Tips for Reviewing Credit Terms with Suppliers

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By creating efficient accounts payable systems and repaying loans in a timely fashion, you may have built up a sparkling credit history for your retail business. But are you taking advantage of that equity?

Small business owners with high credit ratings may be neglecting an important opportunity to revisit credit terms with suppliers, believes Ralph Alterowitz, who has developed entrepreneurial curricula for graduate business programs at The Johns Hopkins University and is now president of **Venture Tech Corp.**, a business consultancy in Potomac, Md.

By building a review process into supplier and vendor discussions, Alterowitz says, retailers can draw on their credit strength to negotiate more favorable terms and improve their bottom line. Because credit term negotiations may involve seemingly minor changes, such as changing the payment terms from 30 to 45 days, some retailers may believe it's not worth the hassle. But the payoff over time can be sizeable, he says.

"The profit margins that many retailers have aren't that great," he notes. "Any kind of advantage that a retailer gets from removing interest on payments, even if it's by a few days, will be beneficial for that margin."

Alterowitz offers these additional tips:

- **Play the float.**
  Most suppliers have payment terms in which interest is not charged for a certain amount of time, usually between 30 and 60 days. If your business enables you to move goods rapidly to customers, there's a lag between the time you are paid for the products and when your payment to suppliers is due. The more time you have to pay suppliers, the longer you can "play the float" and earn interest on your revenues.

- **Maximize your interest.**
  Alterowitz recommends setting up a cash management account, available through many banks and brokers, for all your credit agreements. These accounts allow retailers to deposit revenues into an interest-bearing account. Even with a low interest rate – usually 1 or 2 percent – the accruals will add up over time.

- **Negotiate from a position of strength.**
  Like so much in business, timing is everything when it comes to negotiating new terms. "Don't try to ask for new terms when you're 45 days late with a payment," says Alterowitz. Instead, ask for new terms when your credit history is strongest, because you'll be more attractive to other suppliers. Shop around and check with completing suppliers, if only to have that information available when talking to your own contact.

If the supplier balks at your request, and yet you are hesitant to switch to a new supplier, look for a compromise. “The supplier may not go for a leap [in payment terms] from 30 days to 60,” says Alterowitz. “So try 45. Or ask for a change for six months. Anything that enables you to hold on to your money a little longer is worth the effort.”

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