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Richard Gottlieb

Tribes of Toy Nation: The Credit Reporting Services Part 2

July 31, 2009

This is the second part of a two-part interview with Ron Solomon, President of the Credit Collective, an organization that shares information on the credit worthiness of toy, gift and other specialty retailers

through peer to peer intelligence. Ron shares information on the current financial situtaion of the specialty retail and manufacturing communities as well as how manufacturers can avoid bad debt. [For part 1, click [here](#)]



Richard: How can manufacturers best arm themselves against bad credit?

Ron: Using nearly five years of accumulated knowledge, we have been trying to help manufacturers to view themselves in a different light. For the most part, we, in the children's products industry, have a view of ourselves as creative, child advocates. We create products because we have a passion for children. And that's great. Unfortunately, many companies don't devote enough of their resources to the financial side of their businesses; hoping things will just work themselves out. Sometimes they will, but mostly, they won't.

Manufacturers who extend credit terms to retailers must view themselves as creditors. They must realize that granting terms is no different than giving business loans. Therefore, in order to be responsible to their cash flow and other assets they absolutely must devote whatever funds and efforts are necessary to protect themselves by knowing they are granting those loans to companies who are not only capable of paying them, but are willing to pay them. The Credit Collective helps to answer both of these questions.

Richard: I find the concept of The Credit Collective to be very interesting. How exactly does it work and how does one become a member?

Ron: The Credit Collective was born of my failure to view our 14-year-old tween products company, Swingset Press, as a lender. We would extend terms to anyone with a purchase order and a credit sheet. We would look at the credit sheet, and say, "Hey, look! They get terms from Fisher-Price, they must be great." The truth is that retailers list references for companies who they pay (why

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wouldn't they?). When we started losing money to bad debt we realized that we needed to find out which stores "didn't pay." Well, how do you do that? We couldn't run around and ask everyone at Toy Fair. Or could we? That's in essence what The Credit Collective is. We just created a peer-to-peer, internet-based system to do help us do it effectively.

It's a very simple concept, really. Any company that extends terms to retailers should be a member of The Credit Collective. Our password-protected, member's only, online system allows members a simple to use way of asking each other if they've done business with a specific retailer who has applied for terms. The "credit query" can be specific (i.e., ask those listed on a credit sheet) or they can be sent to other companies who most resemble the asking member (i.e., similar industry, product, relative size, etc.). Members also generate alerts when a creditor is not honoring its fiduciary agreement. The alerts allow other members to re-evaluate a company's terms if they do business with them and/or avoid them if they don't.

Our membership is based on a very reasonable, annual fee and there are several levels that take into account where a company is in its evolution. We conduct free, online demos three times a week and welcome anyone to attend. To find out more about what The Credit Collective, our website offers a lot of information. The web address is <http://www.creditcollective.com>.

Richard: Are there any organizations similar to The Credit Collective?

Ron: Most industries have credit groups, but The Credit Collective is unique. We don't require our members to upload their accounts receivable reports, nor do we give credit ratings. Rather, we allow our members to exchange raw references (through our system as opposed to via fax) and alerts, and based on that information, each member makes its own decision regarding a retailer. We believe that risk is personal so one-size fits all credit ratings don't make sense. Plus, we don't charge on a per report basis like many other groups.

Another major difference is that we actually work together with trade groups in the children's products industry to help keep the vendor-members healthier. I don't know of any other group like ours that is endorsed by ASTRA, JPMA, NSSEA and CTA. We also try to educate retailers in how they perceive debt. We offer them suggestions as to ways they can get better credit, how they can avoid getting into financial trouble and, failing that, even offer suggestions on how they can work their way out of trouble with vendors. We take this approach because we realize that neither of us can exist without the other. It should never be an, us vs. them mentality.

Richard: Do you care to make a prediction on the recession? Are we out of the woods yet?

Ron: I'm not an economist so I can't make any predictions as to how long this recession will last. However, as a game maker who uses The Credit Collective, and one of the people who founded it, I can say that we're not out of the woods yet. There are just too many alerts coming through the system to ignore. I honestly don't see it getting better this year at all, and depending on fourth quarter, it could actually get worse.

I recommend that manufacturers keep things close to the vest. Don't open a ton of new accounts, and if you do, give the new ones lower credit limits. Ship smaller, more frequent orders to limit risk, and stay on top of your receivables. Don't let debtors go too late before dunning them. On the revenue side, it would be nice to increase sales by 10%, 20% or more, but for now, it is okay if you don't. As a retailer friend of mine said, "In this environment, okay, is the new up."

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