

## Section on Commercial Interests

Papers Presented at the Fifty-Ninth Convention

### FACTORS CONSIDERED IN THE EXTENSION OF CREDIT.

C. MAHLON KLINE.

Credit is the backbone of modern business. With it, a man can command more capital, do more business and make more profit. The advantages of credit, or rather its possibilities, when properly used, are so generally recognized in the business world that it has often been a question in the mind of the writer why more retail druggists did not avail themselves of it, especially in the direction of obtaining loans to discount bills, by which they could obtain a much larger rate of interest on their money than the rate charged for the loan.

Generally speaking, there are three factors to be considered in the extension of credit: capital, capacity and character. To the student of credit conditions this statement is elementary, but to those of you who have not made credit a special study, it may be of interest to explain the relative importance of these factors. Credit may be extended on the strength of the existence of any one of them, but in no case can it be extended where all three are absent.

You may not be aware of the fact, but capital alone, regardless of character and capacity, entitles the possessor to credit in reasonable amounts. A man notoriously dishonest, and of no ability, provided he has a clear title to valuable property, can secure credit more easily than a man without capital and of admittedly good character. The reason for this is, of course, obvious. The laws of the country are so drawn that the creditors run a better chance of securing their money, if necessary, where capital is in existence, than they do where the ability to earn capital may be present, but which remains to be demonstrated. For this reason we very often see the example of a man without capital obeying moral laws and conducting himself in a decent Christian way, simply and solely because he realizes that in the absence of capital he must demonstrate character. Very often this same man, after his career has been crowned with wealth, will forsake utterly the principles that have guided his steps, and will attempt to defy moral laws and put aside Christian virtues, because he vainly imagines that his wealth places him beyond the control of the laws of God and man; and indeed, we are daily accustomed, in these modern days, to the spectacle of such a man continuing to live as he sees fit without the loss of either commercial power or wealth.

To turn to the second factor, that of capacity; capacity without capital, but with character, is an exceedingly important consideration in the retail drug business. The business is of such a nature that not very much capital is required, and if a man whose capacity is known, and whose character is above reproach, comes

to a supply house, the credit extended to him is often surprisingly large. On the other hand, capacity without character or without capital may be of value when properly controlled, but it is very seldom that a man of this kind meets with any measure of business success. Credit men have a little habit of inquiring into the character of the individual, and where wine, women and song are indicated, the individual receives scant consideration. I have known credit to be refused on immorality alone, simply because it is well known that immorality quickly undermines character and leads to financial downfall.

One of the misfortunes of the retail drug business in the past has been the fact that retail druggists knew little or nothing of the economic principles of the business world, and tried to do business by ignoring them. Today, under the leadership of the national pharmaceutical organizations, this condition is being rapidly changed. Furthermore, the colleges of pharmacy are seeing the signs of the times, and are giving special courses of commercial training to their students, a practice which cannot fail to make good business men as well as good professional men.

An able credit man has to take chances. He has to trust often largely to instinct, and is, of course, often sadly misled. It is very necessary, however, that he take risks, or else he will not be making the best of the possibilities of his position. The credit man who has no losses is not a good credit man; it means that he is losing more business than he should. In modern business losses up to a certain point are considered perfectly legitimate. If the labors of a credit man selling as he does in the territory within a radius of some hundred miles, are trying, how much more trying must they be to those who sell in foreign lands, more particularly those lands which are constantly in the turmoil of political upheaval, where a man may be a millionaire one day and a beggar the next. Those who sell goods in South American countries are particularly exposed to this sort of risk. Often a shipment is started to a man having the best of credit, and while the shipment is on the way this man's capital and belongings are wiped out of existence and his bills remain unpaid.

I heard of a case in New Orleans where a furniture company lost \$10,000 through a political upheaval of which they had no forewarning and of which they were unable to recover a cent. The consignee was an honest man, but of a different political belief than the revolutionist, who confiscated all his goods and deprived him of his resources.

It seems peculiar, but nevertheless it is a fact, that when once financial institutions form the habit of extending credit to an individual or company it is easier for such to continue borrowing than it would be had they never before asked for such an accommodation. To illustrate my point; I quote a peculiar case that came to my attention of a man conducting a business that had so much capital and the earnings of which were so large that they were never accustomed to ask for loans of any kind, but paid dividends and discounted all bills with cash at the bank. This man found that he could use \$10,000 to advantage, and went to one of the banks where he had maintained a cash deposit for years, and asked for a loan. The bank immediately began to ask him questions which made him so angry that he advised them to depart for a certain place where the climate is said

to be hot, and went to another bank, where he was accustomed to keep, also, a considerable cash deposit. This bank treated him no better than the first, which so annoyed him that he decided to go no further.

Where banks are accustomed to extend credit they will frequently loan large amounts on short notice. Where a company has existed for years without borrowing, any attempt to borrow immediately arouses suspicion. It is, therefore, undoubtedly good practice for a man, or company, to borrow money from time to time, just to get the financial community accustomed to loaning to him.

The factor most considered by banks in the extension of credit are the quick assets. Quick assets consist of stocks which have a fixed market value and can be disposed of at short notice, accounts receivable which are due from customers in good standing, and, of course, cash on hand and in bank. Many other assets which might be considered excellent cannot be taken into account, because they are of such a character that should the bank come into possession of these it might take considerable time and expense before they could be converted into cash.

In presenting these few elemental facts I realize that those who have made a study of credit conditions will find nothing new or instructive in my remarks.

Credit, as practiced today in the commercial world, is the foundation of all business operations of any magnitude. A thorough understanding of credit will be a valuable thing to you, because you will never know when the time may come when a knowledge of the opportunities afforded to obtain loans may affect very seriously your successful business career.

If, therefore, I have started any one thinking along these lines, I will feel that this paper has not been presented in vain.

---

#### THE DRUGGIST'S STRONGEST ASSET—CREDIT.

---

JOHN R. THOMPSON.

---

You might have \$25,000 in bank and still not be considered a desirable customer by merchants and manufacturers. On the other hand, your bank balance may be very small and cause you no embarrassment, if you are prompt in paying your bills. A strong credit is built up by the method you employ in making settlement, and not by a strong showing in assets.

A bank will lend money and a merchant will give credit more readily to the druggist who has a reputation for prompt payment, even though he may be only moderately rated, than to the man of reputed wealth, who is slow to liquidate.

Good credit is more to be desired, as it is more useful to the business man, than lots of property.

The firms who sell you goods are not interested in what you are worth particularly, but they are alive, indeed, to whether you do or do not pay when your bills are due.

The proportion of druggists who discount their bills is larger than one would suppose on first thought. It varies in different localities, like everything else. In