

## Don't Shy Away From Investigating Private Customers

Some of the most important items for a credit professional to gather are often times the most difficult to collect, even more so than the money that is owed to their companies. Credit managers have been called bankers and have been told to think like them as well; however, Sherlock Holmes or Walter Huston from *The Treasure of the Sierra Madre* are more accurate portrayals of a creditor. Searching for clues, facts and golden nuggets is what a creditor is trained to do, and sometimes it's easier said than done, but there are ways to sleuth and dig to acquire the information needed that fall under the five Cs of credit.

In construction, there's not a lot of public information on subcontractors, and many may not have financials available to the public, explained Chris Ring of NACM's Secured Transaction Services (STS) in a phone conversation. This is a problem for material suppliers looking to obtain job information to make a well-informed credit decision.

In a recent NACM webinar, "Private Companies = Private Credit," presenter D'Ann Johnson, CCE, credit manager with Roofers Supply in Utah, explained a variety of ways to gain information. Unless a major business is involved, e.g., a Fortune 500 company, the outset of a seller-buyer or creditor-customer relationship is much of the same regardless of the company's standing as public or private.

Johnson said one of the first items to take care of is protecting and helping yourself as a creditor. "Have a defined, written minimum credit criteria that all prospective customers must meet to qualify for an open account with your company. Have an option for those that don't." Throughout her years with Roofers Supply, Johnson has rarely had to turn customers away for lack of information because she has that second option.

Johnson and Ring both stated that larger companies will typically send their own information up front. "You'll get what you get from a large public company," which can include trade references and their own terms and conditions, noted Johnson. Rarely will you ever get a personal guarantee, yet during her initial years in credit, Johnson recalled sending back an application to Walmart because it was missing a personal guarantee signature. Lo and behold, it was returned with the added security of the personal guarantee. As Ring said, "It never hurts to ask."

However, Ring was referring to the items to ask for when working with private entities. Many times, construction creditors are supplying material to a sole proprietor whose financial statements are personal tax returns. "These are almost impossible to get hold of," said Ring. If creditors cannot get the tax returns, mainly because people do not like giving out personal information, it comes down to credit policies and whether it makes business sense to extend credit to a customer or not, explained Ring.

One of the best ways to gather customer information is through a local trade credit group. NACM's National Trade Credit Report is a great resource as well for small and large private companies. Data is contributed by NACM members, so it is possible that information not found on a D&B or Experian report is with the NTCR. A quick online search is also helpful when making a credit decision for a private customer.

Using Google, Yahoo or your favorite search engine can make a difference for your company. "What you're trying to do is pierce the corporate veil," said Johnson. Search your customer or potential customer's name, try to link people (executives) to the business and run a search on the address that

was hopefully provided on the credit application. Is it a single-family home, office building, plot of land, P.O. box, etc.? The latter can be a major red flag and lead to additional investigating.

The best way to protect yourself as a creditor is to build relationships and always work with your customer. Make sure your customer's information is secure, either in a locked cabinet in a locked office or encrypted electronically. This will help establish mutual trust and give them a reason to hand over sensitive material, such as banking information and tax returns. One reason taxes are so important for creditors working with small businesses is because they have a verifiable address, noted Johnson.

With a real address, the sales team can go out to visit, review and research potential customers. It's an unwritten rule for Johnson and her team that sales will go out before reaching out to the customer. "They are pounding the pavement every day."

Working with private customers is not all that different than with public customers. It requires a little more work up front along the lines of finding the information needed to make a solid credit decision, but in the end, if you strike gold and build a long-term relationship, you can dance like Walter Huston.

-Michael Miller, managing editor