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FOR SPECIALTY TOY, GAME, GIFT AND MUSEUM STORES

Giving Credit Where Credit Is Due

by Kari Anderson

Five years ago, as the Beanie Baby craze wound down and the economy started to stall, specialty toy manufacturers were getting hit hard by the large number of retailers closing their doors. Who could blame them for being skittish about offering credit when they had gotten burned in the past? How would they even know which retail operations they could trust in the future?

These were some of the questions being kicked around by a handful of specialty manufacturers at Toy Fair in 2001. One of these vendors, Ron Solomon of Swingset Press, suggested that they form a co-op of sorts and share information about prospective accounts, so they could be better informed about potential customers. The other manufacturers liked the idea and set Ron to the task of organizing the group.

> *"Specialty toy manufacturers are finally starting to feel more secure about extending credit."*

What started as an informal relationship between six vendors has grown to a network of over 50 manufacturers called The Credit Collective, a business Ron Solomon incorporated just this year. The members are divided into groups of up to six, and each group maintains a stream of queries and responses regarding potential accounts.

Everybody wins

The benefits to manufacturers are obvious; if several peer companies have had problems getting paid by a retailer, the inquiring manufacturer can find that out and avoid getting *stuck* with unpaid invoices. Additionally, if other manufacturers recommend doing business with a retailer, the inquiring member may offer that retailer a higher credit limit. Positive recommendations can also serve as sales leads for members who are unfamiliar with a prospective account.

Ron explains that manufacturers aren't the only group that benefits from this arrangement. Retailers with good credit references can enjoy improved terms and higher credit limits, and because this system takes less time than traditional credit checking, retailers are able to get their merchandise sooner and not miss out on potential turns.

According to Ron, the sharing of comments along with data is invaluable in terms of getting a feel for the viability of potential accounts. "I have a customer in New York City whom I've been working with for nine years, and she has never paid me on time, but she always pays within 90 days," says Ron. "Because she has paid me 40 times, to me that is a really good account. Just based on the facts, she would be classified as a bad account and no one in their right mind would extend this woman credit, but our system allows for explanations, so when someone put in a query about her, I wrote, 'Net 30. Paid in net 90, but I recommend as a good credit risk and here's why.'"

The key to good credit

Just what are manufacturers looking for when they are considering extending credit to retailers? Ron says the most important factors are how long the company has been in business, what terms they are receiving from other similar-sized manufacturers, and whether they are paying within the agreed amount of time.

What about retailers who are just starting up? We asked Ron what new store owners can do to establish credit with specialty manufacturers. "Often someone who opens up a toy store is not a complete unknown to the industry, and there is a personal relationship that exists with a rep," he explains. "If so, the retailer can ask their sales reps to personally guarantee the sale to the manufacturer based on their relationship. If no such relationship exists, sometimes a retailer can offer to pay 50 percent on a credit card and then take net-10 or net-15 terms. If a new retailer does that on one or two orders. then the manufacturer will likely give net-30 terms on the third order."

Of course, even retailers who have enjoyed great credit may sometimes hit a rough patch. What's the best thing to do to avoid bad credit? “Be upfront with the manufacturer," states Ron, adding that avoiding vendors perpetuates the perceived adversarial relationship between retailers and manufacturers. "Ask if you can have an extra two weeks. Set up a plan. This is a feel-good industry with hugs, back pats and handshakes at shows, but if a retailer starts skirting my calls, the relationship we may have had means nothing. The bottom line is, we are all in business to make money."

A positive outlook

After enduring five years of the average order size going down and the number of bankruptcies going up, Ron believes that specialty toy manufacturers are finally starting to feel more secure about extending credit. "As vendors are getting a handle on their cash flow and becoming more secure in the reliability of their accounts receivable, they can take more risks with first-time buyers," he explains. And retailers with a positive credit history can relax. "When a retailer is a good one, every manufacturer will want to do business with him."

For more information about The Credit Collective, visit www.creditcollective.com or call 303-670-5111.