

UNIT II

CIRCULAR LETTERS

Introduction

In the course of business, occasions may arise when it becomes necessary to notify all the customers about certain fundamental changes in the firm's policy, constitution, place of business etc. In those circumstances, the facts are communicated to a large number of customers through circular letters. A circular letter can be defined as a letter containing a formal message addressed to a large number of customers. Since the message to be conveyed is the same, the circulars are generally printed or cyclostyled leaving space for inside address.

The names and addresses are incorporated or typed on the space provided. Thus, a circular letter is a letter of which many copies are prepared and sent to a number of customers.

Objectives of Circular Letter

There are four objectives of writing circular letters. They are the following.

- 1.To obtain publicity for a cause, a campaign or a product introduced.
- 2.To make the reader interested in their contents.
3. To impress the reader with facts and information about the firm, its policy etc.
- 4.To gain the confidence of the reader.

Situation for Writing a Circular Letter

Circular letters are usually written in the following occasions :

- 1.Establishment of a new business.
- 2.Admission of a partner
- 3.Change in the address of the place of business
- 4.Death or retirement of a partner
- 5.Purchase of a business.
- 6.Obtaining an agency.
- 7.Price reduction and clearance sales.
- 8.Conversion of partnership into a company.
- 9.Introduction or arrival of new products or new schemes.

Special Hints on drafting Circular Letter

Circular letter is a constructive force. To make it more effective, different strategies should be adopted for different occasions. Therefore, the task before the writer is not an easy one. The following points are to be borne in mind while drafting circular letters.

1.Establishment of a New Business:

A circular letter announcing the establishment of a new business should touch the following matters.

- 1.Name of the firm, address and the nature of its business.
- 2.Date of opening of the business firm.
- 3.The knowledge of the proprietor, his experience and reputation.
- 4.A reference that the goods of high quality are being offered at competitive prices.
- 5.The capital at the disposal-exact amount however, should not be disclosed.
6. An invitation for a trial order and a suggestion that the result would be satisfactory.

2.Admission of a Partner:

A letter of this type should touch the following points.

- 1.Circumstances that led to the admission of the partner, expansion of business etc.,
- 2.The name of the incoming partner.
- 3.His business experience, knowledge and ability.
- 4.An appreciation about his assistance and how it shall help the firm to satisfy customer's wants more effectively.
- 5.An expression of thanks to the customers for their patronage in the past and a courteous request for its continuance in future.

3.Change in the Address:

This letter should highlight the following.

- 1.The reasons the promoted the firm to shift to new premises.
- 2.The relative superiority of the new premises.
- 3.The address of the new premises.
- 4.An explanation how the new location shall be conducive to efficiency in manufacture or distribution.

4.Retirement or Death of a Partner:

The letter should include the following points.

1. An announcement of the fact either death or retirement with regret and so appreciation with reference to his service.
2. An assurance that the business shall be continued on the same lines as before.
3. In case of retirement, specify the reasons that led to his retirement.
4. Another that there constituted firm is adequately financed, deficiencies have been adjusted by contribution from the remaining partners.
5. If the name of firm is changed, the new name should be communicated.

5. Purchase of a Business:

The letter can be drafted on similar lines suggested for circular is announcing the establishment of a business. In addition to them, the following points should be included:

1. An announcement of the fact and the name under which the business shall be conducted in future.
2. If the firm has been successful in the past, a reference that the traditions shall be preserved.

6. Obtaining an Agency:

Drafting a letter to announce the obtaining of an agency calls for special skill and care. It should cover the following points.

1. The details of the agency obtained.
2. Comparative merits and advantages of the goods or services entrusted under the agency.
3. If the product offered is unknown in the locality, a reference to the excellence of the product and fairness of its prices.
4. An invitation for a trial order and an assurance that the result would be satisfactory.

7. Price Reduction or Clearance Sales:

A price reduction or clearance sales is generally advertised in newspapers or by posters and handbills. But, at times, businessmen can announce them by means of the circular letters as well. The comparative advantage of a circular letter over the other means of advertising are the following.

1. A letter can be addressed to a special class or a selected number of persons and is less likely to be overlooked.
2. The product can be more fully explained or described in a letter than in an advertisement.
3. A letter unlike an advertisement can be kept by the recipient in his file for future reference.

While drafting circular of this type, the following points must be touched.

- 1.The nature and date of the sale and the most attractive features of the offer.
- 2.An invitation to the customer to visit the shop.
- 3.Range and variety of the products offered under clearance sales. However, care should be taken to remove the impression that they are only for the fortunate few.
- 4.If the reduction in price is really great, the actual price should be quoted.Both the original prices and the reduced prices should be given, so that the customer can make comparison of the reduction.

8.Conversion of Partnership into a Limited Company

- 1.An expression of the expansion of the firm's business and the consequent need for more capital.
- 2.An assurance that their quality shall suit the customer's needs and tastes.
- 3.The competitive return of the prices, terms etc.,

This type of circular is purely sales letters, which aim sales promotion. Therefore, the principles for drafting sales letters are equally applicable to these letters also.

SPECIMEN CIRCULAR LETTERS

Letter 1. Establishment of a New Business

K.S. PAPER MART

48, T.H. Road,
Chennai - 600 005.
10th May 2008.

Dear Sir,

We are pleased to inform you that on 20th May 2008, we shall be opening a retail paper stores, under the style "**K.S. Paper Mart**" at the above address, where you may rely on receiving high-quality paper at competitive prices.

The capital at our disposal is sufficient to enable us to honour our obligations and to lay in stocks different varieties to satisfy the most exacting requirements.

We hope that a trial order would win your further custom. An opportunity to prove the truth of this claim would be greatly appreciated.

Yours faithfully,
K.S. Paper Mart,
K. Sridhar
J. Sundar
Partners.

Letter 2. Admission of a Partner

RATHNA ELECTRICALS

15, Netaji Road,
Coimbatore - 641 001
15th May 2008.

Dear Sir,

We are pleased to inform you that we have this day admitted into partnership Mr. K. Ranjit, who has for many years been associated with our business in various responsible positions.

We are confident the Mr. K. Ranjit will exert every effort to further the interest of our firm and we trust that you will continue to favour us with your valued custom.

Yours faithfully,
Rathna Eletricals,
N. Poaghavan
Managing Partners.

Letter 3. The Change of Address

ARUNA MACHINE TOOLS (P) LIMITED

No. 10, Industrial estate,
Madras Main Road,
Madurai - 625 001.
10th May 2008

Dear Sirs,

The steady growth of our business has made essential an early move to a larger premises. Our old factory has rapidly become unable to cope efficiently with the increased demands of both old and new customers and to ensure satisfactory service, a large area at the above address has been acquired.

The site is particularly good one in the heart of a large Industrial estate within the easy reach of the railway and the road transport difficulties are thus reduced to minimum and early deliveries are ensured.

The new factory offers great scope for mechanization and a resulting increase in both the quantity and quality of our output is confidently expected. Transitional periods, as you know will give rise to considerable difficulty. We trust that you will in the circumstances allow us a certain amount of latitude. As the factory will be ready for production within a fortnight, we can assure you of the prompt delivery of all goods ordered next week.

We take this opportunity of expressing our thanks for your confidence in the past, and we hope that the improvements we shall introduce will lead even to more business.

Yours faithfully,
For **Aruna Machine Tools (P) Ltd.**,
V.M.P. Renganathan
General Partners.

STATUS INQUIRIES

Goods may be sold for cash or credit. When they are sold for cash the deal ends there. But when they are sold on credit; it is necessary to know the trustworthiness of the customers. Hence the Credit Sales play a vital part in the growth of any business. As business on credit invariably carries an element of risk of non-payment businessmen always make enquiries regarding the financial standing, reputation, credit-worthiness and above all the character of the new customers before entertaining credit deals with them. Such information relating to the *status* of '**Credit Customers**' can be obtained from all or any of the following sources:

- (i) Business acquaintances of the prospective credit customer;
- (ii) Credit Information Agencies (also called Mercantile Inquiry Agencies); and
- (iii) Banks.

(i) Trade References

Usually an order for goods or application for an appointment or an Agency from an unknown person will contain Trade References, i.e., the names of firms or individuals to whom

inquiries about his standing may be addressed. If the order or application does not give any reference, a request to furnish the same must be made very tactfully by careful wordings.

The business friends of a prospective customer who is in need of credit facility or an agent who wants agency may supply the required information free of charge.

The firm giving credit or a job or an agency should take care to see that the persons whose names are given as references are themselves reliable, by making use of several sources of information and checking them against one another before a final favourable decision is taken.

(ii) Credit Inquiry Agencies

Information Bureaux supply reliable information regarding the status and standing of any person of firm, professionally, according to a fixed scale of charges.

Such information can also be had from Chambers of Commerce and Trade Associations.

(iii) Bank References

As a Banker will answer Status inquiries only from another banker, the business house making the inquiry must address it to its own banker and ask him to obtain the required information from the banker whose reference the prospective customer or agent has given.

Hints on giving Replies to Status Inquiries

1. Make it as brief as possible, but let it be clear and adequate.
2. State only on the basis of your personal knowledge and experience of the correspondent and not on hear say.
3. Do not specify the amount up to which it would be safe to grant credit unless the inquirer is very particular about it.
4. Express the unfavourable opinion with extreme care and tact, the best way out is to state that you are unable to express any opinion about the person about whose status the inquiry is made. Avoid mentioning the name of the firm, if it is necessary to give some unfavourable opinion.
5. Always make it clear that -
 - (i) You are in no way responsible for the information you give;
 - (ii) the matter should be treated private and strictly confidential and
 - (iii) you should not to be quoted

Steps in the Status Enquiry Correspondence

- | | |
|-------------------|---|
| 1.Seller / Dealer | -to Customer - asking for his Trade and Bank Reference. |
| 2.Customer | -to seller - furnishing his Trade and Bank Reference. |
| 3.Seller | -to (i) Trade Reference
to (ii) Bank Reference |
| 4.Trade Ref. | -to Seller giving Favourable or Unfavourable Reply. |
| 5.Bank Ref. | -to Seller giving Favourable Unfavourable Reply. |
| 6.Seller | -to customer executing refusing to execute the order. |

Letter No. 1: A letter asking for reference.

SIDDHARTA FURNITURE WORKS

110, Subash Road, Shimoga - 6.

Phone No.....

Fax

E-mail

March 4, 20....

To
Messrs Shankar Rao & Brothers,
4, Gurumurthy Street,
Hassan - 5

Dear Sirs,

Sub : Your Trade and Bank References

Thank you for your order of March 1, 20

We are glad to inform you that it is having our attention. It has been a regular practice of our firm to ask for a few trade references, while opening an account for the first time. As we did not have the pleasure of doing business with you earlier, you would be helping us a lot if you could send us, at your earliest, the names of two or three business houses of standing.

Yours faithfully,

For Siddharth Furniture Works

Letter No.2: A letter by the customer furnishing his code and Bank References.

SHANKAR RAO & BROS.

4, Gurumurthy Street,
Hassan-5

Ph.....

Fax

M/s Siddharth Furniture Works
110, Subash Road,
Shimoga-5

Dear Sirs,

Sub : Our Trade and Bank References

As required by you we are furnishing below our Trade and Bank references with whom we have been having business transactions since last fifteen years.

Trade Reference - Varum & Sons
Shop No. 10, Majestic
Circle,
Bangalore- 560002.

Bank Reference - Corporation Bank of Orbit
Yard, Hubli-2.

Kindly complete the formations and execute our order at your earliest.

Thank you,
Yours faithfully,

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COLLECTION LETTER

Introduction

Credit is incidental to trade. No businessman can survive in this competitive business world without extending credit to his customers. When credit is given to the customer, the problem of collection shall naturally arise. The businessman cannot realise the real profit on a sale until he collects the amounts involved in it. In other words, profit will remain as a mere obstruction if collections of credit sales are unduly delayed or result in large amounts of bad debts.

Timely collection is also very important from the point of working capital position of the firm. Prompt collection releases the funds locked in debtors accounts and ensures a steady

flow of working capital and facilitates further business. If uncleared even to continue his business unless he is financially sound. It is, therefore, rightly remarked that “ *a good collection record is one of the essentials for success*”

A collection letter is also called a Dun. A Dun is a special notice sent to draw the immediate and special attention of the debtor. The word “**Dun**” is derived from the Middle English word “**Dunnen**”, which means to make a loud noise, i.e., each successive collection letter has greater force and pressure than the previous one. A dun means an importunate (persistent) creditor or bill collector. To dun means to importune for payment of debt. Therefore, Dunning letters or Collection letters refer to a series of letters written again and again for the settlement of account.

Guiding principles for collection

The purpose of collection is to collect the amount when they are due. No firm can afford to allow its customers to take undue liberty with the credit facilities given to them. At the same time, undue pressure shall irritate the customers and even lead to a loss of valuable customers. It is, therefore, a delicate task and similar to the task of walking on a wire or a rope where the walker should maintain a balance. While collecting the dues also the businessman should strike a balance between leniency and firmness.

But no hard and fast rule can be laid down for formulating collection policies. The collection procedure tends to vary with individual circumstance, nature of the customers, their past records, the possible difficulties they are facing. The collection policy, in spite of the minor variations required, should be governed by two cardinal

principles. They are :

- 1.Prompt customers.
- 2.Good but slow payers
3. Good but un able to pay because of unavoidable circumstances.
- 4.Fraudulent or reckless customers.

Hints on the drafting of collection letters

1. Draft the Collection Letter after a careful understanding of the peculiar nature of the customer, the way in which he has handled his account and his present condition etc.,

There are different types of customer such as:

- 1.Honest.
- 2.Dishonest
- 3.Negligent
- 4.Miserly
- 5.Aggrieved (those who are in financial difficulties).

2. Assume that the customer will pay (if you consider the customer hopeless, he may take advantage of this).
3. Do not be apologetic (in requesting payment from your customer, you are asking no favour).
4. Make straightforward request for payment.
5. See that the tone of a collection letter is courteous and friendly but firm.
6. Leave the way open for the debtor to pay with good grace.
7. Never send it on postcard.
8. Apply the highest pressure only at the time when the customer's business is at its highest peak.
9. Leave an interval of a week or two between two collection letters.
10. Avoid as far as possible threats (or legal action) because -
 - 1) it is confession of the deplorably inefficiency of the collection department;
 - 2) it is expensive;
 - 3) it leads to a slow and tedious process; and
 - 4) it will result in loss of customers. However, when a threat is made, see that the same is carried out, whatever might be the consequences.

Stages in Collections

The stages in the collection process are well established. The collection letters are usually written in a series. In each successive letter, the tone becomes stronger and sent out at intervals varying with the type of credit risk and the amount involved. Even for a fourth grade customer who is fraudulent, all the successive stage should be passed. In other words, even after knowing a debtor as reckless, the creditor should not resort to the final stage of warning at the beginning itself. The following are the routine stages in the collection process.

72

I. Sending Statement of Account

II. Reminders

III. Stronger Reminders.

IV. Inquiry and Discussion

V. Appeal and Urgency.

VI. Demand and Warning.

Stage I - Sending Statement of Account

The actual collection correspondence starts from the stage of sending reminders, because sending a statement of account is the duty of the creditor. A statement of Account is a copy of the customer's account in the seller's ledger showing the balance to be paid as on a particular date. It serves as a simple reminder to the debtor that he owes a particular amount on the date of the statement or letter. It does not make any request for payment. If the first letter remains unrepaid, a reminder is sent pointing out the possibility of an oversight or loss of the document. A duplicate statement of account accompanies the second letter. These two letters are mere statements. The second letter is also known as a casual reminder.

Prompt payers will generally pay as soon as the first statement of account is received or the casual reminder is received by them. Others, however, will not settle the due.

State II- Sending Reminders

If the first two letters remain unanswered, a third reminder becomes necessary. In this letter, the creditor asks for payment of the amount politely, but not firmly. There is nothing to be gained at this stage by firmness. The debtor's failure to pay may be either deliberate or accidental. If deliberate, firm action can be taken later. If accidental, firm action would humiliate the customer, and thus reduce the creditor's chance of obtaining further business.

Stage III - Stronger Reminders

Even if the third letter fails to bring the desired response, a stronger reminder is needed. In this letter, the debtor should be asked to pay the amount by a particular date. This letter is also called limiting date reminder.

However in this letter also, do not express any doubt about the customer's intention or capacity or do not use any threatening words.

State IV- Inquiry and Discussion

If the reminders do not bring any response from the defaulting customer, the creditor has to take up a different course to get things done. It is yet too early to give up the hope of collecting the amount due. But it is really desirable for the creditor to know the legitimate reason for the delay. Therefore, he should write to the debtor asking him why the payment is withheld. The debtor may have various difficulties - from his customers both personal and business like slow collection, slack of business, weak financial position etc., In any case, efforts should be made to get a reply from him or the debtor may be invited to his place for discussion in an attempt to solve the problem. If he replies, he may be offered necessary assistance to overcome his difficulties and payment in part or whole or a definite agreement for payment may be received from him.

Stage V - Appeal and Urgency

Letter now depends upon the debtor's response to the previous letter. If the customer is good but unable to meet his commitment due to certain difficulties, he will certainly reply to the previous letter. Only reckless customers who fail to reply should be dealt with in this stage. His silence is a clear indication that the debtor wants to avoid payment and urgent action is necessary to realise the

74

dues. A strongly worded letter is to be sent at this stage. The theme of the letter should be an appeal to the debtor's sense of fairness and credit rating and how it will be affected by his attitude. This approach often proves effective and is called the Golden Rule Approach.

Stage VI - Demand and Warning

The correspondence now reaches the final stage. Now it is more important to collect the money rather than to retain the customer. This letter should use fear as its motivating force. The letter should consist of a brief statement that unless payment is received by a certain date-usually within five or ten days, his case shall be passed on to the lawyers. The tone of the letter should clearly indicate that the creditor intends to go through with the necessary action.

Letter No. 1

SRIRAM MOTOR & CYCLE COMPANY

115, Big Street,
Chennai - 600 005.
10th January 2008.

To

M/s. Bharath Motor and Cycle Mart,
21, Big Bazaar Street,
Trichy - 620 001.

Dear Sir,

We enclose a statement of account made up to 31st
October 1999. You will see that there is a balance of Rs.
15,000/- in our favour.

Yours faithfully,

For Sriram Motor & Cycle Company,

R. Sankar

Managing Partner.

Encl. : Statement of Account

Note : The statement of account was made up to 31st October 1999. Two months credit is allowed. Hence the debtor is to repay the due on 1st January itself. Since he has not paid even after the expiry of ten days, a statement of account along with the letter is sent. It should be noted that the letter contains no request for payment.