

How to deal with skips

They can be infuriating. You can't avoid them, but you can cut your losses.

BY PHIL SASSO

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What's the best way to handle skips?

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The best way to handle skips is to avoid them in the first place.

It's much harder to get your money back from someone who's skipped town than it is to do your homework upfront. But you can't weed out everyone. One dealer told me he expects to lose about 3 percent of sales this year to skips. How much will you lose this year?

Obviously every dime you can reduce in bad debt is a dime in your pocket. So, here are some tips to help.

Remember: it's your money

The first step to protecting yourself is to gather all the details you can during your customer's first credit purchase. It may seem overkill to go through all that for a \$100 truck account, but it's easier to ask a new customer for all his information during his first purchase than to ask him after he's been buying from you for a year or two and his credit limit has crept up to hundreds -- or even thousands of dollars. Get his information upfront. Check it often and keep it up-to-date, especially when you're increasing his credit limit.



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"We've got one skip in our database that owes \$12,000 to one truck," says Tim Anderson of SkipCheck.com, a national skip database service dedicated to the tool and equipment industry. "Distributors ask me how someone can get to that point. It happens a little bit at a time. It just creeps up ... I've talked to some distributors who have extended credit to a guy without even knowing his last name or phone number."

It seems some dealers ask more questions of the guy taking their teenage daughter on a date than they do of the guy walking away with a couple hundred dollars worth of his tools. (Although in both cases, the more you hold the guy accountable, the more likely he'll behave honorably.)

"When you want to close a big sale really badly, it's easy to forget to get all the information," says Anderson. "I suggest asking for a driver's license. It's harder to fake a license than something like a social security card that's just paper. There's a lot of security measures built into a driver's license, like how you can check it with a UV light."

Your new customer credit checklist should include: a copy of the customer's driver's license, Social Security number and a home or cell phone number. Some dealers even ask for a credit card number so they can charge it with the balance in full

if a customer skips. (Ask your district manager or legal advisor about your state laws on this.) If you can do it, go for it.

Check the database

"I first run his Social Security number through the Matco system," says Tom Perrin, a 16-year Matco distributor serving Chicago's West side and suburbs. "That helps me see if he's skipped on another Matco dealer."

"About 90 percent of a flag's system include only skips from that flag," says Anderson. "If a guy's skipping on one flag, chances are they aren't going to buy from that same flag at their next job." Anderson designed the SkipCheck.com online database so dealers can check nationwide across all flags and independents for dealer-reported skips before deciding to extend credit.

"It's still your choice," says Anderson. "But it gives you the power."

Obviously knowledge is power. But you can't predict if someone not in a skip database will end up there, soon. So, it's best to extend credit slowly and let the customer prove himself.

"You've got to keep it down," says Perrin referring to how much lease he gives a new customer. He starts by giving customers \$100 to \$200 in credit and watches how they

pay before extending more credit. He also keeps a good relationship with shop owners who will often help him however they can with skips.

Unfortunately, you can't stop every possible skip. If you did, you'd likely strangle your cash flow and might not have extended truck credit to some loyal customers who faithfully pay you week after week.

The next step

You've probably heard it before: You're not in the tool business, you're in the collections business. But that doesn't mean you need to be in the collection agency business.

It can be a huge waste of your time and energy chasing skips and no pays. That energy is best used making more sales than on stewing over the guy you feel cheated you.

"If someone skips, Matco helps me try to collect," says Perrin. "I also use a collection agency."

"Anyone can add your skip in our database for free," says Anderson. To check the skip database, SkipCheck.com offers month-by-month and annual subscriptions. "We've had a skip from one coast picked up by a dealer on the other coast. At first, I didn't believe it -- but I checked it out and it was true."

Reporting your skips may be time consuming, but it can be worth it. Sometimes it can help you catch what Anderson calls the "Bad Guys" while also helping other dealers avoid getting stung.

Most dealers avoid hiring a lawyer or going to small claims court because it can cost a lot of money and take you away from your truck with no guarantee of collecting a nickel. A good collection agency, on the other hand, will not charge you a penny unless

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they collect from your customer, and their fee is based on a percentage of what they collect.

But you need to turn over your skips quickly, the longer you wait to give the account to your collection agency, the less likely you are to collect it.

Trying to be your own collection agent can also get you into hot water. Rules vary from state-to-state, but you could end up getting cited for harassment. Collection agents know the local laws and also know the techniques that work best to get you your money.

End of the line

When you've done all you can to collect from a skip and you've hit a wall, it's time to write it off. Don't fume over a skip and let it eat you up. Walk away and focus on peddling more tools.

"There are two ways to write off bad debt," says Gregory Fydryck, a CPA in

Schiller Park, Illinois. "One method is called a 'direct write-off' the other is a 'provision for bad debt'."

Both methods are used for the accrual accounting. And, as per IRS requirements, any business that carries an inventory, like a tool truck, must use the accrual accounting.

Using 'direct write off,' you deduct the debt invoice by invoice. Where with a "provision for bad debt" you begin your fiscal year with a predetermined percentage based on your historical averages, then the bad debt account is adjusted at end-of-year to mirror the actual bad debt. There are no major tax advantages to

one method over the other. But the second method is more sophisticated and usually more commonly used by larger corporations, says Fydryck.

It's frustrating. It's time consuming. But it's a fact of the business. Skips will happen. Don't waste time trying to eliminate them or chasing them. Instead be sure you cover your bases upfront and then concentrate your energy on making more sales.

Remember, in the end most of your customers will do the right thing and pay you what they owe you. That's what makes it all worth it. ■

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