

Converting Delinquency Into Currency

by
Lawrence M. Kohn and Robert N. Kohn

Collecting delinquent accounts receivable is unpleasant work. That's why it gets postponed. Of course, avoidance only makes the problem worse. You get pressure from your partners. You get frustrated working for free. You feel anxiety that you're putting your own needs before the needs of your clients. You worry that your collection effort will result in losing the clients you worked so hard to acquire. Fortunately, there *is* a collection procedure that will reduce your anxiety, help you get paid and maintain the respect and loyalty of your clients.

First, you need be aware of a collection problem as soon as possible. It sounds obvious, but this is regularly ignored. Poor reporting turns accounts receivable into accounts "deceivable." Therefore, the first step in an effective collection effort is to create an aging that reveals delinquency on a monthly basis.

The next step is to delegate the job of managing collections. The collections manager is responsible for communicating delinquency to the partner of record and monitoring the collection effort. Also, he or she must report to management on a regular basis regarding each delinquent account. The frequency of the meetings will depend on the severity of the delinquency. The agenda for each meeting should include the most recent developments, the plan of action and a timeline.

Then, of course, you need to communicate with your clients. The most significant obstacle to communicating with delinquent clients is the mistaken notion that your job is to *convince* them to pay you. This is a common mistake and could delay action. It may stimulate a fear of failure. It may put you at risk of feeling pushy or manipulative.

Instead of convincing, the appropriate collection strategy is to constantly *determine the intent* of your clients. You should try to quickly distinguish between those clients who are cash poor but well intentioned, and those who intend to *abuse* you. If clients sincerely intend to pay you, but are cash poor, you will probably want to maintain the relationship and make a sincere, patient effort to accommodate their needs. On the other hand, if you determine that your clients are not honorable, you'll worry less about maintaining a relationship and focus more aggressively on collecting the revenue.

Test the Integrity of Your Delinquent Clients

Since *determining intent* is the strategy, the collection procedure becomes a series of what we call, "Integrity Tests." The tests you implement are designed to analyze clients' **attitude** and **behavior**. Each time you reach out, you must *listen* for **sincerity** and *request* some **action** which proves it. You should expect to request a series of small actions. Requesting small steps demonstrates your patience and respect but keeps the collection effort on track.

It is very important to keep an accurate record of each step you take and the commitments made. Failure to document commitments will result in forgetting exactly what was promised. Confusion over promises will make the testing process unclear and delay results.

The collection procedure starts when an account becomes 30 days delinquent. At that time, you should implement the first test. You want to find out if your client cares enough about you to acknowledge receiving your invoice. For smaller amounts, or relationships where you feel confident about the intent of the client, it is appropriate to

send a letter requesting confirmation that the invoice has been received. In all other cases, it's smart to make a phone call or send an e-mail which accelerates the process.

This first outreach can be made by a support person and it is directed to the accounts payable department of the client. If the client has no such department, it is directed to the client. If you call and the contact can't be reached, it is appropriate to leave a voice-mail message - only about receipt of the invoice. The process of leaving a message about receiving the invoice is a non-threatening test. Also, it is easier to make the call since you are not asking for the money, only an acknowledgement of receiving the invoice.

If there is no response within 24 hours, a follow-up call should be made once again addressing only the issue of receipt. With no response, call again the **next** day. After three unreturned messages to the accounts payable department, you or a partner should call the next level of authority. The message is that you have been trying to get a return call from accounts payable and to please ask them to respond. This message should be left again in one day and then again if there is no response within 24 hours. Then, you should send a letter *referring to your unanswered calls* and request a status on the payment. If there is no response, it will become obvious that their intentions are to ignore their responsibilities.

Hopefully, the client will call back or you may actually reach them in the first call. When contact is made, the procedure should be to ask other questions which test the client's intentions. One question is whether or not the client acknowledges that bill is correct. If they think it is not, you can discuss their concerns. If they're correct, you can make the necessary alterations. If their concerns have no basis, they are signaling insincerity.

If they acknowledge that the bill is correct, the procedure is to ask if they want to share the reasons for the delay in payment. Here, the reasonableness of the answer will help you determine sincerity and also the severity of the problem. The next question asks about their plan to solve the problem. Of course the final test questions are, "How much will you be sending?" and, "When will you be mailing a check?"

Delinquent debtors may not always be able to pay you in full, but they should be willing to reveal their problems and solutions and agree to pay something quickly. At a minimum, they should agree to consider their situation and contact you within 24 hours to report on their decision.

If a client fails to keep a commitment, respond with a call at the end of **that** day. This sends a message that you expect your clients to live up to their word. The procedure of testing for intent and monitoring compliance will move the process forward.

While an effective procedure is the most important aspect to your collection effort, there are some other practical techniques you can use to reduce anxiety for both you and your delinquent debtor.

A remarkably important technique is to keep your emotions neutral during every communication. When you are calm, you are less likely to send messages of anger or impatience that may be hurt the relationship. This may seem difficult, but there are several techniques that will help.

- Remind yourself that this call will probably be only one call in a series of interactions. As long as you keep your cool, no one thing you say or do will be a deal maker or breaker. Anticipating that you will have several interactions reduces the pressure to solve the problem immediately. That can help you feel more calm.
- Take a deep breath before you dial to reduce your tension.
- Put on a modest smile. A modest smile automatically softens your voice. It also reduces the possibility of getting angry or impatient.
- Keep in mind that your task is to find out the intentions of the client – **not to try to convince them to pay you**. Keep your focus on **their** behavior, not yours. That may help calm your nerves.

- Never feel obligated to commit to anything under pressure during a conversation. Knowing that you do not have to respond to an unsatisfactory offer can reduce the anxiety of a call.

In addition to keeping emotion out of your communication, it is important to remove any notion that your behavior might be inappropriate. It is a common error to use the “good cop, bad cop” technique of blaming others in your organization for your calling to collect past due receivables. This approach may feel as though it removes the blame, but it sends a message that you don’t believe there is validity to your call. If that is the case, it means you do things you don’t believe in. It also tells the client that if they don’t pay, it would be okay with you. Those are not the messages to be sending.

Another frequent mistake is to undermine the efforts of others by allowing your client to complain about a collection call made by someone else in your organization and convincing you to change the deal. This allows the client to play one person in your organization against another. Furthermore, it postpones collection, and also undermines employee morale and team spirit in your firm.

With an effective procedure, you can promptly and persistently pursue payment. Since your collection procedure should be designed to test the intent of your client, you’ll quickly differentiate between the compliant and the defiant. And that will change you fears of being a predator into the confidence of a reasonable, yet effective, creditor.

Robert N. Kohn and Lawrence M. Kohn are principals of Kohn Communications, a Los Angeles-based consulting firm specializing in the marketing and management of service providers. They can be reached at 310.652.1442 or visit their website at <www.kohncommunications.com>.