# THE REVOLVING ACCOUNT PROGRAM

## Summary

The most common and important method of funding receivables used by Snap-on Franchisees is the Revolving Account (RA). RA allows customers to purchase products from a franchisee and make payments in weekly instalments. As the Franchisee will already have purchased the product from Snap-on, the Franchisee is essentially extending their own credit to the customer, so it is critically important that the franchisee collect the money owed to them.

It is a goal for every Franchisee to develop and maintain large enough total RA balances so that regular collections provide sufficient cash flow to replenish tool inventories, pay expenses and provide a good regular weekly income. It is only by consistent RA development and collection efforts that a Franchisee can realise this objective.

As the Franchisee is extending their own credit to customers, they have some flexibility in establishing an RA program for each individual customer. The Franchisee may be able to give established customers easier repayment terms, whilst applying stricter terms to new accounts, or give extended terms for larger purchases. However, Snap-on recommends a repayment schedule of less than 10 weeks for most RA purchases.

It is important that each Franchisee carefully monitors their customers' RA balances and payment records to remain alert to additional RA sales opportunities and to control the risk of customers not remaining current.

The advantages of the program for a Franchisee's customer includes:

- Customers can buy tools on RA and use the products straight away to help them in their work
- Payment can be made in instalments, and there are no fees or interest charges
- Customers can add-on more purchases to their account and adjust their payments accordingly
- They build a relationship with their Franchisee.

The advantages of the program for a Franchisee include:

- A franchisee gains regular payments from customers
- A franchisee will have a record of customers' payments, purchases and balances
- A franchisee can develop customer 'needs lists' to help them make future sales
- A franchisee can build a relationship with their customers

## RA Deposit and RA Builder Account

**All new franchisees must deposit at least AU$50,000 (NZ$50,000) with Snap-on** to support the extension of Revolving Account credit to customers during the start-up of their business.

**This RA Deposit can be used in the following ways:**

- **RA Acquisition** – For franchisees taking over an existing territory, the RA Deposit may be used towards purchase of RA accounts from the previous franchisee. This is at a franchisee's own discretion as detailed in the Franchise Agreement. Snap-on can administer the transfer of RA between franchisees, as explained in the RA Transfer section.
- **RA Development –** The RA Deposit (or any remaining balance after RA acquisition) will be put into an RA Builder Account and is to be used to fund additional RA balances by offsetting the cost of stock purchases, determined by RA sales against RA collections on a weekly basis. This will give a Franchisee the opportunity to develop and fund an RA program with their customers.

## The RA Builder Account

There will be some weeks when a franchisee sells more than they collect on RA and other weeks where the franchisee will collect more than they sell on RA.

In any week when the Net RA sales are more than RA collections, a Franchisee will not have collected sufficient money from their RA customers to pay for the replacement stock that they purchase from Snap-on.

The RA Builder Program is used to finance this part of the Snap-on Franchise business as follows:

1. 65% of the difference between the Franchisee's RA sales and the Franchisee's RA collections will be deducted from the Franchisee RA Builder Account and credited to the Franchisee's Weekly Statement.
2. 65% is the approximate cost of buying replenishment stock.
3. Using the RA Builder Program ensures that the franchisee has the ability to offer product on RA whilst maintaining their stock level.

**Please Note:** Until such time as the whole RA Deposit has been utilised in the Franchisee RA program, the following will also apply:

1. If in any week the payments a Franchisee receives from their RA customers exceeds the sales the Franchisee made on RA ; then

2. 65% of the difference between the Franchisee's RA collections and the Franchisee's RA sales will be charged to the Franchisee's Weekly Statement and that amount re-credited to the Franchisee's RA Builder account.
3. If the RA Deposit is financed by Snap-on then:
   a. When either the full $50,000 of the RA Builder is utilised; **OR**
   b. the Franchisee has been on the road for six months (whichever occurs first);

   the RA Builder is deemed to be fully utilised. Under special circumstances, the Franchisee can apply for the RA Builder period to be extended. This must have approval from the National Franchise Manager and an amendment to the Franchise Agreement must be signed.
4. If the RA Deposit is financed by the Franchisee coming in with Equity for this part of the Franchise, then once the full $50,000 of the RA Deposit is utilised, the RA Builder is closed. This may or may not occur within the recommended six (6) months of commencing on the road.
5. From this point onwards, the RA Builder Program is concluded and the correctly managed ongoing cash flow of the Franchisee's business should finance ongoing growth of their RA program.

## Establishing the Revolving Account

Whilst there are no formal credit checks, it is suggested that a Franchisee assess the following types of information when establishing their RA customers:

- Check driver's licence and record number
- Assess employment history
- Record customer's address and telephone number etc.
- Process a Trade Card application at the same time as establishing the RA. Snap-on Credit will process a credit check as part of the Trade Card application procedure.

This information should be recorded in that customer's file within the Franchisee's computer system (currently the Chrome POS system).

Tools sold 'on RA' are entered into the computer system and an invoice is produced.

The invoice will include the customer's name, address, phone numbers, and a detailed description of the merchandise being sold (including the part number), the date, the purchase price (itemising the merchandise cost, including tax and the freight cost if any, etc.), the amount of the down payment or trade-in, the balance due and the weekly payment (repayment terms).

Each RA invoice a Franchisee produces (including subsequent sales) should be signed by the customer, as this invoice becomes the contract between the Franchisee and the customer.

## Confidentiality of Customers' Personal Information

There is a disclaimer on each RA Invoice produced by the POS computer system. This relates to certain customer details being stored in a database which could be used to track 'RA Skips'.

Legally, Franchisees are required to keep personal information obtained from their customers confidential. Any printed copies of such information must be securely disposed of when no longer required (e.g., use a paper shredder).

## Setting Terms

When setting the weekly repayment for a customer, Chrome will assist a Franchisee in setting the weekly payment by calculating an amount based on a default number of weeks. Avoid 'round numbers' for repayments, such as $30 or $40. For example, if the repayment shown on Chrome is for $38, then collect $38 not $30. If the customer thinks that repayments are always round numbers, it can make it difficult to increase weekly repayments when their balance increases.

## RA Reporting

The Chrome system provides several reports which will help a Franchise manage their Revolving Accounts:

- **Sales Invoices and Customer Receipts** (generated by Chrome to establish the RA and payment terms, Franchisee's security interest and for use as the customer's receipt) must be issued by Franchisees to their customers for every sale and payment. This can be done via email.
- **RA Records / Pre List** (computer system will keep track of each customer's RA payments; a franchisee's 'pre-list' can display recent RA Payment history along with the collection due.)
- **Daily Summary** (to record and report, among other things, daily RA sales and collections for each customer) shows a breakdown of each days RA customers and a daily balance of RA Accounts.
- **Weekly Summary** (to record and report, among other things, the Franchisee's total sales and collections for each week). Displays a 'RA Control' Section with statistics etc.
- **RA Transfer** – When a customer with a RA balance moves into another Franchisee's territory, then the transfer of the RA account is carried out electronically in Chrome. Right click the customer and choose 'Transfer Customer' to start the process (more information in the Help system in Chrome).
- **Account Audit Report –** Chrome can produce a listing of all RA customer balances for you, showing the last sale and collection dates for each customer.

Snap-on also provides other information through planning and business reviews to assist in the management of a Franchisee's RA Business.

## RA Administration

Accurate analysis of the Franchise RA Program is essential in the control of the franchise business and maintenance of the business plan. The importance of ensuring that a Franchisee collects their RA payments from customers when they are due cannot be over emphasized, however, customers may not always be prompt. Should a Franchisee have a customer who they have been unable to collect payments from for 45+ days, then that customer's RA record will be moved to "Past Due". This will keep the Franchisee's weekly analysis of their RA Program accurate. A Franchisee must then take the appropriate steps to recover their money from the errant customer.

## RA Skip Program

The RA Skip Program is designed to assist Franchisees in marking and tracking down customers, who "disappear" from their territory while still owing RA monies.

Within the Chrome computer system, an RA Skip Report exists which enables Franchisees to do the following:

- Mark a customer as a "Skip"
- Compare that customer's details to customer details in other Franchisee's databases
- Provide a "match" report.

For further information and the full RA Skip Process, please Click here.

# RA TRANSFERS

In certain circumstances, it will be necessary to transfer RA balances to or from a Franchisee. All such transfers must be approved by, and should be coordinated with, the receiving Franchisee.

Snap-on assumes no responsibility for completion of RA transfers or collection of proceeds.

## RA Transfer to another Franchisee because of a Customer Move

Customer moves are fairly common. As part of the Snap-on Franchise Program, Franchisees are required to transfer an RA when a customer moves out of their territory. Franchisees should plan ahead. As soon as a Franchisee finds out about a customer's move, they should contact the Franchisee serving the customer's new place of employment. If a Franchisee is unsure of who the new servicing Franchisee is, they should contact Customer Service. After the Franchisee has received the moving customer's last RA payment before the transfer, the Franchisee should use Chrome to electronically transfer the customer, just right click the customer and choose 'Transfer Customer' to start the process (more information in the Help system in Chrome).

Once the transfer is submitted, the receiving Franchisee has 45 days to verify the accuracy of the RA information, the credit worthiness of the RA customer or any other factor whatsoever and to reject the transfer if they wish. Any rejected RA transfer remains the property and responsibility of the original Franchisee. Each transfer will be effective only (i) after 45 days expire without rejection, or (ii) if the Franchisee sells additional merchandise on RA to the customer, whichever is earlier.

Unless otherwise agreed in writing between the two Franchisees and approved by Snap-on, the selling Franchisee will be credited on their weekly Statement for 65% of the outstanding RA balance(s) transferred to the receiving Franchisee. Generally, the credit will appear on the next statement following the transfer, as long as the receiving Franchisee has Clicked 'Complete Transfer' within Chrome.

However, if the total balance of the transferred RA(s) is large, the DC may credit and charge Franchisees per their mutual agreement.

**Outstanding RA Balance Owing**

The receiving Franchisee will be charged **65%** of the outstanding RA balance(s) after they either:

1. Accept the transfer;
2. Sell merchandise to the RA customer; or
3. The forty-five (45) day rejection period expires.

The receiving Franchisee will pay this charge, like any other, when paying the weekly minimum due on the Weekly Statement.

**Outstanding RA Credit Owing**

The transferring Franchisee will be charged **100.0%** of the outstanding RA credit balance(s) after they either:

1. Accept the transfer;
2. Sell merchandise to the RA customer; or
3. The forty-five (45) day rejection period expires.

The receiving Franchisee will pay this charge, like any other, when paying the weekly minimum due on the Weekly Statement.

**RA Transfers between Franchisees are at the Franchisees' own risk. Snap-on's involvement is purely to provide a convenient mechanism for transfers to take place.**

## RA Transfer to another Franchisee because of a Territory Amendment

When a customer "moves" due to an amendment in a Territory, the transferring Franchisee has the following options:

1. During the thirty (30) day Territory Amendment Notice Period, the Franchisee can collect the outstanding RA balance.
2. During the thirty (30) day Territory Amendment Notice Period, the Franchisee can collect the standard weekly payment and then transfer the RA Balance to the customers' new franchisee.
3. The transferring Franchisee can continue to sell to the customer, but the transferring Franchisee should be aware that any RA balance at the end of the Notice Period will be transferred to the customers' new franchisee.

Once the thirty (30) day notice period has elapsed, the transferring Franchisee MUST transfer the balance to the customer's new franchisee. This will be conducted as per the steps outlined in the "Customer Move" section of this chapter.

**A Franchisee cannot continue to service a customer that is no longer in their Territory.**

## RA Transfer to another Franchisee because of Selling Franchisee's Termination or Transfer

A terminating Franchisee or a Franchisee moving out of a territory will frequently transfer all the RAs for customers to the successor (incoming) Franchisee. This procedure is slightly different because no customer is moving and an entire RA portfolio is involved. Therefore, instead of transferring each account individually through chrome, the Franchisees generally sign a Revolving Account Agreement.

This signed Agreement must be sent to the DC along with the Account Audit Report. Regardless of whether an Incoming Franchisee is using Snap-on Finance or not, the process is:

- The selling Franchisee is credited 65% and the receiving Franchisee is charged 65% of the outstanding RA balance(s) transferred.
- A terminating Franchisee's credit is subject to reduction for amounts due to Snap-on, as provided in the Franchise Agreement.
- The receiving Franchisee also has a forty-five (45) day period to verify all RA information and to reject any portion of the transfer(s) at their sole discretion.
- Any rejected RA transfer remains the property and responsibility of the selling Franchisee.

### RA Customer Credit Balances

Any RA Customer Credit balances are transferred to the receiving Franchisee at 100%, should the receiving Franchisee choose to accept the balance. The receiving Franchisee is under no obligation to accept credit balances.

If the receiving Franchisee chooses NOT to accept a credit balance, then the selling Franchisee MUST refund to the customer the funds due.

Any credit balances accepted will be transferred through the Weekly Statement.

### RA Payments Made to Incoming Franchisee

Should a receiving Franchisee accept an RA payment during the 45 day audit period, this is not an automatic acceptance by the receiving Franchisee of the entire RA balance. At the end of the audit period, if the receiving Franchisee does not wish to accept that customer's RA balance in full, they will remit any payments received through to the selling Franchisee. This remittance will occur through the Weekly Statement.

The selling Franchisee is then responsible for any further collections.

## Repossession

If the customer does not pay their RA account, the Franchisee does not have the right to repossess the financed merchandise.

Snap-on disclaims any responsibility for any repossession procedures undertaken by a Franchisee to recover RA merchandise. If the customer does not surrender merchandise voluntarily, the Franchisee is advised to obtain legal advice.

Any tools purchased on RA are purchased as an unsecured loan, so by Law the return of any goods is strictly voluntary by the customer. If the customer refuses to sign the repossession form and give back the goods, a Franchisee is not at liberty to take them forcibly.