Collections – The Right Way:

Too many businesses treat past due accounts receivables collections as a low skill task to be performed without any prescribed methodology for accounts which are 90 days or more past due. Sometimes an accounting clerk is assigned the chore, sometimes even the receptionist. If those efforts don't work, the account may simply be turned over to an outside collections agency.

Poor collection efforts not only lead to cash flow problems for a business but can lead to a company going out of business altogether.

In addition, poor collection efforts can sour company/customer relationships needlessly.

Some common misconceptions need to be corrected:

- ☐ Past due accounts are just bad customers and threats and accusations are therefore in order
- ☐ Collection attempts will ruin the customer relationship
- ☐ A series of written notices should first be mailed out before calling, leaving the calling until the account is 90 days or more past due.
- ☐ Anybody is suited to make the collection calls
- ☐ Collection agencies are effective and a good alternative to taking up an employee's time in-house
- ☐ Collection calls are by their very nature confrontational and unpleasant.

All of the above beliefs about collections are false.

Collection calls should be performed by someone who is detailed oriented, has a nice telephone personality, communicates clearly in good English (both verbal and written), understands math, and can think creatively in real time. Without these traits, training will be ineffective. Such a collections person may or may not exist in the accounting department.

Professional collections training should be provided to the person assigned to do collections but first, here are some tips, guidelines, and rules:

1. Never accuse the past due customer of anything or make them wrong. By asking questions in the right way, they will end up painting themselves in their own corner through inconsistencies and unfilled promises. This is done exclusively through the use of questions.

2. Forget the past due letters. Call the customer's accounts payable clerk or accounting manager early on (just after 30 days) to find out what is going on.

3. Consider the initial collections call an opportunity to find out about customer satisfaction and problems. Assume good faith until proven otherwise. Some customers don't pay a bill simply because they feel they didn't receive the service or product promised or that such service or product was inferior or inadequate. They may very well be right with the fault lying in one of your departments.

The customer may not have received the invoice or misplaced it. They may have found the invoice to be incorrect. So, the collections caller must also be empowered to solve the problem, working with the other departments of the company to do so as necessary.

4. Find out who the decision maker is for customer payment checks' approval. Don't assume anything in this regard as the check approval decision process varies by company.

5. Keep detailed records of all such collection calls noting a scheduled time to call back, who to call, telephone numbers, and commitments.

6. Do not make the collection call before researching the account and having the client file and a copy of all invoices outstanding and the accounts receivable aging report for that account in front of you. That way, if the customer asks for you to send the information again, you can do so immediately while they are on the phone and confirm its receipt.

7. Do not get off the phone without some kind of commitment, unless there was a problem with the service or product. That commitment should be the customer's, not yours and could be anything from doing research on their records to making some level of payment against the balance owed. If a payment is promised, find out how much, against which invoices, exactly when the check will be ready, and where you can pick it up (or have picked up) if local. This takes away the "it's in mail" excuse and lets them know you are both serious and professional. After a planned number of mail transit days, call immediately if not received.

8. Provide regular uninterrupted time for collections, being sure to be persistent and timely in making follow-up calls immediately when promised or due. Such persistence and timeliness will convey seriousness and the message that you are not going to forget about the issue or get too busy to deal with it. Not doing so will have the opposite effect and defeat or delay the collections effort. This consistency also means the collections caller must have this duty assigned as a primary duty, not secondary. Such work is critical to the health of the company. Remember, the best chance of collecting is using the personal relationships and bonds that already exist between the company and customer. Once that payment connection to the company is broken (via a collections agency for example), the past due customer assumes the debt is written off and payment is no longer as important.

9. In the event the customer representative with whom you are speaking has totally discredited him/herself, go up the chain of command to get a solution – to the comptroller, CFO, and then the president of the company. If all else fails, either write the account off the books or take the customer to Small Claims Court. Small Claims Court can be a lot of work and time but you will usually win in the end if the documentation is in order. The limit is $5,000. However, if the amount outstanding is over that limit, you can submit separate claims for each outstanding invoice under $5,000. Although this process is a little more work, the procedure will drive the past due customer nuts.

10. Lastly, if the customer is not paying their bills, don't keep approving new business with that account. That may seem obvious, but if two company departments are not communicating properly, it often happens, as I have personally witnessed.

These guidelines are not meant to replace necessary collections training but can be a good start on your collections results.

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