

RENTONS' BUSINESS TIPS



Vol 3 No. 14

Australian Credit Stationers is wholly owned by Renton Management Services Pty Ltd
ACN 001 307 900, ABN 17 001 307 900 of 2-4 Stamford Ave, Ermington NSW 2115.

May 2002

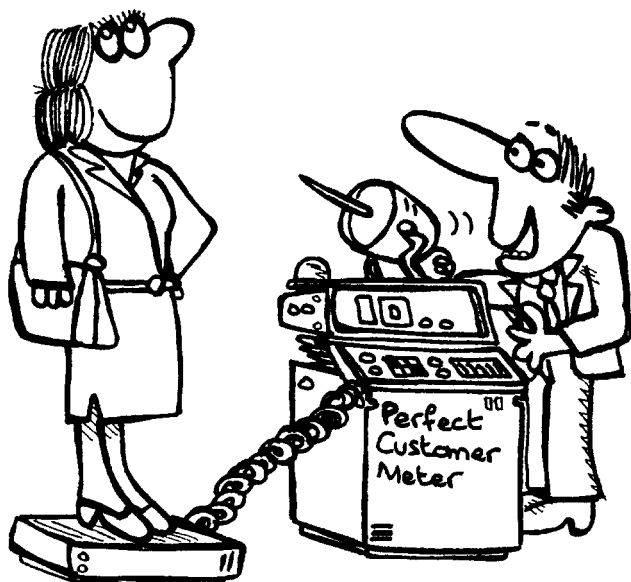
CREDIT RISK

Credit has only one function in business — to increase sales. If by offering credit, our sales did not increase, then there would be no point in granting credit. We would simply ask every customer to pay up front if we knew that no sales would be lost.

There are three components of credit risk:

1. Potential gain, ie extra sales
2. Potential loss, ie bad debts and costly recoveries
3. Probability of payment.

Our aim is to maximise our potential gain by generating a lot of extra sales, minimising our potential loss by having a small number of bad debts, both in quantity and value and also by collecting our debts with minimum cost and effort. Ultimately, our aim is to increase sales and make bad risks pay. We are looking for reasons to grant credit rather than reasons to refuse credit.



Ideally, we would like the credit risk to be low. The risk is low if the mark-up is high. This is because the cost of goods sold is low relative to the value of the sale.

Another example of low risk is if you have surplus staff, surplus stock or surplus space. If you are a service oriented firm, say, a computer consultancy firm, an accounting practice or a legal firm and you had staff who weren't busy then the credit risk is low because you have to pay your permanent staff whether they are busy or not. Similarly, if you are selling

obsolete stock, the risk is low. Also, if you have surplus space in a newspaper or on a radio station then the credit risk is low. We say the risk is low since we have a low opportunity cost. By accepting a sale on credit, we are not forgoing the opportunity for other sales since in these examples there are no opportunities for additional sales.



Ian Renton
Managing Director
Australian Credit Stationers

Similarly, the credit risk is high if the margins are low. In this case, the cost of goods sold is high and is much closer to the value of the sale. Also, if you have a radio or television station and offer advertising space, then you can't offer the same advertising space to someone else. If the demand for advertising space is high, then you have an opportunity cost to consider. The higher the opportunity cost, the higher the risk.

Investment advisors will always tell you to diversify when investing your money. The same is true in credit. If possible, you would like to grant credit to different customers, customers selling different products and services, customers in different industries, and even customers in different countries.

Finally, you should assess the customer you are planning to grant credit to. The first step is to do a financial analysis but there are also other things to consider. Does this customer depend on one main business for its sales? Does this customer sell only one product? Is this customer well diversified - ie amongst its customer base and the products or services it sells?

It is still possible to make a profit out of high risk companies by setting a reasonably low credit limit. Your aim here is for your profit generated from earlier sales to exceed the loss caused by bad debts in the future. You can take a gamble on granting credit to high risk companies provided you don't have too many of them, and have systems in place to check that they are staying within their credit limit.

Most of the time, you are looking to grant credit since the potential gain is usually higher than the potential loss. The exception is where a customer's failure would threaten your survival.

LEADERSHIP

It is very easy to think of some of the great leaders of the 20th century. Winston Churchill, Martin Luther King, General Norman Schwarzkopf and Mother Teresa come to mind. It is also easy to list some of the characteristics of these great leaders.

Listed below are 21 characteristics that great leaders have in common. No doubt you can think of more.

1. They are respected by those they lead.
2. They are respected by their opponents.
3. They are good organisers.
4. They inspire.
5. They are confident.
6. They are persistent.
7. They are dedicated to their cause.
8. They are able to get the best out of others.
9. They are decisive.
10. They command authority.
11. They love what they do.
12. They are energetic.
13. They communicate well.
14. They are responsible.
15. They are compassionate.
16. They have a vision.
17. They are rational and can think quickly.
18. They are calm, especially under pressure.
19. They empower.
20. They develop a plan and carry it out.
21. They set an example.

Whether you are thinking of a political, military, church, sporting or other type of leader the characteristics that make up a great leader are the same. It stands to reason that the great business leaders would also have these characteristics.

It may seem quite daunting to become a great business leader. You need to have a lot of positive characteristics - some you can learn, others you are born with. Rather than try to do everything at once, I would concentrate on three words - Delegate, Educate and Plan.

In business, time is both your greatest friend and your greatest enemy. By delegating the less important tasks you are allowing more time for those tasks which will help make your business successful.

Efficient time management is essential but you need to give yourself as much thinking time as possible. You would certainly

have heard the saying - work on your business, not in it.

There is no such thing as a three year course which shows you everything you need to do to become a business leader. Education must be ongoing. You need to be learning every day. The key is to learn from different sources. You can learn from magazines, books and the internet but in business, ideas can come from the unlikeliest of sources.

Education is really about developing new ideas. These could relate to marketing, procedures, staffing, warehousing, product development, or something else which is relevant to your business. These new ideas can come from your staff, your customers, outside consultants, radio, television, newspapers or conversations with friends. One of the common themes in today's business world is to apply successful ideas in other industries to your business.

Planning really is the important task of all business leaders. Ultimately, all business leaders will be judged by how well they plan. Of course, in large businesses the planning is shared by a number of people. You need to plan staffing, premises, marketing, finance, product development, plus other things which are relevant to your business.

Certainly, leadership in business is about people but there is a lot more to it than that. Leadership is much more than getting a group of people together, allowing them to work independently and praising them from time to time.

The essential point in business is deciding what your company stands for. What do you sell? Who do you sell it to? Why do you sell it? Who are your customers? What benefits do your customers receive? Why do you recommend your customers do business with you and not someone else? Why are you in business? What is your company's goal? What is your company's philosophy? What is your company's vision, both for the future and in the present. What business morals or ideals do you hold?

If you do not know the answers to these questions then these points could be discussed with your staff. Once your company's philosophy and reason for being are understood, then the challenge is to communicate these ideas to your staff and co-ordinate a team that works towards a common goal. This is the first test of your leadership. Ultimately, your aim is to work towards having as many of the 21 characteristics listed above as possible.

QUOTATIONS TO PONDER

Treat people as if they were what they ought to be and you help them to become what they are capable of being.

- Johann Wolfgang von Goethe

If I find television very educating. Every time somebody turns on the set, I go into the other room and read a book.

- Groucho Marx

FOR MORE INFORMATION



Telephone: (02) 9874 0235
Toll Free: 1-800 226 202 (except Sydney)
From NZ: 0800 128 727
Email: renton_acs@bigpond.com
Website: www.austcredit.com.au

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