

MEMBER'S COMMENT CORNER (October 2007 E-Credit News Edition)

MIKE BRUST, CREDIT MANAGER WITH WAUSAU STEEL SERVICE CENTER, CONTRIBUTED THIS MONTH'S ARTICLE.

"MY RESPONSE TO CUSTOMERS WANTING **THEIR TERMS** RATHER THAN OUR STANDARD TERMS OF SALE"

I receive them all the time! Letters from customers advising they are initiating a new policy of paying according to their "payment terms", usually well in excess of the terms we offer. The letters often include an enactment date, presumably suggesting that any objection must occur before that time. I respond promptly in writing to each one. Even though theirs is usually a form letter, my response is usually specific to what they say in their letter.

You as the seller are extending terms as part of the sales package you offer, hence: Terms of Sale. If a customer says they are going to change their "payment terms" to you, all it really means is they are going to pay you slower than the Terms of Sale you offer. It is really no different than if they say they will pay a lower price than the price you offer. It really is up to you to decide if you will let them pay slower. But remember that if you do, it not only costs you money in interest expense, it increases your risk exposure, affects your cash flow and it diminishes the integrity of the terms you offer (when a better customer finds out you are allowing longer terms than they get, what will they do?). It is a slippery slope you probably do not want to start down.

My normal written response is to politely decline their offer to pay us slower, and will sometimes tie it to the same reason they use for saying they want to pay slower. For example, if they say it helps their profits, I decline on the basis that we too need to protect our profits to provide the products they need. If they say they want to pay when they are paid (and don't want to cover it with short-term financing from their bank), I note that to allow slower payments just increases our need to borrow from our bank.

Believe it or not, there are seminars out there on "maximizing your cash flow" that suggest this ploy as the #1 technique. If the customer does not value self-respect, it is a win-win. All they have to do is send (form) letters to all their suppliers saying they are changing their "payment terms". While many suppliers will not let them get away with it, even if 10% do, they just have additional free, short-term financing for all that business.

In almost every case, I hear nothing more from my response and payments continue as they had been before (not necessarily on time). In a few cases where the customer responds and says they have to have the longer terms, we then enter into negotiations about what they will give up in exchange.