any way. This attitude is accompanied by arguments to the effect that time spent thus is not spent on sales work and that concern with collections not only dampens
selling ardor but also may cause the sales personnel to incur
the ill will of the customer. However, if we accept the logi-
cal premise that a collected account is a prospective sale,
the following observations drawn from a Credit-Sales symposium
would seem to be pertinent:

(a) Bad debt losses and overdue accounts tend to be high-
est in those territories where salesmen take the
least interest in collections

(b) Losses and overdue amounts tend to be lowest where
salesmen call back most frequently

(c) If a decision must be made between mailing a check
or paying the fellow now talking to you, presence is
a strong influencing factor

(d) The small businessman, particularly, will favor pay-
ment to the man who sold him the goods.

(e) It is much easier to throw a dunning letter in the
wastebasket than it is to refuse a friendly business
associate

(f) The creditor can lose no goodwill by not sending dun-
ning letters. Each one, no matter how tactful, is a
"dig" at the customer which he may remember resent-
fully.

(g) The salesman, who is known, will often have a better
change of getting a check than some stranger with
"Collection Department" written all over him. (1)

(1) Sorenson, L., "Sales-Collection Teamwork", Credit and
Financial Management, August 1934
The aid which the Credit Department can render in this case would seem to involve convincing the Sales Department of its real, personal interest in collections. There must be a convincing demonstration that sales receptability of customers depends on their being up-to-date with their payments and that the members of the sales force have a contribution to make toward accomplishing this which cannot possibly be done by anyone else within the organization because of lack of opportunity and contacts.

C. Customer Service - A Credit Department Function

1. Instilling the Service Viewpoint

The writer noted recently an advertisement in a large daily newspaper (1) wherein a bank reminded the readers of the paper's financial page of the expert financial services which it was equipped to offer. It added further that should any of the readers have business problems which might require either the lending or consulting facilities of the bank's expert staff, that a member of said staff would be dispatched forthwith, without obligation, to the reader's place of business to see if the problem were one within the scope of the bank's capabilities. The same paper remarked editorially that this was a far cry from the old concept of the banker-borrower relationship wherein the supplicant came to the banker, entered the sanctum in abject humility and groveled before the seat of financial power in the hope that

(1) Christian Science Monitor, Nov. 19, 1949, p. 16
the bank might condescend to accept his business.

The concept of the absolute monarch who condescendingly dispenses favors to the highly-favored few is one which has unfortunately gained some favor with credit personnel and Credit Managers in the past. Even clerical personnel employed by credit departments have tended to be infected with this virus. This is only natural if we analyze credit routine and human nature but superficially. Particularly in the large firm, it is impossible for the Credit Manager to give personal attention to each order or even, in some cases, to each customer. Reasonable efficiency demands that some authority be delegated; e.g., authority to accept or reject orders up to certain amounts, to authorize extension of credit limits by limited percentages and to interview new customers.

Psychologists tell us that human desires center strongly around the exercise of power as an end in itself. The demonstration of power and authority is enhanced when the person in authority is able to render and enforce a decision which compels the subordinate individual to change a preconceived course of action or relinquish some cherished objective. Unfortunately, such a potential exists in every credit decision, however routine. Those not properly imbued with the spirit of service may be tempted on occasion to assert themselves by unnecessarily rejecting good business or by granting credit approval in such a cavalier and arrogant manner that animosity is immediately aroused.
The solution to such problems is neither simple nor, in many cases, is it one which can be effected in a short period of time. Such habits, ingrained over a period of years, are not easily shed and may, in fact, be tenuously lodged in the crevasses of consciousness. One charged with creating a service point of view in an office where vestigial remnants of previous officiousness still persist can only discharge those who are unable to understand or who refuse to orient themselves acceptably. The personnel and morale problem here will often be aggravated because those who cannot conform readily to new ideas and concepts are often older employees whose many years of service and unquestioned loyalty to the firm make them professionally valuable and also bellweathers of employee opinion. The writer, while realizing that such metamorphoses are not beyond the realm of possibility, nevertheless observes with frank relief that the promulgation of the necessary personnel policies is beyond the scope of this discussion.

Credit Managers are reminded that, cliche' and truism not withstanding, example is the best teacher. The way in which subordinate employees treat customers will ordinarily be a reflection of the behavior of those in authority or of the behavior which the employee thinks will be appreciated by his superiors. Education can indoctrinate but example will probably be the most convincing guidepost.

2. Service and Salesmanship in Opening the Account
The degree of contact which the customer has with the Credit Department prior to and during the opening of his account may be so limited as to severely restrict service possibilities in this respect. Many a customer never sees the Credit Manager nor the Credit Department of many of the firms from which he buys. In such cases, service is confined pretty much to promptness and the tone and content of the letter which notifies the customer that his account has been accepted on a credit basis. Three distinct points, among others, should be covered by this communication:

(a) **Terms of Sale** - the future relationship of creditor and customer may well be determined by how thoroughly credit terms are impressed at the time of opening the account. The Credit Department can do the customer and the house no greater disservice than to neglect emphasis of terms.

(b) **An Honest Compliment** - such letters should congratulate the applicant on his membership in the exclusive company of those who can satisfy the company's rigid credit requirements, on the degree of prosperity and business soundness that this acceptance implies, and express confidence in the mutual profitability of the new association.

(c) **Service Available** - the letter should emphasize the customer-service aspect of credit work, offer the services of the credit department in the solution of
financial problems, and extend a cordial invitation to the customer to visit and make the personal acquaintance of the Credit Manager and his staff at the earliest opportunity.

Should opening an account involve personal interviewing in an appreciable number of cases, this function should be assigned to a specialist and conducted in a scientific manner. Interviewing techniques are reasonably well established and need not be detailed here beyond the reminder that an interview has two main purposes:

(a) Securing information from the applicant in such a way as to make a friend for the house

(b) Educating the customer in the use of the credit privilege in his own interests and those of the house.

Accomplishment of these objectives involves formulation of definite policy on:

(a) What information is to be obtained?

(b) Where and how the interview should be staged and by whom?

(c) What technique is to be employed in interviewing?

(d) How the prospective customer is to be educated in the use of credit? (1)

Above all, the Credit Department should create a

friendly atmosphere and impress the casual visitor with its desire to promote the customer's welfare and consider his problems. If it is remembered that preparation for a visit by a prospective customer should involve the same care and detail as is employed by a good salesman when making his first call on a prospect (familiarity with his business, social background, community status, likes and dislikes), success, while not assured, will at least not suffer from unskillful public relations.

3. Service and Salesmanship in Controlling the Account

The following quotation is an admirable illustration of the type of psychology which should be impressed on those charged with controlling and maintaining credit accounts:

"It is one thing to have a customer; another to hold him. If he is not indisputably linked to you, easy will be the task of some competitor to wean him from you. And more important still is to keep your customer by keeping him in business. If he falls by the wayside, if he too joins today's wrecked enterprises, you have not only lost a customer but you have been instrumental in his failure to keep going." (1)

While the foregoing leans heavily on exaggeration for effect, it puts a greater degree of responsibility for customer maintenance and prosperity on the credit department than is often accepted. The average conscientious Credit Manager or assistant would logically resent the implication that he was not alert to goodwill possibilities, that he

(1) Ernst, L.A., "Your Customer, - To Have and To Hold", C&FM, 9/40
merely passed on credits and made collections but this is probably true of many, even those who pride themselves on being customer-minded. It is true because departmental problems tend to supersede customer problems and consequently no attempt is made to assist the customer to cope with his worries and uncertainties. The Credit Department's activities should be subject to constant analysis with the object of determining what is being done to help the customer operate successfully, stay in business and become a bigger and better outlet for the firm's products.

Another "customer prosperity" project on which considerable time and effort can be productively spent is the development of "cash discounters." The benefits are reciprocal in this case, too, although the customer advantages can be given the greatest stress. The skillful approach will develop the customer into a habitual discounter without making him feel that he is being pressed to discount. A reputation for discounting bills is a prideful one. Pride is not among man's more beneficial virtues but it is one of his stronger emotional drives. People buy emotionally, as any salesman can relate. Debtors also pay their debts emotionally.

If the house is large enough to enjoy a relatively prominent place in the industry or field, it may be able to compile standard operating data from its customer's financial statements. These will be of particular interest and assistance to customers. The assistance may take the form of general
publication of operating standards or, preferably, personal letters to the various accounts commenting on items such as turnover, status of receivables, and gross markup. In some cases specific changes may be suggested or the letter may merely direct attention to the fact that the items in question seem to be out of line. One of the nation's largest manufacturers of mens wear has followed this procedure for years. While some customers have refused to provide the operating data and others have resented the suggestions and criticisms, cooperation and appreciation have increased measurably over time and the company sees the entire undertaking as one of its soundest ventures in the field of public relations. (1)

The conditions to be created here would seem to be two: friendliness and dependence. That is, the customer creates a personal liaison which he would rather not break and also becomes so dependent on the various services and forms of assistance that are provided that he finds it difficult to conceive of his business as a going concern without being able to draw upon them. Building goodwill is such a nebulous thing that any approach may be questioned as being improper under certain circumstances. Although the mass mind is a fairly reliable indicator of personal reactions to certain stimuli, when dealing with business managers, one is dealing with individuals who should be credited with above-average intelligence. Insincere "pep talks" should be avoided. However, honest

(1) Ibid.
flattery and identification of your activities with the cus-
tomer's self-interest would seem to be rather infallible gen-
eral approaches to the problem.

More specifically, close attention to accounts and payments will often disclose service opportunities in the course of routine. Should there arise, as the result of an adjustment, an unused balance on a customer's account, make a special point of notifying him whether the amount be twenty dollars or twenty cents. The amount involved may be minute but the principle is impressive. This is the sort of anecdote which customers enjoy relating to friends. Should there be an overpayment by a customer, rush notification thereof back to him by return mail. Try to make sure that he receives the notice before discovering the mistake. He would eventually discover it anyway but the opportunity to build goodwill is lost if he writes first. Write unsolicited letters to long-time, prompt-paying customers complimenting them on their conduct and thanking them for their patronage over the years. (1)

The matter of credit limits and their function has been covered rather thoroughly in previous pages. (2) Men-
tion of the subject is made here merely to reemphasize that on a departmental basis, the ability of clerical subordinates to reject orders which exceed previously established limits

(1) Smith, G.D., "Salesmanship in the Credit Department", C&PM, Nov. 1941
(2) Chapter 5, pp. 103-105
should be on a very restricted basis. As previously stated, the office routine must direct all but the most obvious cases to one of the credit executives for reappraisal.

4. Service and Salesmanship in Collecting the Account

Successful and consistent collection of accounts combined with maintenance of goodwill involves a very considerable art. It is a very necessary one, however, because all the efforts of a great sales organization can be nullified by an inconsiderate collection policy. With collection commonly accepted as beginning with the mailing of the first statement, it should be pointed out that every statement can be made the vehicle for an advertising message, that many progressive Credit Managers make a point of having a new promotional message on the back of every statement, making sure that every customer communication contains some reminder of the desirability of the goods and/or services being marketed. This not only serves the semi-institutional purpose of acquainting the customer with additional lines of merchandise (even though he may not at the moment be in a position to buy) but it also illustrates to him another of the advantages of keeping his account on a current status; i.e., ability to further avail himself of the seller's wares.

Subsequent collection activity tends to divide itself into four stages:

(a) Notification

(b) Reminder
(c) Discussion
(d) Compulsion

Of course not every account passes through all these stages, many being collected as a result of notification by invoice. Others justify an immediate jump from the first stage to the last. It may seem specious to discuss building goodwill through the collection procedures, since any collection action beyond submitting the regular statement tends to have a detrimental effect on customer relations due to the very nature of the proceeding. The reminder that one has broken a contract cannot conceivably be construed as a compliment. The objective, then, becomes essentially negative; to secure the payment with the least loss of goodwill.

In both the notification and reminder stages, the accent should be on impersonality. This indicates that the overdue status of the account has not yet been brought to the attention of company executives and that the notice is only part of the office routine. Some companies employ only stickers for this purpose whereas others use form letters phrased in stilted or conventional usage, feeling that the elimination of all originality and personality will be an indication that nothing personal or offensive is intended. The obvious weakness of the appeal in this type of letter is justified by its advocates on the ground that it is not intended to convince the stubborn holdout but, in such cases, is but an essential preliminary to more drastic measures.
At the discussion or persuasion stage, a personal letter will be required and it is essential that the correspondent be familiar with the actual condition of the account as well as the personality and business set-up of the customer. It is at times like this that the travelling activities of the credit manager begin to pay dividends. If his impressions have been reduced to writing, it will be possible for subordinates to consult the files and write a letter which will effectively touch the personal problems and interests of the debtor.

Caution must be exercised, too, in order to prevent the transmittal of impressions contrary to what is intended. Legal documents are lengthy not because any lawyer's union has introduced piecework standards of pay for the profession. They represent rather the imperfection of the written word as an exact conveyor of ideas, feelings and intentions. The lengthiness represents the efforts of the creators to make sure that the document in question will mean the same thing to each one who reads carefully and intelligently. Exact transferral of thought by means of words is a skill acquired only by those who are masters of language. The typical collection letter cannot, for many reasons, approach lengthy, legalistic detail. Even then, mastery on the part of the letter-writer does not insure equal mastery on the part of the recipient. The creditor who has intended to be mild and courteous may find that he has seriously offended the customer
who, due to a basically defensive attitude, has seized upon small points to demonstrate his pique. There may be, too, an attempt to put the collection department on the defensive and thus further delay the time of settlement. Consequently, any doubt as to the possible interpretation of a particular phrase should be grounds for its deletion.

The duration of the discussion stage will depend on the collector and the customer. There may be one letter involved or several. After a certain point, where perhaps veiled threats become part of the communications, concern for the maintenance of goodwill becomes somewhat misplaced. Anyway there arises the real question as to whether the delinquent would thereafter be acceptable for credit. About the only course for the creditor is to make sure that his collection procedures, should they progress to the stage of legal compulsion, remain ethical and consistent so that his general public relations position does not deteriorate. There must be considered not only the reaction of the customer from whom collection is being made but also that of all other customers watching from the sidelines.

It should be remembered that the three objectives of collection activity involve, first, collecting the debt; second, collecting the debt while still retaining the customer's goodwill; and third, collection of the debt promptly while retaining the customer's goodwill. In practice, the attainment of all three goals will sometimes be impossible.
In such cases, the credit department must remember that the objectives should be abandoned in reverse order. That is, promptness sacrificed to goodwill and goodwill sacrificed to collection only as a last resort. Maintenance of the nice balance which produces the largest number of collections with the greatest degree of promptness while still maintaining good customer relations constitutes a problem which will at all times be worthy of the consideration of credit departments and personnel. (1) The above suggestions should be of aid in accomplishing this difficult objective.

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