CREDIT PRACTICES OF CLOTHING RETAILERS IN STILLWATER, OKLAHOMA

By

GARY ALLEN TOUSSAINT

Bachelor of Science

Oklahoma State University

Stillwater, Oklahoma

1965

Submitted to the faculty of the Graduate College
of the Oklahoma State University
in partial fulfillment of the requirements
for the degree of
MASTER OF BUSINESS ADMINISTRATION
May, 1967

CREDIT PRACTICES OF CLOTHING RETAILERS

IN STILLWATER, OKLAHOMA

Report Approved:

John Wagle

Report Adviser

Richard R. Weeks

Norman N. Durham

Dean of the Graduate College

ACKNOWLEDGEMENTS

At this point I wish to express my appreciation to Dr. Richard Weeks, to Dr. Jack Wagle, and especially to Professor Donald James, my principal advisor, for their helpful supervision and constructive criticism during the preparation of this report. Appreciation is also extended to the businessmen of Stillwater who supplied much of the data for the study. Finally, a special note of thanks goes to Mrs. Sharon McNish for her work in preparing the final copy of this report.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

CHAPTER I

INTRODUCTION

The retailer of today operates in an economy in which credit is used on such a large scale that it can be accurately termed a credit economy.[1] Credit in one form or another plays a vital role in almost every unit of our economy from the federal government down to the individual consumer. Its impact is so great that it affects the operation of every business and the life of every individual, including those who themselves conduct no transactions on a credit basis.

Retail credit is but one of the many forms of credit in use today. Although not as old as most other types, it has become firmly established and is a major influence in the retail segment of our economy. In fact, charging on open account has become so common that buyers usually take it for granted that such privileges are available to them. The significance of these statements is readily apparent from looking at some recent figures on retail accounts receivable. Total retail sales in the United States during the month of August, 1966, amounted to 23.6 billion dollars, while the retail accounts

[1] C. W. Phelps, Retail Credit Fundamentals (St. Louis, Missouri, 1963), p. 1.

receivable at the end of the same month were 17.7 billion dollars.[2] Looking at similar figures for retail apparel stores it is seen that total sales were 1.3 billion dollars with corresponding accounts receivable of 1.1 billion dollars.[3]

There are many reasons why retailers offer credit to their customers.[4] Credit customers tend to trade more regularly in stores where they have established credit connections and they tend to spend more freely than do cash customers. Credit also promotes good will, irons out business peaks, and attracts a better class of trade.

As one would expect, credit granting is not without its disadvantages also.[5] There are several arguments against the use of credit in the retail selling effort, but the most common are the increased operating costs, the additional capital investment required, and the inevitable losses from bad debts. In addition, more goods will be returned and more adjustments will be requested by customers who feel they are in a preferred position because they have not yet paid for the merchandise.[6]

---

[2]"Sales and Accounts Receivable of Retail Stores by Kind of Business," Retail Trade Report, December, 1966, U. S. Department of Commerce, (Washington, D. C., 1966).

[3]Ibid.

[4]T. N. Beckman and R. Bartels, Credits and Collections in Theory and Practice, (New York, 1955), p. 125.

[5]Ibid., p. 128.

[6]Ibid., p. 131.

A merchant who is considering the adoption of a credit program must realize that the many arguments for and against the use of charge accounts are not the most important determinants in the decision. Basic factors within the business are much more important than a mere desire to gain the respective advantages from either cash or credit selling. The wisdom of selling on a credit basis, as well as the benefits to be derived therefrom, arise from the specific nature and conditions of the business.[7]

A basic determinant of whether a credit program should be adopted is the class of trade to be cultivated. A store which bases its appeal on low prices rather than on style or quality will attract customers primarily from the lower income classes and the habitual bargain hunters. When the emphasis is shifted from price to style or quality the appeal will be directed to customers who are only secondarily interested in price; namely, those who are in the medium and high income classes. These customers desire, and are willing to pay for, additional services such as credit privileges. To be successful a merchant must consider the demands of his customers and make his decision on credit policy in accordance with these demands.

Another factor in determining credit policy is the type of goods handled. Lower priced goods are usually sold on a cash basis, but larger purchases make this policy much more difficult. Ready cash to pay for large purchases is frequently unavailable, so a practical solution to the problem is often the extension of credit to the customer.

---

[7] Ibid.

One of the most significant factors to consider when deciding between a cash or credit policy is the amount of capital available. Operating on a credit basis requires considerably more capital for a given volume of business than does operating strictly on a cash basis. Accounts receivable must be considered as an investment which ties up capital in the same way as merchandise inventories. A credit operation also increases operating expenses. Thus, a firm with limited financial resources should either be satisfied with a limited volume of sales or else operate on a cash basis, for to roll up a certain volume of business, more capital is required when trading is done on a credit basis.[8]

A merchant considering a credit program must always consider his competitive conditions. Credit is a service to the customer, and as such is a basis for competition, just as are price and quality. The necessity of meeting competition makes many demands on a business and the extension of credit is often one of them. When considering this factor, however, the merchant must be sure he knows exactly who his competitors are. Assuming all sizes and types of stores to comprise the competition simply because they sell the same line of goods can lead to severe error in evaluating the effects of competition on credit policy.

The factors mentioned above will apply in almost all cases, but they are by no means a complete list. Many factors are unique to a particular store and they must all be evaluated. The decision on

---

[8] Ibid., p. 133.

credit policy is extremely important and can have far reaching effects on the success or failure of the business. A wrong decision can be made in either direction, but failure to institute a credit program when the situation calls for one is probably the less serious of the two possible errors. In this case the business will not be as successful as it could otherwise be and a credit program can still be adopted in the future. However, plunging into a credit program when conditions are against such a move can be disastrous. Not only will the business be adversely affected, but a credit program, once established, is very difficult and sometimes impossible to terminate. In extreme cases such an error in judgment could even lead to failure of the business.

A merchant who has decided to implement his overall marketing effort with a credit program must next decide how much he plans to promote its use and how liberal he will be in his extension and collection policies. In making such a decision he is faced with a choice between two risks. He can adopt very liberal policies and run the risk of excessive losses from bad debts. On the other hand, he can be very strict and minimize his bad debt losses, but at the same time he is running the risk of losing a possible profit by being too selective. It is impossible to minimize both risks simultaneously. Diminishing either one automatically increases the other, so the credit granter must choose which of the two risks he wishes to minimize.[9]

---

[9]E. H. Barnes, Barnes on Credit and Collections (Englewood Cliffs, N. J., 1961), p. 16.

Many factors must be considered such as the class of customer, available capital, etc., but the predominate factor in this decision will usually be the merchant's basic philosophy of business. At one extreme is the type who feels that credit is a necessary evil to be minimized as much as possible. A bad debt loss is very painful to him because it is an outright loss of money which he knows is rightfully his, while the relationship between a credit program and increased profits is much more difficult for him to establish. He is unable to accept bad debt losses as a necessary cost of doing business and tries to eliminate them altogether by prohibitively strict credit policies. At the other extreme is the merchant who grants credit almost indiscriminately to anyone who wants to buy. He is willing to accept this more dangerous risk because he feels that the extra profits resulting from the increased volume will more than offset his losses. Fortunately, most credit granters take a position somewhere between these two extremes.

The policy to be followed can be subdivided into the two components of credit granting policy and credit collection policy. Both are closely interrelated and a lax credit granting policy should not be compensated by strict collection procedure or vice versa. Both should be well balanced. However, if balance is impossible a liberal granting policy combined with a rigid collection procedure is usually the better of the two extremes.[10]

The use of credit as a marketing tool will vary from store to store and from town to town. Each retailer is faced with his own

---

[10]T. N. Beckman, p. 426.

unique situation and each will evaluate it according to his own personal goals and philosophy. Although many generalizations can be made regarding the probable use of credit under generalized circumstances, its actual use at a given store or group of stores can be determined only by analyzing the particular credit programs involved.

This paper will be concerned with the credit practices of clothing retailers in Stillwater, Oklahoma. It will attempt to evaluate the general operation of their credit programs, the reasons behind them, and the importance of credit to their overall operation. A look at the credit granting and collection policies will also be included, along with the possible effect of a potentially large college student clientele upon the various credit programs.

CHAPTER II

DESCRIPTION AND SCOPE OF THE PROBLEM

Stillwater, Oklahoma, is a small farming community located in the north central part of the state. It is about seventy miles from Oklahoma City, the capital, and about ninety miles from Tulsa, the state's other major city. With the exception of neighboring Perkins and Glencoe, each with populations of less than fifteen hundred, there are no other major communities within twenty miles. Thus, the local merchants draw their customers almost entirely from Stillwater itself and the surrounding agricultural areas, including Perkins and Glencoe.

Stillwater has very little industry, but its economy is vitally influenced by the fact that it is the home of Oklahoma State University. The economic significance of the presence of this university should be apparent from the fact that Stillwater's population is now estimated to be slightly over thirty-three thousand, of which over sixteen thousand are resident students who spend most of the year in Stillwater.[1] In addition, the university employs over forty-three

[1] Stillwater Chamber of Commerce, March, 1967.

hundred permanent Stillwater residents, including approximately one thousand part-time employees.[2]

Obviously, with well over sixty per cent of the population composed of university personnel and students, much of the local marketing effort will be aimed in this direction. Consequently, a study of any aspect of Stillwater retailing practices must place considerable emphasis upon the influence of this segment of the population.

This paper is concerned with only one aspect of the overall marketing effort, retail credit service. More specifically, it is an attempt to analyze the importance and policies of the credit programs offered by Stillwater clothing retailers. Clothing stores were selected for two reasons. First, a significant percentage of retail clothing business is now done on a credit basis, and second, because college students are a very important factor in the clothing market.

The study covers all retail clothing stores in Stillwater, including discount clothing stores and department stores which do over seventy per cent of their business in clothing. It also includes the small specialty shops such as those dealing in maternity wear, infant and children's wear, etc. However, all stores whose credit policies are directly regulated or influenced by associations with stores outside of Stillwater have been eliminated from this study. Also excluded are shoe stores, army surplus stores, and "novelty" stores

[2]Oklahoma State University Personnel Processing Department, March, 1967.

such as Gage Western Store. Although these establishments do sell clothing, much of their merchandise is of a nature that takes it out of the "usual" clothing market because of its "unusual" characteristics. Such stores were omitted from this study not because of the different characteristics of their merchandise itself, but because it is felt that the resulting buying habits will differ significantly from those at a more typical clothing store.

The main intent of this study is to analyze the overall credit policies of Stillwater clothing retailers. Because no previous work has been done in this area the approach will be to make a broad survey of the overall credit operations rather than to analyze any one aspect in depth. No attempt will be made to evaluate the success or efficiency of any credit operations in an absolute sense, for such an evaluation would require a detailed, quantitative analysis, which is beyond the scope of this study. Also, no in-depth analysis will be made of retailer credit motivations, customer buying habits, credit needs, etc. Instead, a large amount of general, qualitative information will be gathered in an attempt to present a balanced, overall picture of the importance of credit to Stillwater clothing retailers, the types of programs they offer, and the manner in which they use credit in their marketing effort. It will also try to analyze the basic reasons behind their credit policies and will take a look at the credit granting and collection practices. Finally, it will try to determine what effect, if any, the large student population has on the credit policies of the subject stores.

Although a study of this nature will leave many questions unanswered, it is hoped that it will uncover many problems which should be the subject of more detailed and searching studies in the future. In order to have a guide in making this study, three hypotheses have been proposed. All three are based upon the personal experience and observations of the researcher and are as follows:

1. Credit is a very important tool in the overall marketing efforts of the subject stores.
2. The credit policies of all subject stores are very liberal.
3. Students are a major influence in the establishing of liberal credit policies.

CHAPTER III

METHOD AND PROCEDURE FOR SOLUTION

All data on the credit policies of the stores included in this study was obtained through personal interviews with the manager of each store. The number of stores in the defined population was small, making sampling unnecessary and allowing the writer to personally conduct each interview. As a further aid to maintaining uniformity in the interviews a formal questionnaire was followed.

The procedure used in obtaining the required information was to make a personal contact with the manager of each store which might possibly meet the requirements set forth for being included in the study. Before beginning the interview, it was explained that the information was to be used for a graduate research paper on the credit practices of all clothing retailers in Stillwater. As a further aid to obtaining accurate answers, it was pointed out that all information received would be used in such a way that it could not be readily associated with any particular store, although complete anonymity could not be assured. It was explained that all information would be associated with various classifications of stores by size, type, etc., or would be left as anonymous as possible if mentioned singly. In every instance the respondent expressed his satisfaction that the information would be handled in this manner. As a result, all but two were very cooperative and made every effort to make their answers as complete as possible. The two exceptions answered all questions, but seemed to merely tolerate the interview and gave no more information than necessary.

Each interview was begun by asking the first four questions on the questionnaire to see if the store in question satisfied all requirements set forth for subject stores. If it did not, no further questions were asked. However, if all requirements were met, it was further explained to the manager that some of the questions required a reasonable amount of thought and could better be answered if he could give his undivided attention. Consequently, it was suggested that a time be found when this would be more practical and convenient for him. It was then necessary to return to all but six of the stores at an appointed time, but the resulting interviews proceeded very smoothly with the average time required for each interview being approximately forty-five minutes.

The interviews were of a semi-structured nature with the questionnaire being used mainly as a guide. Although the questionnaire was followed as closely as possible, the broad, exploratory nature of this study made rigidly structured interviews very impractical. Much of the information was of a routine nature and was obtained through routine questioning, exactly as outlined. However, where it was desired to gain an insight into the credit awareness and general credit philosophy of the respondent an open discussion was found to be more revealing than a series of short questions and answers. This will be seen more clearly as the types of questions on the questionnaire are described.

Very few of the questions were of the multiple choice type. Although these questions obtain data which is very easy to compile, they are of little use in this type of study except where very routine information is desired. One of the purposes of this study is to find out not only how the respondent feels about certain subjects, but also to see if he does have any feelings on or has given previous thought to the matter. This is impossible if he is presented with a series of choices and only has to select one. Also, it is very difficult to prepare a list of choices which would include all possible opinions he might have. If the list is incomplete, he might feel forced into making a hasty selection so as to seem cooperative, resulting in answers that do not truly reflect his thinking.[1]

Where part of the purpose is to find out how much the respondent knows or thinks about a subject, it is better to leave the questions in a simple "why" form and let him express himself unaided by check-lists or suggested answers.[2] Such open end or unaided recall questions offer deeper insight into the respondent's feelings and do not supply him with opinions or knowledge he does not already have.[3] Consequently, several questions of this type were included on the questionnaire and were the ones which most often resulted in

---

[1]Robert Ferber, Donald Blankertz, and Sidney Hollander, Marketing Research (New York, 1964), p. 288.

[2]Donald M. Hobart, Marketing Research Practice (New York, 1950), p. 109.

[3]John P. Alevizos, Marketing Research (Englewood Cliffs, N. J., 1959), p. 38.

further discussion. The respondent was first allowed to complete his answer, but in the course of doing so he often touched upon other areas which deserved further attention. By leading him back to these related areas, it was possible to get a much more complete picture of the situation. This procedure was especially convenient here because all interviews were conducted by the same person.

A similar use for open end questions is to find out how much factual information the respondent is familiar with. The questionnaire includes several questions which ask for specific information on operating statistics, customer habits, etc. It was expected that he would be unable to answer many of these questions, but the lack of a response in this case often supplies as much information as a ready answer.

A third type of question known as a rating scale question was used in a few cases. The respondent was asked, for example, to rate the strictness of his collection program on a scale running from "1" for very strict to "7" for very liberal. This type of response can give no indication as to how strict the program is in an absolute sense, but it reveals the respondent's opinion as to how strict he thinks it is, which is of considerable value in this type of study.[1]

After drawing up the questionnaire it was tested on three stores. Because of very short time limitations it was necessary to test the questionnaire in Stillwater on three stores which turned out to be subject stores. Consequently, it was drawn up as correctly and

---

[1] Robert Ferber, p. 289.

clearly as possible the first time so the information obtained at the three test stores would be reliable. It turned out that a few of the questions had to be clarified slightly and a few were added, but very little difficulty was encountered. After deciding upon the final questionnaire it was necessary to return to the three test stores to obtain responses on the additional and altered questions, but no significant problems were experienced in the remaining interviews. Although the questionnaire would normally have been tested on stores which would not be included in the results, the shortage of time and the fact that all clothing stores in Stillwater were potential subjects prevented this from being done. However, because of the nature of the data being sought it is felt that this procedure introduced absolutely no error into the results. A final copy of the questionnaire is included in Appendix A.

Obviously, much of the data could not be recorded as it was being received. Instead, brief notes were taken and the data was written up in detail after completing the interview and before proceeding to the next one. Also, much of the data is of a nature that is very difficult to tabulate. It is often very involved and consists in large part of respondent attitudes and general practices, all of which differ slightly, along with the researcher's impressions of the respondents' apparent credit awareness or lack of awareness. Very few of the credit procedures or attitudes are identical, so it is felt that a general discussion of the various points will be more meaningful than a statistical presentation where oversimplification could result. Consequently, very few tables are used and the various types of comparable operations are discussed in general, with specific differences being mentioned when they are of special interest. Such an approach is also more in accord with the intent of the study.

Similar difficulties are encountered in preparing a table of the actual responses for the appendix, even though no effort is made here to relate them in any way. Factual information causes very little trouble, but attitudes and opinions without accompanying explanations can be tabulated only at the risk of oversimplification. Therefore, the presentation of much of this type of data is limited to the discussion in the body of the paper and the more tangible factual data is shown in Appendix B.

CHAPTER IV

CLASSIFICATION OF THE SUBJECT STORES

It was found that there are eighteen stores in Stillwater which can be classified as clothing stores according to the requirements previously set forth. However, two of these are located on or adjacent to the Oklahoma State University campus and are affiliated with stores in the downtown area. They each have the same name as their respective parent stores and all their credit work is handled by the downtown credit department. In each case the credit policies followed at the campus branch are the same as those of the main store and all accounts are handled together with no regard as to which store they come from. Since a single set of credit policies and a single set of records exist for each pair of stores, this study will treat each of the two campus branches as if it were part of its downtown store. Consequently, the total number of Stillwater clothing stores is in effect reduced from eighteen to sixteen for purposes of this study.

Of these sixteen stores, three are members of chains which have stores in other cities and which regulate the credit policies of the Stillwater stores. As a result, it is also necessary to eliminate these three from this study.

The thirteen remaining stores are first classified according to size as determined by their total sales in 1965. One possible source of error in making such a classification without a financial statement comes from a tendency on the part of the store manager to place his store in a higher income group than it actually belongs. To minimize the effects of such a tendency the list of income groups on the questionnaire was lengthened by making each group cover a relatively small range. This was done on the assumption that the respondent is likely to place his store in the next higher level than it actually belongs, but will probably not misrepresent the proper size by as much as two or more whole groupings.

The eight classifications listed on the questionnaire were then combined into three larger groupings so that a slightly inaccurate answer from the respondent would have little or no effect on the final classifications. The limits of the final classifications were decided upon for two reasons: (1) They minimized the chance of misclassification by taking advantage of the natural groupings of the responses. (2) They resulted in groupings of stores which showed a marked similarity in their operations. Table I illustrates the size classifications that will be used throughout this study.

TABLE I

CLASSIFICATION OF STORES BY SALES VOLUME

BASED UPON TOTAL SALES IN 1965

Class Number	1965 Sales ($)	Number of Stores
I	Less than 75000	3
II	75000 to 300000	7
III	Over 300000	3

An important point to remember concerning the size classifications is that the Class III stores are not "large stores" in the true senese of the word. They are simply larger than those in Class I and Class II and are classified only to facilitate the presentation of the findings of this study in a meaningful form. All thirteen are actually small businesses when considered in absolute terms.

The other major classification used in this study is based upon the type of customer that each store primarily deals with. More specifically, they are classified according to whether their customers consist primarily of the middle and upper income adults, middle and lower income adults, or college students. These classifications are based not only upon the responses of each store manager, but also upon personal observation of the prices, atmosphere, and type of merchandise.

It was determined that twelve of the thirteen stores being studied deal primarily with middle and upper income adults or with students. The one exception is a department store which caters to all types of customers. There are, of course, clothing stores in Stillwater which cater to the lower income groups, but it turns out that these stores are the three that were excluded from this study because of chain affiliations. Two are discount clothing stores and the third is a family department store emphasizing low prices. As a result of this situation it will be assumed that all stores in this study deal primarily with middle and upper income classes. This classification will include the department store mentioned above which actually deals with all levels of customers.

The fact that this study includes only those stores dealing primarily with middle and upper income groups would appear to preclude adequate coverage of the subject. However, it is very important to note that the "middle" income groups are included in the more general classification of "middle and upper" income groups used in this paper. Stillwater is a small town with very few, if any, residents of great wealth. The vast majority of the population consists of people in the "middle" income group, which could be subdivided into upper middle, lower middle, etc. Simiarly, the stores included in this paper vary somewhat in their prices and appeal so that collectively they are patronized by the great majority of Stillwater residents. The only customers actually omitted are those in the very low income groups who patronize the discount stores almost exclusively, and credit services are usually very limited at stores of this type if they are available at all.

Almost all of the stores being studied do some business with students, but only those making over two-thirds of their total sales to this class of customer will be classified as primarily student stores. Those where students account for less than one-third of all sales will be classified as primarily adult stores, and stores where student sales range from one-third to two-thirds will be called "student-adult" stores. This breakdown is illustrated in Table II.

These classifications will be used where practical in the body of the report and will also be used in the appendix to aid in evaluating the responses obtained during the interviews. Without such classifications a list of the responses would have very little value because the reader would be unable to associate them with the corresponding types of stores.

TABLE II

CLASSIFICATION OF STORES BY STUDENT PATRONAGE

Type of Store	Student Sales as % of Total Sales	Number of Stores
Adult	Less than 33%	4
Student-Adult	33% through 67%	6[1]
Student	Greater than 67%	3

[1]Two of these are the stores which have been combined with their campus branches. In each case the downtown store is primarily adult, while the campus branch is primarily student.

CHAPTER V

CREDIT USAGE BY STILLWATER CLOTHING RETAILERS

Although retail credit is now a vital part of our economy as a whole, it is obviously not equally important to each individual retailer. The widespread use of credit will necessarily exert a strong influence on almost all retail businesses, but its importance to a given retailer as measured by the extent to which it is actually used will vary considerably. Some merchants will stress the credit function very heavily, while others will minimize its use as much as possible or even omit it altogether.

As discussed earlier, the use of credit by a particular retailer will depend upon many factors both internal and external to the business. Also, the evaluation of these factors will be strongly influenced by the goals, credit philosophy, and business ability of the individual making the decision. Thus, even under seemingly similar circumstances there will often exist a wide variation in the use made of credit as part of the marketing mix. It will be the purpose of this chapter to ascertain the importance of credit to the various clothing retailers in Stillwater and the manner in which it is used.

It is readily apparent that credit plays a very important role in the overall marketing efforts of these retailers. At the present time credit services are offered at twelve of the thirteen stores being studied, with the importance of credit to these stores being shown by the fact that the average credit volume for each store is forty-two per cent of its total sales.[1] However, the range of credit usage percentages for the individual stores runs from fifteen per cent of total sales for one of the small specialty shops to seventy per cent for one of the larger women's wear stores. Because of this wide variation from one store to another a conclusion that credit is important to the subject stores as a whole is of little significance in itself. To be meaningful it must also take this wide variation into account and consider the factors which cause it.

One possible cause to consider is a difference in the buying habits of the customers patronizing the various stores. However, it has already been established that all of the stores being studied draw their customers from the same pool of potential buyers, i.e., from the same localized geographic area and the same general income levels. The only customer differentiation that is practical and within the scope of this study is on the basis of six and on whether or not the customer is a student. Otherwise the customers are very similar and are the same ones in many cases. An attempt is made in Tables III and IV to reveal any possible relationships between credit usage and customer differentiation based upon these two criteria.

---

[1] Two of the three stores excluded from this study because of chain affiliations do not offer credit. The two which do not are discount stores, while the third is a department store which is making increased use of credit as part of a policy established by its parent chain.

TABLE III

CREDIT USAGE PER STORE BASED UPON THE

SEX OF THE PRIMARY CUSTOMER

Primary Customer	Number of Stores[2]	Average Ratio of Credit Sales to Total Sales	Range
Male	6	0.41	0.20 to 0.65
Female	5	0.44	0.15 to 0.70
Male and Female	1	0.40	*****

TABLE IV

CREDIT USAGE PER STORE BASED UPON RATIO OF

STUDENT SALES VOLUME TO TOTAL VOLUME

Primary Customer[3]	Number of Stores	Average Ratio of Credit Sales to Total Sales	Range
Adult	4	0.31	0.15 to 0.40
Student-Adult	5	0.42	0.30 to 0.70
Student	3	0.40	0.20 to 0.60

[2] Unless stated otherwise, the one store not offering credit will be excluded from this and all subsequent tables to avoid misrepresenting the data on stores that do offer credit.

[3] Based upon the criteria set forth in Chapter IV, p. 21.

It is apparent from these two tables that in this situation no definite relationships can be drawn between the extent of credit usage by a particular store and the type of customer which it primarily deals with. There is practically no difference in the results based upon the sex of the customer. The average credit usages for the stores in each classification are almost identical and the ranges are very similar. The figures based upon a student or non-student clientele are not so similar, but show no meaningful relationships. Stores dealing with large numbers of students appear to do more business on credit than do those dealing primarily with adults. However, the fact that the stores dealing with both types of customers show much greater credit usage than either the adult or the student stores renders this observation meaningless.

Another factor to consider in conjunction with the wide variation in credit usage among the different stores is store size. As would be expected, the larger ones tend to employ credit services in their selling much more than do the smaller ones. This is illustrated in Table V.

While there is a general trend toward increased use of credit as the store size increases, it cannot be said that store size is the primary determinant of credit usage. In fact, is is probable that in some instances the greater volume of the larger stores is a result of the increased use of credit. The fact that the relationship between store size and credit usage is nothing more than a general trend is apparent from looking at the wide, overlapping ranges of credit usage ratios for each size classification. For example, two of the seven stores in Class II do a greater share of their business on credit than the average for the Class III stores. Similarly, three of the remaining stores in Class II fall below the average for those in Class I. However, this wide variation does not refute the statement that there is a general trend toward increased use of credit by the larger stores. It merely points out that other, possibly more important, factors must be considered.

TABLE V

RATIO OF CREDIT SALES TO TOTAL SALES ACCORDING TO STORE SIZE

Size Classification[4]	Number of Stores	Average Ratio of Credit Sales to Total Sales	Range
Class I	2	0.30	0.15 to 0.45
Class II	7	0.38	0.20 to 0.60
Class III	3	0.55	0.40 to 0.70

Without question the most important determinants of the extent to which credit will be used are the individual credit philosophies of the various merchants. These philosophies are very diverse and impossible to predict upon the basis of general store characteristics. In some instances two stores which appear almost identical in every respect will have completely opposite credit policies because of the different attitudes of the operators toward credit. In general, the approaches to the use of credit take one of three forms; not offering

[4] Based upon criteria established in Chapter IV, p. 19.

credit at all, offering credit as a service but not encouraging its use, and offering it not only as a service, but as a volume builder which is aggressively promoted.

As already mentioned, only one of the thirteen stores offers no credit privileges at all. The operator of this very small specialty shop gave two reasons for such a policy. First, she operates on very limited working capital and feels that credit selling would reduce it more than she can afford. More important, she feels that her personal relationship with her customers would make selling on credit too much like "loaning money to a friend." Not only would such customers tend to pay other more pressing bills first, but they would tend to avoid the store until their overdue debt is paid, resulting in a reduction in sales.

The approach in which credit is offered but not encouraged is used by the two remaining Class I stores and five of the seven Class II stores. The retailers using this approach offer credit services primarily to meet competition and to satisfy the needs of the customers who specifically request them. They recognize many of the advantages to be gained from increased credit promotion but feel that the additional trouble and expense would more than offset the advantages in stores the size of theirs. Five of the seven are currently handling all bookkeeping and credit correspondence themselves, while the other two have part-time bookkeepers. In each case they stated that increased credit volume would probably require more help, which they want to avoid. They also feel that it would overtax their working capital. Consequently, they do not encourage the use of credit and usually make no mention of it if the customer doesn't.

Similarly, their advertisements seldom if ever suggest the possibility or desirability of opening an account. They all consider their credit programs to be very important in maintaining their present sales volume, but do not try to further increase it through aggressive credit promotion. Instead, they make credit available to those who want it and let the extent to which it is used take a natural course, depending upon the demands of their customers.

The remaining five stores, including all of those in Class III, aggressively promote the use of credit by their customers. They realize not only that credit is a service which their customers expect, but also that it is an excellent tool for further increasing their volume. They stated that the convenience it affords the customers allows them to buy more regularly and to make larger purchases. Even more important is the tendency of credit to develop customer loyalty toward the stores where they have accounts. While these advantages were also recognized at the other stores, the managers of these five are the only ones who feel that they are able and willing to handle a high percentage of their business on a credit basis. They take a very progressive approach to this type of selling and encourage it whenever possible. Their advertisements usually include mention of charging the purchases and cash customers are often encouarged to open an account. Once a customer has established an account he is encouraged to use it whenever he buys, with the intention being to have him develop the credit habit.

The emphasis which two of these retailers, both of them in Class III, place upon credit is further seen in the fact that they are in the process of setting up an electronic data processing system for handling all their billing. The two are working together on the system and will use equipment installed at a local bank. In addition to setting up a more efficient credit operation they also plan to code all purchases so they can evaluate the success of many other aspects of their operation. The assignment of account numbers to each produce has already been started and the entire operation is expected to be in operation by the time this paper is completed.

Table VI illustrates very clearly the relationship between credit promotion and the resulting credit volume. The difference between the stores which encourage credit usage and those which do not is very marked and it should be noted that the relationship is much more definite than any others looked at thus far.

TABLE VI

COMPARISON OF CREDIT VOLUME BETWEEN STORES WHICH PROMOTE IT AND THOSE WHICH DO NOT

Type of Store	Number of Stores	Average Ratio of Credit Sales to Total Sales	Range
Stores where credit is promoted	5	0.59	0.40 to 0.70
Stores where credit is not promoted	7	0.30	0.15 to 0.45

Several types of accounts are offered at the subject stores, with the thirty day open charge being the most important in terms of sales volume. However, many of the stores also offer sixty and ninety day accounts, wardrobe accounts, and some variation of a revolving account. The number of stores offering each type is shown in Table VII. Most of the larger stores offer a variety of accounts in an attempt to meet the needs of their customers. On the other hand, most of the smaller stores are limited in the variety which they can offer, but compete by keeping their relatively simple programs flexible enough to make whatever arrangements the customer desires. Their credit programs are not so large that they cannot easily alter the terms to suit the individual and occasionally do so if the request is reasonable.

TABLE VII

TYPES OF CREDIT ACCOUNTS OFFERED BY

STILLWATER CLOTHING RETAILERS

Type of Account	Number of Stores Offering Each Type of Account	Number of Stores With Service Charges on Each Type
30-Day Charge	12	0
60-Day Charge	4	0
90-Day Charge	6	3
Wardrobe	3	3
Revolving or Option	3	3

The sixty and ninety day accounts are ordinary open charge accounts with the bill being paid in either two or three equal monthly installments. The main purpose of these accounts is simply to allow the customer to spread the payment for a large purchase over two or three months. The sixty day accounts have no service charge, but three of the ninety day accounts have a carrying charge which amounts to 1.5 per cent of the unpaid balance after sixty days. Minimum purchases for such accounts vary, but are in the area of thirty dollars for sixty days and sixty dollars for ninety days.

Wardrobe accounts are designed primarily for students and are used to encourage them to buy an entire wardrobe by allowing them to spread the cost over a period of twelve months. Like most of the other long term accounts, they have a 1.5 per cent service charge after sixty days.

Only three of the stores offer revolving accounts of a variation such as an option account. These accounts differ slightly at each store, but in general they require that a specified fraction of the bill be paid monthly in addition to a 1.5 per cent service charge.

College students are obviously very important to most of these stores, as shown by the fact that they account for over one-third of the sales volume at eight of the twelve. They also hold a share of the total accounts outstanding which is comparable to the fraction of total sales which they contribute to each store. However, despite their importance they seem to have very little effect on any of the credit programs under study. The retailers all recognize the importance of meeting the needs of the students, but most of them feel that the students do not require credit services which are different in any way from those offered to their adult customers. The smaller stores consider their credit programs to be flexible enough to meet any unusual needs of their customers, whether student or adult, while the large stores feel that their programs are broad enough for both types, if indeed the two differ. The only stores offering special terms for students are the three stores offering wardrobe accounts, all three of which have large student clienteles.

There also seemed to be very few definite opinions on the relative credit buying habits of students as compared to adults. In almost every case the retailer stated that adult customers with accounts usually charge any purchase of seven dollars or more, and all but three said the habits of their student customers are no different from those of the adults. These three exceptions were of the opinion that students are even more likely to charge a purchase than are adults because of their lack of income and available cash. However, in no case did a retailer state that his offering of credit is any more or less important because of students than it would be if he were dealing only with adults.

It should be noted here that very few of the retailers had any definite opinions on any aspect of the credit habits or needs of their student customers. It seemed that most of them had never before given any serious thought to the matter. They seemed lost for answers on the subject and appeared to describe the student and adult requirements as being similar simply to be cooperative in the interview. This apparent lack of previous concern over any possible differences explains the lack of student influence on the various credit programs. Obviously, different needs of the students, if they do exist, can have no impact on the various credit programs if the retailers are not aware of them.

CHAPTER VI

CREDIT GRANTING POLICIES

One of the most important requirements for operating a profitable credit program is the selection of the credit customers. If the customers are unsatisfactory the program will never achieve its full potential, regardless of the skill with which the remainder of the credit functions are handled. However, this does not mean that only the best customers should be granted credit privileges. Instead, the strictness with which such privileges are granted should be in accordance with the purpose and goals of the overall credit program. As discussed in the introduction, there are advantages and disadvantages to very liberal and also to very strict policies on the extension of credit.[1] The credit manager must consider the alternatives and adjust his policies so as to obtain the results that are most in agreement with his overall operation.

The first step in the credit granting process is the gathering of information on the prospective customer. If the information is insufficient or inaccurate the likelihood of making a good selection decision will be lessened accordingly. However, this procedure can be carried to the extreme by requiring more information than is

[1] Page 5.

necessary under the existing circumstances. Such a fault not only incurs unnecessary work and expense, but is likely to antagonize customers.

The information required by the stores in this study was found to be very minimal. Two of the small shops use no prepared application form, but simply ask the customer for such basic information as his name, address, occupation, and one or two references. Nine of the remaining ten stores request no more information than can be placed on a four inch by six inch form, while the tenth uses a slightly longer application. Five of these stores have their own forms while the remaining five, mostly the smaller stores, use a standard form prepared by the Stillwater Credit Bureau.

These forms ask for only slightly more information than do the two small shopkeepers mentioned previously. In the case of students, most of the stores use their regular application and note in the margin the student's class, major field, and parents' name and address. Three of the stores with a sizable student clientele handle the additional information required by using a form prepared especially for students.

Once the information is received, it must be investigated and evaluated. In some cases, the merchant relies on intuition alone, but most applicants are investigated. Almost all of the merchants interviewed feel that the Stillwater Credit Bureau offers an excellent service and most rely very heavily upon it for reports on their credit applicants. Because of the quick, reliable results obtained from using this service it is rare for any of these merchants to conduct an investigation of his own. They ordinarily request a simple report

BONNEY'S
CREDIT APPLICATION

Date

Name Husband's Name Wife's Name Last Name

Address

☐ Married ☐ Single ☐ Own ☐ Rent

Employ-ment: Husband / Wife

Nearest Relative

Address

CREDIT REFERENCES: Bank and other firms where you have charge accounts:

Signed

Telephone

Bonney's books close 24th day of each month. Accounts due and payable by 10th of following month. Budget accounts for 60 or 90 day payments may be obtained by special arrangement.

Figure 1. A Typical Credit Application Used by One of the Larger Stores

CHARGE ACCOUNT SERVICE

Make your shopping in Stillwater more pleasant with the extra convenience of a charge account at your favorite stores. It's an easy matter to open an account with any Stillwater store offering this service. Use the convenient form below to establish your credit. Just mail this card to the CREDIT BUREAU OF STILLWATER, Box 391, Stillwater, Oklahoma.

Miss
Mr. and Mrs. .... **Phone** ....

Street .... **City** .... **State** ....

Former Address
Street .... **City** .... **State** ....

Occupation (Mr.) .... **Occupation (Mrs.)** ....

Mr. employed by .... **Mrs. employed by** ....

I have had accounts at the following stores: ....

Your bank at former address ....

Signature ....

FORM 2183, FENTON'S, STILLWATER (Over)

Figure 2. The Standard Credit Application Prepared by the Stillwater Credit Bureau

over the telephone and can often obtain an immediate evaluation of the applicant as a credit risk. This service is even more valuable in the case of new residents because their records are not so easily checked by the merchants themselves. Because the merchants rely so heavily upon the credit bureau, their investigation costs are comprised largely of the dues paid for this service which amount to only four to eight dollars per year plus a seventy-five cent charge for each phone report requested. This reliance on the credit bureau might also explain the reason for using such abbreviated applications.

The only merchants not using the services of the credit bureau at all are the owners of the two Class I stores who claim that their annual losses from bad debts are less than the credit bureau fees. They also feel that they know most of their customers well enough to make a decision without checking their records. When an applicant is a stranger and an investigation does seem necessary, they get on the telephone and personally check one or two of the references received. However, the class of customers dealt with makes this unnecessary in many cases and the decision is often made on intuition.

Although the credit bureau rates each applicant according to his past credit performance, only one store keeps its accounts classified according to risk. The rest make no formal distinction between their accounts and feel that such a classification is unnecessary in stores the size of theirs.

Very few applications are rejected by any of the twelve stores. Although most of the rejection figures obtained are estimates, only two believe that they deny credit privileges to as many as five per cent of their applications. The most common reason given for rejecting an application is an unsatisfactory record, not the lack of one. With the exception of the younger students almost everyone today seems to have established a brief credit record at some time previously. If the record is good, no matter how brief, it stands an excellent chance of being accepted at most of the twelve stores.

The situation is a little different where the younger college students are involved. It was reported that a high percentage of these customers have never before had a charge account in their own name, especially the new freshmen. However, these students usually have very little difficulty in opening an account. With the exception of one store that grants no credit to minors, most are willing to accept an account based upon the record of the parents. If a student establishes a satisfactory record with his first account, he is then usually able to obtain an account on his own at most stores.

About half of the stores dealing with students, especially the student stores, consider them to be no more risky than their adult credit customers. The remainder feel that they are slightly more risky for three main reasons. First, they have very little, if any, income of their own. Second, their extremely high mobility makes it very difficult to keep track of them. Third, the fact that they are minors frees them from legal liability for their debts. [This is the reason why one stores does not offer any credit to minors.] Consequently, a few of the merchants dealing with large numbers of students indicated that their policies on the extension of credit are slightly more strict than they would otherwise be. However, because of the importance of the student sales volume, students have very little trouble obtaining credit at most places in Stillwater.

Five of the stores, notably those with the largest student clienteles, often request permission from the parents to open an account for a son or daughter who has applied for credit. [Two of the five request permission only if the student wishes an account with a limit which exceeds ten dollars in one case and twenty-five dollars in the other.] They send out a card which the parent is to sign if he wishes to authorize the account. They also ask for any restrictions which the parents feel should be placed on the account if it is granted. An important point to note here is that only one of the five explicitly states that the parent will not be held liable for the account if the student fails in his obligation.

Only one of the twelve stores has a definite policy on "courtesy purchases" in which the customer can make a purchase on credit before his application for an account is approved. This one store allows a courtesy purchase of ten dollars. The others all require that the applicant either be familiar to them or have his application approved before he makes a purchase on credit. This causes very little difficulty in most cases because many applicants can be investigated immediately by a phone call to the credit bureau. When this is impossible because the record is not immediately available, intuition is again the rule and a reasonable courtesy purchase might very well be allowed at most stores.

All of the stores establish credit limits on their accounts, but on an informal and individual basis only. They have no set policy and merely watch their accounts to see if any are becoming too high. If they feel that a customer's indebtedness is becoming excessive relative to his ability to pay they discuss the matter with the individual and then establish a limit if it is still deemed necessary. Similar steps might be taken if a customer's previous credit record does not warrant unlimited credit privileges. The only exceptions to this approach are the student accounts which often have limits established by the parents at the time they are opened.

It was mentioned in the previous chapter that the three largest stores are also the most aggressive promoters of credit usage. It is now interesting to note that these three stores also exert the most control over their credit operations. They are most careful in screening their applicants and are much less apt to accept an account without consulting the credit bureau. They also seem much more aware of the importance of customer credit education and the necessity for establishing a businesslike relationship with the customer when granting an account. In general, they seem to realize more fully the adverse effects that can result from a poorly controlled credit program, especially where the credit volume is a significant share of the total.

A very interesting contrast is seen in one of the larger Class II stores which does over sixty per cent of its business on credit. Although this store is a member of the credit bureau it very seldom takes advantage of the credit rating service. In almost every case an application for credit is accepted with no investigation whatsoever unless the applicant appears extremely questionable as a credit risk. When questioned about this policy the manager replied that his customers are the type who would resent a delay in being allowed credit privileges, so he prefers to follow a more strict collection policy instead. However, it turns out that his collection procedure is not much more strict than any of the others, yet his losses are very small.

Although this example is perhaps extreme, it is not a typical of many of the other clothing stores in Stillwater. Surprisingly enough, none of them have experienced excessive losses from bad debts. In fact, most of their losses are extremely low as will be seen in the next chapter. The only apparent explanation is that the type of customer patronizing these stores is of the caliber that only the minimum precautions need to be taken, especially where the collection methods are reasonably effective.

CHAPTER VII

COLLECTION PRACTICES

The final step toward realizing the profits from a credit sale is the collection of the debt. If this is not achieved all efforts expended in establishing the credit account and making the sale have been wasted, to say nothing of the financial loss itself. However, there is more to making a collection than just obtaining payment. It is extremely important that collections be made promptly while maintaining customer good will.[1] This requires a carefully planned collection program which is fitted to the needs of the particular type of customer with which the retailer is dealing. If operated properly, the collection program can make a very significant contribution to the overall success of the credit program and the entire business.

All twelve clothing stores send their statements out near the twenty-fifth of the month and most of them request that payment be made by the tenth of the following month. The few exceptions are those who ask only that payment be made within the next thirty days. However, it seems to make little difference which of the two due dates is used because most of the merchants reported that from forty to

---

[1]W. J. Shultz and H. Reinhardt, Credit and Collection Management (Englewood Cliffs, New Jersey, 1962), p. 249.

seventy-five per cent of their accounts are not paid by the tenth. There appears to be a lack of customer education as to the actual due date, coupled with creditor indifference which seems to exist as long as the accounts are paid within thirty days.

Formal age analysis is used only by the three stores in Class III and by one of the stores in Class II. They age their accounts monthly and two reported that only five per cent of their accounts are generally unpaid after sixty days, while the other two reported this figure as being around ten per cent. The remaining eight retailers stated that their volume is small enough that they can keep track of the way their collections are going without formally aging their accounts. Most were unable to give any percentage figures concerning their delinquencies, but all reported that very few of their accounts go unpaid for more than sixty days.

The collection procedures used by most of the stores are very similar. Much the same techniques are used, with the main difference being the extent to which the procedures are personalized. The smaller stores usually send a duplicate statement, possibly one with a "PLEASE" or "PAST DUE" stamp on it, and then progress directly to personal notes and telephone calls. As the stores become larger the impersonal phase of the collection procedure becomes longer by using a series of form reminders, to be followed by personal notes and telephone calls if needed. The Class III stores use very similar techniques, but tend to have a more formal and longer procedure before beginning the personal approach. In general, the small stores resort to the telephone and personal notes after little more than thirty days past due, the Class II stores usually avoid these measures for sixty days, and the Class III stores often wait as much as ninety days before beginning the more personal steps.

It should not be inferred from this that the smaller store managers are more concerned about prompt collections and thus resort to the more aggressive tactics sooner than do the larger ones. The difference is due solely to the fact that the smaller stores have smaller, less formalized credit programs not requiring a definite procedure. Most of the Class I and II stores are run by one man who also takes care of his own credit work, resulting in this less formal collection procedure which enables them to personally contact the customer at an earlier date and vary the approach as needed. On the other hand, the Class III stores all have a full time credit clerk who handles a formal, predetermined collection procedure for the first ninety days or so. Only then does the manager himself usually become involved.

If the telephone and personal notes fail the account is usually turned over to the collection agency. All of the managers stated that it would be a very unusual situation if they were to bring suit against a customer for payment. Most said that they had never done so and doubted if they ever would because it just doesn't pay with a typical clothing account.

All but two of the stores stated that they usually turned the delinquent account over to the collection agency within six months of the due date. However, a visit to the collection agency revealed that it is not unusual to receive a delinquent account for collection which is a year overdue. These accounts are turned over for collection only after the store has tried repeatedly to collect the debt and has finally given up. Although collection is still achieved in some cases, particularly if the debtor has a steady job, it is usually impossible on a clothing account after such a long delay.

Only seven of the twelve merchants knew his bad debt loss as a per cent of sales, but these seven answers were very startling. Four of the seven revealed that their loss is less than one per cent of sales and none of the seven reported losses in excess of two per cent. The lowest figures were given by two of the Class III stores, who reported losses of only one-half of one per cent. A delinquent account is written off as a loss after one year by eight of the stores, after six months by three others, and only after the collection agency fails does the last of the twelve write it off as lost.

Credit privileges of a customer whose account is overdue are suspended at all but two of the stores. The length of time which is allowed to elapse before such an account is suspended usually depends upon the customer, but is ordinarily around sixty days. In most cases the account is not cancelled, but the customer is refused further credit until his bill is paid or until other satisfactory arrangements are made with the manager.

Very surprising results were obtained when the merchants were asked if they reported delinquent accounts to the credit bureau. In spite of the heavy reliance upon credit bureau reports by almost all of the stores, four of them do not report delinquencies to the credit bureau unless a specific report is requested, and two others do so voluntarily only after several months. The manager of the credit bureau confirmed this, but also indicated that the number of merchants who actually report delinquencies promptly is lower than the figures obtained from the retailers themselves. He stated that he very often doesn't get reports on delinquencies until they are several months old or until they are turned over to the collection agency.

This situation is especially disheartening to him now because of the new reporting system recently adopted by credit bureaus all across the nation. Under the old system of reporting, a customer was classified as good, fair, poor, etc. The difficulty with using adjectives such as these is that they mean different things to different people. However, the new system replaces the use of adjectives with a coded sequence of letters and numbers. They indicate the types of accounts a customer has had and how often he has been late by one month, two months, etc. This new system in effect gives a record of a person's past performance, leaving the interpretation as to whether the record is good or bad up to the credit manager who actually uses it. The important point is that he interprets a performance record, not somebody else's description. Obviously, if this system is to be effective the credit managers who use it must cooperate in reporting delinquencies. To facilitate this the credit bureau has a reporting form which is to be filled out by each member store every month. However, the credit bureau manager reported that relatively few stores cooperate fully, with many claiming that they do not have the time or the manpower to handle the extra paperwork.

There seems to be very little difference in the paying habits of the students as compared to adults. A few stores reported that their bad debt percentage is a little higher for students, but most said they notice no difference. When asked to describe the paying habits of their student customers, several replied that they are slow but usually reliable, which is a description that could probably be applied to most of their adult customers also. The collection procedures used for students are the same as those for adults, with the exception that most stores send delinquent student account notices to the parents. In fact, only two of the stores with student credit customers do not take this step as a last resort. One of these specifically states on the authorization card that the parents will not be held liable and the other does not require the parents' permission to open a student account.

Without exception the retailers who were interviewed feel that they have very little difficulty with their collections. Most were unable to think what their one biggest collection problem might be and simply said they have no real problems. A few listed their difficulty in keeping track of the students, who are extremely mobile, but stated that this is not a serious problem. Also, a few of the smaller stores noted that their customers are a little slow, apparently because of the "friendly" relationship which seems to make their bills less urgent than those at the larger, more impersonal stores.

In the opinions of most of the retailers their collection programs are fairly liberal. Most feel that their customers are of the caliber that does not require more stringent policies. They seem satisfied with their collection results and in some cases even proud of them. Their losses are very small and most do not appear concerned over a rather high percentage of their accounts being paid past the due date as long as they don't run much past the thirty day point. The only apparent exceptions to this are the Class III stores where the credit volume is much larger and whose managers have a much better understanding of the need for prompt collections. They run their collection programs on a more businesslike basis and seem more concerned with efficiency than do the managers of the smaller stores, most of whom apparently see no need for concern if they simply make the collections in a reasonable length of time.

CHAPTER VIII

SUMMARY AND CONCLUSIONS

As is the trend in today's economy, credit plays a very important role in the marketing efforts of Stillwater clothing retailers. It is offered by all but one of the merchants and accounts for an average of forty-two per cent of total sales for each store. The larger stores tend to do a much higher percentage of their business on credit than do the smaller ones, with the main reason for this variation being the differing credit philosophies of each retailer. It was found that approximately sixty per cent of the stores offer credit as a necessary service, but do not promote it, while the remaining forty per cent also encourage its use as much as possible and try to develop the credit habit among their customers.

Most of the retailers try to tailor their credit programs to the needs of their customers, although many of them are in doubt as to just what these needs are. The variety of credit plans being offered is a typical mix with all stores having thrity day charge accounts and about half offering sixty and ninety day accounts. It was found that only one-fourth of the stores offer revolving accounts and a similar number offer wardrobe plans for their student customers. In almost every case the revolving and other "long term" accounts carry a 1.5 per cent service charge on the outstanding balance after sixty days. While the larger stores meet the needs of their customers by offering rather extensive credit programs, the smaller stores compete by being much more flexible in spite of the fact that they might offer only a thirty day account.

In almost every case the merchants are very liberal in their granting of credit. They request very little information from the applicant and rely very heavily upon the credit bureau for evaluating prospective risks, although this reliance is often replaced by intuition. They ultimately reject very few of their applicants with only two of the retailers rejecting as many as five per cent.

Collection procedures are also very liberal, despite the very liberal policies on the extension of credit. The usual procedure is to send one or two duplicate statements to be followed by a series of mild notes or telephone calls. Very little pressure is applied in most cases and all but the large stores show very little concern over late payments as long as they are paid within a reasonable length of time. Age analysis is used by only four of the retailers, but most report from general knowledge that although a high percentage of their accounts are unpaid by the due date, very few are still outstanding after sixty days. While several of the merchants didn't know what their bad debt losses are, other than to say that they are low, those who knew a percentage figure revealed a remarkable record. Of the seven replies received, none was higher than two per cent of sales and four were lower than one per cent.

The large number of college students partronizing these stores seems to have little or no effect on their credit policies. Almost all of the retailers feel that the credit needs of students are no different from those of their adult customers, so very little special consideration is given to them. This is further seen in the fact that no basic differences are found between the credit programs at student stores and at adult stores.

About half of the merchants consider students to be no more risky than their adult credit customers. The remainder, mostly those with larger stores, consider them to be only slightly more risky and it is at these stores that the only apparent effect of the large student population is seen. If the students comprised only a small fraction of the total patronage at these stores it is likely that they would encounter some difficulty in obtaining credit privileges. However, the fact that they contribute such a high percentage of the sales volume causes most of these retailers to offer them the credit services which they want and expect. At all stores but one the manager feels that the additional volume from students is worth the additional risk, which is thought to be very small anyway. However, contrary to the original hypothesis, the large numbers of students do not actually lead to more liberal credit policies. Instead, some merchants who would not have offered credit to students now do so, but they compensate by being slightly more strict with all their customers in order to maintain better control.

It was found that all but the three largest stores and one or two of the smaller ones are very lax in the control which they maintain over their credit operations. This was very apparent from the fact that they were able to make only rough guesses on such basic facts as bad debt losses, man-hours required for credit work, ratio of credit sales to total sales, etc. In fact, they were able to give a definite quantitative reply to very few questions, with most replies being of the approximate, descriptive type. Their credit constrols seem to be largely informal and intuitive, based upon personal experience or on contact with fellow merchants. As long as the customers are satisfied and no obvious "problems" arise, these retailers consider their credit programs to be successful, making additional bookkeeping an unnecessary effort. However, an approach such as this is certain to result in gross inefficiencies which can cut deeply into the effectiveness and profitability of any credit program. Such willful or ignorant neglect to maintain proper books on account makes it impossible to keep posted on the exact condition of the business and leaves the manager in the dark concerning the amount of credit losses, collection expense, the cost of doing business, etc. It is unreasonable to expect expect these small stores to keep a very elaborate set of records because the return would probably be more than offset by the additional expense. However, a reasonable number of operating statistics are necessary at any size store and can improve the overall efficiency of most credit operations.

While it is felt that most of the smaller stores are now keeping records that are less than sufficient, the three largest stores included in this study appear to maintain very adequate controls. It is impossible to be certain of this without actually examining their records, but all three were able to supply an abundance of detailed statistical data concerning their credit operations. They not only had ready responses to most of the questions on the questionnaire, but were able to supply many facts not asked for. They were aware of the costs of various aspects of their credit programs and appeared to be well informed as to the continuing condition of their businesses.

This discussion brings up a question as to the validity of many of the responses received. While the sincerity of the respondents does not appear to need questioning, the accuracy of the responses does. Much of the statistical data which they supplied was based upon rough estimates and was often of a descriptive nature. For example, several did not know their bad debt losses as a per cent of sales and described them only as "very low." The problem with this type of response is that "very low" is strictly an opinion of the merchant and might actually be very high if the absolute value were known and compared to some expected norm or to the competition. Also, many of the qualitative responses received on topics such as the paying habits of students might be in error. Where the questions were on topics of this nature is was obvious that most of the merchants had never studied the matter or even given it any previous thought. They generally thought of a reply, but it was often little more than a spur of the moment judgment. This difficulty was encountered with a large percentage of the questions of this nature and further points out the extent to which their credit operations are run on intuition. It is very likely that many of these responses are in error and would be grounds for fruitful studies in the future. However, accurate or not, they do reflect the reasons behind the various credit operations because they are the opinions of the managers who actually determine the credit policies.

While many of the responses received are questionable as to their accuracy in fact, it seems reasonable to conclude that very little actual "trouble" is encountered in any of the credit programs. Many did not know their bad debt loss as a percentage of sales nor did they know an accurate percentage figure on the number of accounts in each stage of delinquency. However, the managers at almost all of the Class I and Class II stores stated that they very seldom suffer a bad debt loss. It is expected that the large stores would have more instances of loss, but they each knew their loss as a percentage figure which proved to be very low in absolute terms. It is apparent from comparing these very low losses at all the stores with their very liberal credit policies that a very high class of customer is being dealt with. They seem very responsible and of the caliber that will cause very little actual loss, although they might be a little slow in making their payment. It is the feeling of this writer that slowness is primarily the result of improper credit education of the customer by the retailer, not an unchangeable customer weakness which must simply be tolerated. This is especially true where a high quality of customer is involved to begin with.

Although collection difficulties and bad debt losses are very low, they could be improved considerably through proper cooperation with the credit bureau. The merchants are now relying very heavily upon the credit bureau for credit reports on applicants, yet they often fail to report their own delinquent customers unless a report is specifically requested. They say they don't have the time to report each delinquency, but don't seem to realize that this attitude is hindering the credit bureau and ultimately hurting their credit program. Lack of proper reporting by the merchants forces a delay in obtaining information when they need it and in many cases results in incomplete reports on applicants. The relatively small number of stores in Stillwater presents an ideal situation for cooperative reporting on credit risks. If each store would fill out the form requested by the credit bureau each month the bureau would be able to compile very substantial records on a high percentage of the potential customers. A simple phone call would then obtain an immediate and complete evaluation of an applicant and almost eliminate intuitive granting practices where doubt is involved.

Many more topics could have been included in this study, but it is hoped that the information presented here has enabled the reader to gain a basic understanding of the credit programs at the subject stores. No topic was covered in detail and a great number of questions were left unanswered, but many areas were uncovered which are worthy of future study. No specific mention needs to be made of them here because it is obvious from the lack of factual knowledge on the part of most of the retailers that these areas are many. Future studies based upon actual facts rather than retailer knowledge and opinions would not only be interesting, but could be very valuable to the merchants involved.

SELECTED BIBLIOGRAPHY

Alevizos, John P. Marketing Research, Prentice-Hall Inc., Englewood Cliffs, New Jersey, 1959.

Barnes, E. H. Barnes on Credit and Collection, Prentice-Hall Inc., Englewood Cliffs, New Jersey, 1961.

Bekcman, T. N., and Bartels, R. Credits and Collections in Theory and Practice, McGraw-Hill Book Company, New York, 1955.

Ferber, R., Blankertz, D., and Hollander, S. Marketing Research, Ronald Press Company, New York, 1964.

Hobart, Donald M., ed., Marketing Research Practice, Ronald Press Company, New York, 1950.

Phelps, C. W. Retail Credit Fundamentals, International Consumer Credit Association, St. Louis, Missouri, 1963.

Phelps, C. W. Retail Credit Management, McGraw-Hill Book Company, New York, 1949.

"Sales and Accounts Receivable of Retail Stores by Kind of Business," Retail Trade Report, U. S. Department of Commerce, Government Printing Office, December, 1966.

APPENDIX A

THE QUESTIONNAIRE

1. Which of the following most accurately describes your store?
   a. department - over 70% clothing
   b. department - under 70% clothing
   c. retail clothing
   d. discount clothing
   e. other (describe)

2. a. Are you associated in any way with stores or chains in other communities?
   If so, does this association influence your credit policies in any way?
   b. Do you have a common credit center with any of these other stores?
   c. Are you associated in any way with other stores in Stillwater? If so, are your credit policies identical?
   d. Do you have a common credit center with this other store or stores?

3. Which type (or types) of customer is most likely to be a steady patron of your store?
   a. middle or high income adult
   b. middle or low income adult
   c. college student
   d. pre-college teen
   e. all of above

4. Do you offer credit services to your customers? If not, why do you feel this is the best policy for your store?

5. What types of accounts do you offer? Describe each one briefly, including such points as service charge, minimum purchase, etc.

6. Do you feel that this program is tailored to meet the needs of most of your customers? Why or why not?

7. Which type of account is most important in terms of sales volume?

8. Do you personally do all of your own credit work? (bookkeeping, preparation of statements, collection correspondence, etc.) If not, how much employee time does it take?
   a. more than one full-time credit employee can handle
   b. full-time for one person
   c. three-quarters time for one person
   d. half-time for one person
   e. quarter-time for one person
   f. less than one-quarter time

9. Approximately what per cent of total sales are on credit?

10. Do you advertise?   If so, do your advertisements often suggest the possibility or desirability of opening an account?

11. Do you often suggest to cash customers that they open an account if they do not ask to do so?

12. What are the main reasons why you offer credit services to your customers?

13. What are your feelings on the extent to which credit should be promoted at your particular store?

14. How important do you consider the extension of credit services to be in maintaining your present sales volume?
   a. very important
   b. significant
   c. not very important
   d. unimportant

15. What per cent of total sales comes from college students?

16. What per cent of total accounts are held by college students?

17. Which of the following best describes the credit buying habits of your adult customers with accounts when they make a purchase exceeding seven dollars?
   a. always charge
   b. usually charge
   c. occasionally charge
   e. seldom charge

18. How do the credit buying habits of students compare to those of adults?
    a. more apt to charge
    b. about the same
    c. less apt to charge

19. If you selected "a" or "c" in the previous question, what reasons can you give for this difference?

20. What influence, if any, does your student clientele have upon your credit program?

- obtain an application form -

21. How much of the information on the application form do you insist upon?

22. Do you ask for any information not requested on this form?

23. Describe the methods you use to investigate this information?

24. Do you follow this procedure for every applicant?

25. Approximately what per cent of applicants have no previous credit record?

26. Do you classify each applicant according to qualify of risk?

27. Approximately what per cent of applicants are not extended credit privileges?

28. What are the most common reasons for rejection?

29. Do you allow a courtesy purchase when an application is received, but before it is approved?
    If so:
    a. Is there a limit on the size of this purchase?
    b. Is this limit the same for everybody?

30. Do you establish a credit limit on each account?
    If so:
    a. How is this limit determined?

    b. Is the applicant aware of this limit?

    c. What action is taken if this limit is exceeded?

31. In terms of strictness, where on the following scale would you classify your policies on the granting of credit?

1	2	3	4	5	6	7
very liberal						very strict

32. What per cent of student applications for accounts are rejected?

33. What is the most common reason for student rejections?

34. How would you rate the average student customer in terms of credit risk compared to your average non-student cusomter?
    a. much more risky
    b. slightly more risky
    c. about the same
    d. slightly less risky
    e. much less risky

35. When are statements sent out?

36. When are accounts due?

37. On the average, what per cent of all accounts are not paid on time each month?

38. Do you have a predetermined collection procedure for overdue accounts, or do you treat each account individually?

39. Briefly describe your complete collection procedure.

40. Do you suspend credit privileges if an account is delinquent?
    If so:
    a. How long after the due date is the account suspended?
    b. Is the applicant informed of this "courtesy period" when he opens an account?

41. Do you use age analysis on your accounts?
    If so:
    a. When is this done?
    b. What were the results of your last age analysis?

42. When do you write off a delinquent account as a bad debt loss?

43. What is your average bad debt loss as a per cent of sales?

44. Do you report delinquent accounts to the credit bureau?
If so, when?

45. What steps do you take after all reasonable collection efforts fail?

46. What per cent of active accounts are unused in a typical month?

47. What per cent of monthly bills are below ten dollars?

48. What is your biggest collection problem?

49. In terms of strictness, where along the following scale would you classify your collection policies?

1	2	3	4	5	6	7
very strict						very liberal

50. How does your student bad debt percentage compare to that of your other customers?
   a. much higher
   b. slightly higher
   c. about the same
   d. slightly lower
   e. much lower

51. How would you describe the paying habits of your student credit customers?

52. Does your collection procedure for students differ in any way from that for non-students? If so, how?

53. Do you send long overdue student accounts to the parents? If so, how effective is this action?

54. In which of the following classifications does your store belong based upon sales volume (total) for 1965?
    a. less than $50,000
    b. $50,000 to $100,000
    c. $100,001 to $150,000
    d. $150,001 to $200,000
    e. $200,001 to $300,000
    f. $300,001 to $400,000
    g. $400,001 to $500,000
    h. Over $500,000

APPENDIX B

This section consists of tabulations of responses to some of the questions on the questionnaire. However, as pointed out in Chapter IV a large percentage of these questions obtained responses of a nature that makes them difficult if not impossible to tabulate in a form that is both meaningful and practical. In most cases these responses are of an explanatory or descriptive nature and their significance can only be realized by relating them to possibly several variables. In order to tabulate them in a meaningful form it would be necessary to cross-reference each one with its many related variables, resulting in a very complex and burdensome table. A reasonable table could be very easily made by generalizing and simplifying each response and isolating it from much of the related information, but such a presentation would add nothing to the study and would actually detract from the true meaning in many cases. Consequently, presentation of this data is limited to the body of the report where it can be discussed without being taken out of context. This section includes only that data which is of a quantitative, multiple-choice, or yes-no nature and which might clarify or add substance to the findings discussed in the report itself. It is not an attempt to present all of the untouched and uninterpreted responses because this would be impossible in a study of this nature.

Question 8. Do you personally do all of your own credit work? (bookkeeping, preparation of statements, collection correspondence, etc.)

Yes	5
No	7

If not, how much employee time does it take?

a. more than one full-time employee can handle	2
b. full-time for one person	3
c. three-quarters time for one person	1
d. half-time for one person	0
e. quarter-time for one person	1

NOTE: In three of the four responses listing "b" or "c" the respondent was also including other clerical work and did not know how much time was devoted to credit alone.

Question 9. Approximately what per cent of total sales are on credit?

Less than 20%	1
20% to 29%	2
30% to 39%	2
40% to 49%	3
50% to 59%	0
60% to 69%	3
Over 69%	1

Question 10. Do you advertise?

Yes	12
No	0

If so, do your advertisements ever suggest the possibility or desirability of opening an account?

Yes	6*
No	6

*One of these is "very seldom"

Question 11. Do you often suggest to cash customers that they open an account if they do not ask to do so?

Yes	5
No	7

Question 14. How important do you consider the extension of credit services to be in maintaining your present sales volume?

a. very important	11
b. significant	1
c. not very important	0
d. unimportant	0

Question 15. What per cent of total sales comes from college students?

less than 15%	2
15% to 24%	1
25% to 32%	1
33% to 44%	5*
45% to 54%	1
55% to 67%	0
68% to 95%	0
over 95%	3

*This includes the store which offers no credit.

Question 16. What per cent of total accounts are held by college students?

less than 15%	4
15% to 24%	1
25% to 32%	0
33% to 44%	3
45% to 54%	1
55% to 67%	0
68% to 95%	0
over 95%	3

Question 17. Which of the following best describes the credit buying habits of your adult customers with accounts when they make a purchase exceeding seven dollars?

a. always charge	0
b. usually charge	12
c. occasionally charge	0
d. seldom charge	0

Question 18. How do the credit buying habits of students compare to those of adults?

a. more apt to charge	3
b. about the same	7
c. less apt to charge	0

NOTE: Two stores do no business with students so they did not answer this question.

Question 19. If you selected "a" or "c" in the previous question, what reasons can you give for this difference?

All three who selected "a", listed the reason as being "the students' lack of income."

Question 27. Approximately what per cent of applicants are not extended credit privileges?

less than 1%	4
1% to 4%	2
"few low"	4
5% or more	2

Question 28. What are the most common reasons for rejection?

All twelve stores listed a bad record as the usual reason.

Question 31. In terms of strictness, where on the following scale would you classify your policies on the granting of credit?

1	2	3	4	5	6	7
very liberal						very strict

Scale Value	Number of Responses
1	2
2	5
3	4
4	1
5	0

Question 32. What per cent of student applications for accounts are rejected?

less than 1% 3
1% to 4% 2
"very low" 2
5% or more 2

NOTE: Only nine stores replied because two do not have any student customers and one does not grant credit to minors.

Question 33. What is the most common reason for student rejections?

All nine stores listed a bad record as the most common reason.

Question 34. How would you rate the average student customer in terms of credit risk compared to your average non-student customer?

a. much more risky 0
b. slightly more risky 5
c. about the same 4
d. slightly less risky 0
e. much less risky 0

Question 35. When are statements sent out?

All between 25th and 31st of month.

Question 36. When are accounts due?

By tenth of month . . . 10
Within thirty days . . . 2

Question 37. On the average, what per cent of all accounts are not paid on time each month?

Per Cent Overdue*	No. Responses
10%	2 (one has a 30-day due date)
40%	2
50%	3
75%	2
No idea	3 (one has a 30-day due date)

*All responses are estimates.

Question 41. Do you use age analysis on your accounts?

Yes 4
No 8

If so, when?

All four do so monthly.

What were the results of the last age analysis?

5% past 60 days 2
10% past 60 days 2

Question 43. What is your average bad debt loss as a per cent of sales?

Per Cent Loss	No. Responses
0.5%	2
0.51% - .99%	2
1.0% - 1.5%	2
1.5% - 2.0%	1
don't know	5

Question 46. What per cent of active accounts are unused in a typical month?

No one was able to answer this question.

Question 49. In terms of strictness, where along the following scale would you classify your collection policies?

1	2	3	4	5	6	7
very strict						very liberal

Scale Value	Number of Responses
3	0
4	1
5	5
6	6
7	0

Question 50. How does your student bad debt percentage compare to that of your other customers?

a. much higher 0
b. slightly higher 3
c. about the same 6
d. slightly lower 0
e. much lower 0

VITA

Gary Allen Toussaint

Candidate for the Degree of

Master of Business Administration

Report: A STUDY OF THE CREDIT PRACTICES OF CLOTHING RETAILERS IN STILLWATER, OKLAHOMA

Major Field: Business Administration

Biographical:

Personal Data: Born in St. Paul, Minnesota, April 17, 1942, the son of Merlin N. and Nora Marie Toussaint.

Education: Attended several schools throughout the United States and graduate from Northwest Classen High School, Oklahoma City, Oklahoma, in 1960; received the Bachelor of Science degree from the Oklahoma State University, with a major in Civil Engineering, in January, 1965; completed requirements for the Master of Business Administration degree in May, 1967.

Professional experience: Worked six months as an engineer for International Paper Company, and ten months as a production engineer for the Linde Division of Union Carbide.

Name: Gary Allen Toussaint Date of Degree: May, 1967

Institution: Oklahoma State University Location: Stillwater, Oklahoma

Title of Study: CREDIT PRACTICES OF CLOTHING RETAILERS IN STILLWATER, OKLAHOMA

Pages in Study: 68 Candidate for Degree of Master of Business Administration

Major Field: Business Administration

Scope and Method of Study: This study examines the credit practices of clothing retailers in Stillwater, Oklahoma. It considers the importance of credit to the retailers, the types of programs offered, and their individual approaches to the role that credit should play in their respective retailing efforts. It also examines the effect of a potentially large college student clientele upon the credit programs at the subject stores. All data was collected by personally interviewing the manager of each store using a semi-structured questionnaire. The study is primarily of an exploratory nature which presents a broad survey of the overall credit operations and does not try to analyze any one area in depth. Also, no attempt is made to present a quantitative analysis of the success or efficiency of any of the credit operations.

Findings and Conclusions: Credit plays a very important role in the selling efforts of clothing retailers in Stillwater. All but one of the subject stores offer credit services, with credit sales accounting for an average of forty-two per cent of the total sales per store. There is a wide variation in the extent to which credit is used at each store because approximately one-third of them promote credit very aggressively, while the remaining retailers offer it only as a necessary customer service, but do not encourage its use. Both the credit granting policies and the collection policies are very liberal in almost every case, yet the losses from bad debts seem to be very low, although payments are a little slow. The apparent reason for this is that the clientele being dealt with is of a very high caliber. College students have very little effect on any of the credit programs in spite of their large numbers because the majority of merchants feel that their credit needs and paying habits are very similar to those of the adult credit customers. Although no major problems were uncovered, all but the three largest stores seem to operate their credit programs on luck and intuition, with very few management controls being used.

ADVISER'S APPROVAL John Wagle