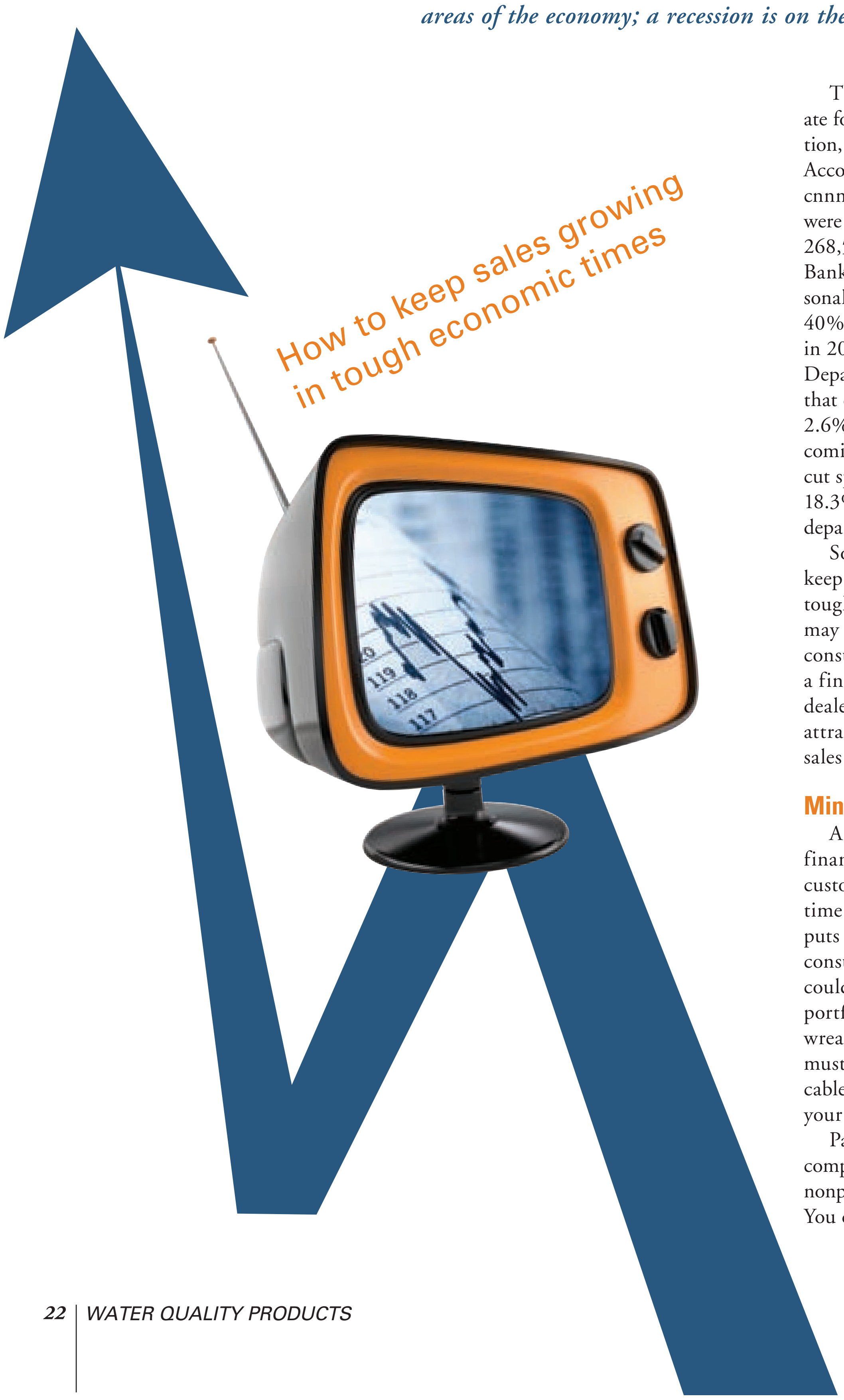
A Financial Solution

How to keep sales growing in tough economic times

By Andrea Swiney

If you've followed the news at all in the past few months, you've probably noticed these things: The housing bubble has burst; the subprime mortgage mess is dragging down other areas of the economy; a recession is on the way.



Though the media may exaggerate for the sake of ratings or circulation, the statistics are not encouraging. According to a recent article on www.cnnmoney.com, 405,000 foreclosures were recorded in 2007, up 51% from the 268,532 filed in 2006. The American Bankruptcy Institute has said that personal bankruptcy filings increased nearly 40%, from 573,203 in 2006 to 801,840 in 2007. And the U.S. Commerce Department reported in early February that construction spending fell a record 2.6% in 2007, with most of that drop coming from private companies who cut spending on residential projects by 18.3%, the largest drop since the department started recording in 1993.

So how can water treatment dealers keep their sales growing even in these tough economic times? The answer may come from a surprising source: consumer finance companies. By using a financing program, water treatment dealers can help minimize credit risks, attract new customers and close more sales even in a slumping economy.

Minimize Credit Risks

Are you running an "in-house" financing program? Do you let your customers pay you in installments over time? If so, a declining credit market puts you in a risky position. Increased consumer defaults and bankruptcies could lead to greater losses in your portfolio. "Slow-pay" customers can wreak havoc on your cash flow. You must be cautious in following all applicable collections laws or you could open your business up to legal trouble.

Partnering with a consumer finance company shifts the burden of customer nonpayment to the finance company. You can get your money up front and move on to the next sale. The finance company can do what it does best—lend and collect—while you focus on sales and service. Some finance companies will even purchase existing portfolios of accounts from you. They review the credit quality of your customers and make a bid on the contracts. You get an immediate cash infusion and freedom from the risk of customer default. In uncertain economic times, there may be better places for your money than in an in-house financing program.

Attract New Customers

When times are tough, consumers may not be thinking of water treatment as their most important purchase. It is your job to get their attention and show them not only how important good, clean water is but also how affordable it can be. Promotional credit plans offered by finance companies can help you do that.

Most finance companies offer some or all of the following types of promotional credit plans: same-as-cash, deferred payments and reduced interest rates. Same-as-cash plans normally require a minimum monthly payment, with accrued interest being waived if the amount financed is paid in full before the promotion end date. Deferred payment plans typically give the customer a certain time frame—say three or six months—where no payments are required (interest may or may not accrue, depending on the plan).

Reduced interest rate programs give the customer a lower-than-normal APR for the life of the loan or a certain number of months. Dealerships pay a small fee based on the amount financed to offer these promotions, but the increased sales they generate make the fees worthwhile.

These programs can be great sales tools to help attract customers in uncertain economic times. People may not be willing to add thousands of dollars to their credit card balances, and they may not be able to tap their home equity the way they did during the housing boom. So without a viable financing alternative, you are bound to hear "no" more often than you would like. But by advertising "12 months same-as-cash" or "six months with no payments," you can turn that "no" into a profitable sale. There is a reason why you see furniture, electronics and other retail stores advertising these promotions—they attract customers. They can do the same for water treatment dealers.

Close More Sales

If bankruptcies and foreclosures are on the rise, how can a consumer finance company help you close more sales? These companies are in the business of making loans. They use sophisticated credit scoring models to determine which customers are creditworthy. A good consumer finance company should be able to give you approvals on all your prime credit customers—those customers with good credit. But where a finance plan can really help you in tough times is providing approvals for those customers who might otherwise be declined.

Some finance companies offer "discounted" or "secondary" approvals for customers with less-than-perfect credit. Rather than decline the application, they offer a bid that represents a certain percentage of the amount financed. For example, on a $1,000 sale, a 90% bid means that the finance company would pay you $900 for the contract. The company bills the customer for the full $1,000 plus interest.

The $100 collected from the dealership goes to help cover the increased risk of default on that customer based on his or her credit. Companies may make bids ranging anywhere from 99% of the contract's value to 50%, or even lower in the case of secondary financing specialists. To close the maximum number of sales, you need to know your margins to know what type of discounts you can accept.

Some dealers ask why they should accept discounted approvals since they are not making their full profit margin. Each discounted approval represents a customer that would probably otherwise be declined. These customers are less likely to have available cash or credit to pay for the system by another method; therefore, the discounted approval may be the only way of closing that sale. After spending the time and money to acquire the lead, do the demo and close the sale. Making some profit on a deal is better than making nothing at all. Even a break-even deal can be worthwhile if it leads to future revenue potential such as salt sales, service revenue, referral leads or decreased supplier prices for hitting certain unit sales levels.

Until the housing market rebounds and the economy improves, dealers who opt not to accept discounted approvals could be missing out on a large market segment that can provide additional revenue.

Many experts do not expect the housing market to rebound until 2010. Even then, the future is uncertain. Partnering with a finance company today can help minimize your risks, attract new customers and close more sales, leaving you on a solid financial footing no matter what the market throws at you. *wqp*

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