



With the future of his company in the balance, Jeremy Brandt decided to just say no to extending credit.

CURRENCY IN A PINCH

LEAVE NO STONE UNTURNED TO
PROTECT YOUR BUSINESS FROM
UNDESIRABLE CREDIT
WORDS BY C.J. PRINCE

As a company that connects home sellers with reputable investors, Southlake, Texas-based 1-800-CashOffer was hit by the economic slowdown earlier than other companies. CEO Jeremy Brandt previously extended credit terms of 15 or 30 days to some of his business customers, but when the housing market began to nose-dive, he saw trouble on the horizon. "Our customers were seeing slowdowns in their businesses, which ultimately led to a slowdown in our business as [customers] took longer and longer to pay," says Brandt, 29, who opted to stop extending credit across the board. "We decided to take the hard-line approach that everything is paid in advance for services. That way we don't get stuck holding the bag."

Not all business owners will go in this direction, though, and some industries may not even have the option. But in a stumbling economy, all entrepreneurs need to think about tightening the reins and being more careful about the kinds of credit terms they decide to extend—and to whom.

Start by analyzing your own balance sheet. Lay out your company's debt requirements and figure out what kind of cash flow you need to cover yourself on a monthly basis, recommends Edward Horton, partner with CPA firm Citrin Cooperman. "If you have very little bank debt and a lot of equity in the company, you have a bigger cushion to extend more credit." But be careful about expanding credit terms to accommodate customers who are in trouble. "Don't start allowing them to go from 30-day payment terms to 60-day [terms]," he says. "That's where it can really hurt you."

Keep a close eye on each customer's payment trends and be proactive at the first sign of trouble. If customers who previously paid in 30 days are now paying in 45 or 60 days, pick up the phone and find out why. If you know some of the cus-

tomers' other vendors, reach out to them as well to find out if they're having the same issue.

Do some research before extending credit to new customers as well, says Bill Lenhart, a partner with BDO Consulting. He recommends speaking with a prospective customer's banker. "If you know your customer has a line of credit with a reputable company, you may feel more comfortable," he says.

Peter Tannone, director at CBIZ Accounting, Tax and Advisory Services, also recommends you check new customers' credit histories, ask for three references and call all three. "In boom times, those credit applications get put aside," he says. "But during recessionary or near recessionary times, you really need to do the opposite."

Now is also a good time to look at the relative profitability of all your customers. You may be surprised to find that your "best" customers are actually a drain on cash flow and more trouble than they're worth. "You may want to drop those clients and spend your capital on another customer who will pay quicker or offer higher margins," says Lenhart.

Once you've made a decision about how you're going to extend credit, don't allow yourself to be bullied. Entrepreneurs have a tendency to accept new business at any price, but if you think it's a bad idea to extend credit to a particular customer and that customer threatens to walk if they don't get it, let them go, says Brandt. "If it's a deal-breaker for them, it usually means they have severe cash-flow issues and are using the credit to manage their cash flow," he says, adding that he hasn't had any trouble acquiring new business since he changed his company's policy. "We've found that as long as we're upfront about our policy—that this is how we do business—people are pretty accepting of that."

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