

10 Steps for Maximizing Internal AR Collection

1. ACT EARLY

In debt collection timing is 99% of the game. Most companies waste the first 30-60 days beyond terms re-invoicing their clients and “hoping” everything is alright. Some companies are so timid that they take a “let’s give it more time” approach. Any collection agency in the country can tell you that while creditors think they are earning points with their clients by being empathetic, their customers are only digging themselves into a deeper hole with **their other vendors**.

The average small business has over 20 vendors they use each month. For mid-sized businesses this number skyrockets to over 50. What this means is that while you think you’re having a one-on-one conversation with your client, you’re really just a voice in the choir...and the worst thing you can do for your AR is to arrive late to this particular party.

The three most common reasons that invoices age without payment are:

- Your company is unsuccessfully competing with **other vendors**
- There is an unknown/unresolved dispute impeding payment
- There is some level of uncommunicated financial distress

Regardless of the situation, a proactive strategy for early-stage recovery will likely bring any of these situations to the forefront where they can be dealt with.

2. ACT OFTEN

When deciding how often your staff should be contacting your

delinquent customers, consider how often your own company issues checks to your vendors. You probably have check runs every week and even the smallest companies pay their bills twice a month.

Considering this, I am continually amazed by how many companies worry about spacing their AR contacts too closely...afraid that their customers might be offended by frequent contact.

The truth is that for every 30 days an invoice ages beyond terms your collection likelihood can decrease by as much as 8-12%. Put simply, when it comes to collections there is no time like the present. You should plan for some form of weekly contact until your invoices are paid or payment arrangements are reached. Any less and you are opening the door for the other vendors vying for **your** funds.

3. HAVE A PLAN

As with any other critical function of your business each step of your post-sale invoice collection efforts should be clearly defined, designated to a timeline and formally documented. Every effort should be made to ensure that everyone involved with AR collections, from the desk-level collector to the CFO, are all on the same page as it relates to what actions will occur at what stage in the delinquency cycle.

4. COLLECTION LETTERS

One of the most critical aspects of a well rounded collection policy is having a series of pre-written collection letter templates. Your

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letters should be both time and event-sensitive. By standardizing the timing and content of your written communications you can both benchmark their effectiveness as well as ensure a uniform client experience throughout the delinquency cycle.

In addition to your standardized collection letters, thought should be given to event-responsive situations. For instance, you will need additional letters to address situations such as;

- over-limit notifications
- NSF checks
- expired credit card information
- declined credit cards
- request for updated trade/bank references
- broken payment arrangements

With a little forethought and advanced preparation your arsenal of collection letters can take the guesswork out of 99% of the situations your collection staff encounters and will ensure that they respond appropriately and effectively.

5. COLLECTION CALLS

Now that your staff is supported by a series of pre-written collection notices, your attention should now turn to providing them with a game plan for their outgoing collection calls to delinquent customers. In addition to basic training on the objectives of each call, they should receive a flip book of sample call scripts (ideally with a bullet point tutorial included) so they are familiar and comfortable with how the flow of the call should go and how it should sound.

This aspect can be a major fumble point for many organizations (it's not like they teach Collection 101 in college) that don't have a management lead with experience with internal collections. However, with the proper forethought and research into collection methodology most companies are able to commit their objectives into an intelligent call progression.

6. ALTERNATIVE CONTACT METHODS

To augment your outbound collection calls, consider the use of alternative (complimentary) contact methodology. For instance, your collection letters could be emailed or faxed in addition to USPS snail mail. Most business owners/managers spend the majority of their day at their desk with their email accounts open...which means your chances of catching their attention increase greatly.

Similarly, faxes tend to be hand delivered by their admin staff. Either way, by doubling up on your delivery methods you more than double your chances of getting their immediate attention... only to be reinforced a few days later when your hard copy letter arrives. If your collection calls result in unreturned voicemail messages try expanding your call efforts to include any known cell phone numbers for the owners or managers of the business. Do not underestimate the impact that you can achieve by escalating your efforts beyond their work environment where they may feel comfortable hiding behind their receptionist or voicemail.

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TIP: Every time you leave a voicemail message try faxing over a short letter to document your attempt to reach them. You'll be amazed how much urgency you will create by letting them know that you are documenting your efforts!

7. PAYMENT ARRANGEMENTS

Once an account balance reaches twice your stated terms without payment your efforts should begin to focus on “**what can you pay today**” and how often partial payments can be made thereafter. When you consider the statistical recovery erosion of 8-12% per month (beyond terms) a willingness to proactively seek partial payment arrangements will substantially reduce your exposure to devastating bad debt losses. Customers on payment arrangements should be put on COD or COD + 25% until their account balance is brought current.

8. DISPUTE RESOLUTION

You should have a very simple and straightforward policy on customer disputes... SETTLE for as much as you can, as soon as you can!

Far too many companies waste their time and resources trying to refute customer disputes that they could simply settle for a compromised amount. In my experience, the key obstacle for these creditors is their unwavering need to be right.

The truth is that the majority of customer disputes are largely unfounded. However, if you respond to customer disputes unilaterally watch how fast they misplace their checkbook! Progressive companies understand that their customer's perception **is** their reality when it comes to their cash flow. Put simply,

allowing your customers to hold undisputed funds hostage over a (minority) disputed amount is detrimental to your cash flow and bottom line profit.

9. DOCUMENT, DOCUMENT, DOCUMENT!

This point is taken directly from the play book of professional collection agencies that collect on behalf of creditors across the country. **If you don't have it in writing, it didn't happen!** This means that every communication you have with delinquent customers should be documented completely in a central file record or archive that can be easily retrieved or reviewed on-demand. Where applicable, you should also generate correspondence to follow-up each successful client contact recapping the points of your conversation or any agreements reached.

You never know when you may be forced to deal with a new contact, escalate matters up the chain of command, or forward your files to an attorney or collection agency. Bottom line, the better your documentation is, the more likely you are to come out on the winning end.

10. EXECUTE! EXECUTE! EXECUTE!

About the Author: Thomas Lynch is a nationally recognized expert in debt collection and collection policy consulting. He is the Founder CollectPro Software, an easy to use software tool that puts the power of a professional collections process in the hands of your business. He can be reached for comment via email at:

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