

Los Angeles Business Journal

Small Business Handbook 1991-92

Simple Steps to Improve Collections

By Robert N. Kohn
and Lawrence M. Kohn

Sales figures lie. Hidden within every order is the risk of delayed payment, or worse, no payment at all. Fortunately, with some attention to your collection effort, you can develop the dialogue, the documents, the policy and the procedures to get exactly what you want

Delinquency creates a downward spiral. As it constrains cash flow, you have to acquire debt, which in turn, creates an interest expense. Interest expense reduces profitability and your ability to grow. Ultimately, delinquency is the road to write-offs.

The most obvious reason why delinquency occurs is that customers who are short on cash are possibly paying someone else instead of you. If that is so, then an effective collection campaign will increase the likelihood that your payment is a priority.

But more often than not, delinquency results because collection is seen as a distasteful task that will strain customer relations and lose business. That kind of logic is comparable to a child unwilling to take medicine. Although collection may be a bitter pill, delinquency is a dangerous disease.

When a collection problem begins to infect your portfolio, your first goal is to handle the immediate collection crisis, and then to implement a system for ongoing prevention and maintenance.

Implement collection training

The first step in handling a collection crisis is to train your staff in the appropriate dialogue, attitude and strategy. Some account reps are too quick to threaten legal action and their tone is insulting and demeaning. This attitude can alienate an otherwise cooperative customer.

The better account reps are pleasant, confident and skilled in active, compassionate listening. You want to acknowledge the concerns of your customers, communicate your desire to accommodate their needs and then begin to identify a reasonable solution that meets everyone's requirements.

Develop the habit of documenting your discussions with customers through correspondence. Written confirmation is more binding and forceful than verbal communication. In fact, whenever possible, you should try to convince customers to acknowledge their commitments in writing.

Another key to effective collection is follow-through. You want clients to understand that you are committed to collecting your receivables and that you are not going away until you are paid in full. The best technique for sending that message is to have your customer commit to a payment date. Put the commitment in your calendar and follow up that day if you don't receive the payment. For chronic accounts, it is a good idea to call a few days before the payment due date with a gentle reminder to pay.

Implement collection systems

As you bring the immediate collection problem under control, you will want to design a system of policies and procedures to insure ongoing attention to your receivables and to help prevent future delinquencies.

Create a collection policy

Step one in implementing a collection system is to create a collection policy that will be enforced. A collection policy establishes a time frame when payment is expected and defines procedures.

In order for your collection policy to be effective, the principals of your company must be committed to it. Everyone must be in agreement and actively support the collection policy so that when customers call to complain, there is no breaking down.

If anyone in your firm backs down, it sends a message to the customer that you are not serious, and it demoralizes the staff person who is working hard to collect.

Hold regular collection meetings

The best way to promote the appropriate attitude is to hold regular collection meetings, attended by all principals.

Collection meetings instill a corporate collection culture, and allow review of each delinquent account to decide on a specific strategy for bringing it up to date.

Improve your ability to analyze the credit worthiness of your prospects

If you want your customers to pay you on time, pay close attention to the information provided on the credit application. Are you getting complete information and are you really checking references? Often, the application is taken merely as a formality, and then ignored.

Also, there are significant advantages if the application is signed by the customer. Check with an attorney for applicable state laws.

Additionally, you can obtain credit and financial information from a variety of credit agencies. However, this information may be outdated or inaccurate and should be verified. You should make every effort to obtain a current financial statement on your prospect.

Improve the quality of your documentation

Try to take security interests whenever you can; both in the products you are selling, and in some cases, in the customer's assets.

Obtain a legal opinion about the proper method of perfecting your position. If security interests are not available, perhaps you can obtain a personal guarantee. Get an application and financial statement on the guarantor.

If financial difficulty develops, creditors with security interests or guarantees may have priority over those who do not.

Improve the terms of your agreement

Adding interest and late fees to past due amounts also discourages customers from paying late.

Always check the laws of your state to determine how much you can charge and what documentation is required to enforce payment. Then, be sure that the fees are actually added to the invoices. If you do not enforce the collection of interest and late fees, your clients may not feel obligated to pay them.

Pay attention to your billings

State the payment terms clearly on the invoice. Vague references, such as, "Due on receipt," can be ambiguous and subject to dispute. Also, mail your billings on time. You can't expect your customers to pay on time if your billing is late.

Write a comprehensive procedure manual

A procedure manual is a valuable collection tool. A well-written procedure manual will help insure that your collection effort is consistent because it enables anyone in the company to learn how to collect and be able to take over at

any time. This manual should explicitly describe the dialogue and correspondence used in contacting delinquent accounts.

Create a collection form

Each delinquent account should have a form with specific questions about the customer's reason for delinquency and ability to pay. The more client information you assemble, the easier it will be to develop a plan of action.

Maintain a separate history for each delinquent account

A history is necessary to maintain control over your collection effort. It enables you to accurately remember previous conversations with customers and give you the ability to know the status of every delinquent account. All communication, i.e., discussions, promised, messages left, should be recorded in detail.

Prepare a delinquency report

A delinquency report which lists only the slow-paying customers enables you to more effectively focus on those accounts. The report should be distributed regularly to account supervisors so that they are always aware of which customer accounts are past due.

Although it is necessary to be sensitive to the issue of being competitive, it is important to make an extra effort to collect every account so that when you look at sales figures, what you see will be what you get and your accounts receivable won't be *accounts receivable*.

Robert N. Kohn and Lawrence M. Kohn are principals of Los Angeles based Kohn Communications. They may be reached at (310)652-1442 or info@kohncommunications.com