

Covering Credit Bulletin

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This Month’s Topics:

- **Twenty Five Ways to Become a More Effective Collector... Starting Today**
- **Questions and Answers**
- **Website of the Month**

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Twenty Five Ways to Become a More Effective Collector Starting Tomorrow

The good news is that there are a number of ways that collectors can become more effective. Some involve fundamental redesign of the credit function, and others require a sizeable investment in hardware, software and training. However, there are simple ideas that can have an immediate and positive impact. These 25 simple but effective ideas can be implemented immediately and with little or no out of pocket costs:

1. **Take time to confirm payment commitments in writing if a customer has a history of breaking commitments. Use a standardized form letter rather than “reinventing the wheel” each time you must send a confirmation. Consider faxing or sending the confirmation as a pdf. attachment to shorten the delivery time.**
2. **If customers request supporting documentation, fax it even if it is voluminous. Doing so sends a message that you are serious about payment, and ensures the information necessary to get your past due balance paid is received sooner rather than later.**
3. **Develop written protocols that describe how soon initial contact should take place, how often follow ups calls should occur, how collectors should handle a situation in which the customer does not return calls. It is important to include guidelines about under what conditions credit holds can be used to accelerate payment. Also, develop specific protocols relating to documenting a customer’s payment commitment.**
4. **Do not keep credit holds a secret. Instead of hiding this information, try to give customers as well as the sales department as much advanced warning/notice as possible of possible adverse credit action including a credit hold.**
5. **Periodically review all balances over 90 days past due with each collector. You should expect to receive detailed information about any and all balances over 90 days past due including open invoices and outstanding customer deductions.**
6. **Watch for changes in customer payment patterns. A slowdown in payments can signal financial distress. Another example of a changing payment pattern involves a**

customer that stops discounting. This is an indicator that the customer may be experiencing problems. Creditors need to ask why the customer has stopped discounting.

7. Give customers the benefit of the doubt if they claim to an invoice is dispute, but insist they pay the undisputed amount. Generally, this is not a concession that the customer's accounts payable department can make, so be prepared to ask who needs to approve a short payment of this type and contact that person directly whenever possible rather than asking that someone from the debtor company relay your message to the decision maker.
8. State specifically what you want, need and expect from your customer during the collection call. For example, don't ask for status of the past due balance. Instead, ask for the status of payment of the \$11,312.43 now past due.
9. Shorten your terms of sale to marginal accounts. Note: This technique will not improve collections until and unless you insist that customers with new, shorter terms pay more quickly. It may be necessary to hold orders one or more times to drive home the point that you need/expect/require these customers to pay more quickly.
10. Encourage collectors to have specific goals for each collection call. Specifically, one goal should be to speak to a person – not to voice mail. Another goal would be to speak to a decision maker, not to an intermediary or blocker. A third goal would be to get a “reasonable commitment” for payment. The term reasonable commitment is difficult to define, but it is relatively easy to recognize.
11. Focus on the customer and the problem at hand. Don't try to multi-task while making collection calls. Doing so diminishes the importance of the debt collection process and makes it more likely that a less than optimal outcome will be reached with the delinquent customer.
12. Become progressively more assertive with each successive collection call you make. In other words, the older an account becomes the bolder the collection specialist needs to become in their collection calls.
13. Ask to speak to a specific person rather than to a title or a department. For this, you will need detailed notes. Specifically, you will want to speak to that person by name and title. Knowing who the decision maker is in the debtor company is at least half the battle.
14. Don't allow a delinquent customer can force you to agree to continue to extend credit to them as a condition for paying their past due balance. Tell any customer that tries to use this form of leverage that a decision about whether or not to continue to extend credit will be made *only after* the past due balance has been paid in full.
15. Recognize that simple report such as an aging listing past due balances in declining dollar value can provide almost instant visibility to every member of the credit department staff to problems, and can and often does result in an almost immediate improvement in collections.
16. Acknowledging that internal problems exist in every organization due to human error or system related error, credit professionals should systematically address and resolve the problems resulting in short payments and payment deductions and holds.

17. Before you can address deductions, you need to document how significant a problem this is for your organization to senior management. Once they know how problems created to sales, order entry, production or shipping are delaying payment, they are more likely to take action.
18. One simple way to measure deductions is to measure and report what percent of deductions are credited off. A credit memo or a write off to address a past due balance means that the customer, not the creditor company, as likely to be correct in taking the deduction.
19. Establish specific and challenging collection goals for each of your subordinates. Note: Develop both individual goals and team or department-wide celebrations such as a potluck.
20. Require everyone to perform their own monthly self assessments and report on their collections results against the specific targets or goals established by and for them.
21. Establish multiple goals for each collector, and then involve them in the process of monitoring their own performance on a monthly basis. Challenge individual collectors to explain why the goal or goals agreed on were not met, and what specific changes they plan to make in the coming month to address these problems.
22. Make sure there are rewards for meeting individual performance related goals, as well as disincentives for failing to achieve the required collection results.
23. Measure, celebrate and reward productivity gains and exceptional performance within the credit team. Avoid the temptation to sugar coat criticism, but remember to compliment in public and criticize in private.
24. A basic rule of thumb is that your best collectors should be assigned your most difficult and highest risk accounts. Often, the most experienced collectors are assigned to the largest accounts whether these larger accounts require their specific experience and expertise or not.
25. Use lockboxes accelerate cash inflows by reducing both mail float and processing float. If you sell nationally but have only one bank lockbox, consider adding a second or even a third lockbox location. A lockbox study conducted by your bank or another third party will indicate (a) how many lock boxes your company needs and (b) where they should be located.

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Questions and Answers

Question: Do you have any language relating to an intercorporate guarantee?

Answer: Possibly. Please ask your attorney to evaluate this:

In consideration for NAME OF CREDITOR COMPANY agreeing to sell merchandise on open account terms to NAME OF CUSTOMER, NAME OF GUARANTOR (“Guarantor”) for valuable consideration hereby guarantees to NAME OF SELLER the punctual payment of all obligations to NAME OF CREDITOR arising out of sales made by NAME OF SELLER to NAME OF CUSTOMERS beginning on DATE. Guarantor unconditionally guarantees and promises payment of all such indebtedness. Guarantor's liability may be enforced without first proceeding against NAME OF CUSTOMER or

resorting to any collateral, security or other guarantors or obligors, if any, or pursuing any other remedy. All remedies, rights, powers and privileges granted to NAME OF CREDITOR pursuant to this agreement are cumulative and not alternative. The exercise of any or all such rights by NAME OF CREDITOR shall not reduce, limit, impair, discharge, terminate or otherwise affect the liability of Guarantor. No failure or delay by NAME OF CREDITOR in exercising any remedy, right, power or privilege pursuant to this agreement shall operate as a waiver, and any such remedy, right, power, or privilege may be exercised by NAME OF SELLER at any time. No partial exercise of any such rights shall preclude further exercise or the exercise of any other remedy, right, power or privilege. This guarantee shall be governed by, and construed in accordance with, the laws of the State of THE STATE IN WHICH YOUR COMPANY IS LOCATED. Any action or litigation of any kind initiated by MGE in connection with this guarantee shall be adjudicated in the appropriate courts located in the county of COUNTY IN WHICH YOUR COMPANY IS LOCATED, STATE IN WHICH YOUR COMPANY IS LOCATED and Guarantor hereby consent to the jurisdiction of such courts and to service of process by any means authorized by STATE IN WHICH YOUR COMPANY IS LOCATED law or federal law, and hereby waives the right to transfer the venue of any such litigation. In the event that NAME OF CREDITOR must initiate legal action, the Guarantor shall be responsible for NAME OF CREDITOR's attorney's fees and costs.

Name of Guarantor: _____

Date: _____

Signed: _____

Printed Title: _____

Print Name: _____

Q: Can we lose money selling to a bankrupt customer on open account terms following their Chapter 11 bankruptcy filing?

A: Yes. There is no third party guarantor to ensure that creditors that choose to sell to a bankrupt customer will be paid in full. For example, if the debtor is unable to create a Plan of Reorganization, that company may choose to liquidate. If this happens, you may find yourself filing another Proof of Claim along with other unsecured post petition trade creditors.

Q. We received notice that a customer plans to do what they have described as an informal liquidation. I understand what they are doing based on the letter we received, but I am not sure of how to react or respond. What would you do, or what would you ask the customer for?

A. Typically, these letters will indicate that in an effort to avoid the administrative costs of a bankruptcy that the debtor has decided to close its doors and pay creditors as much on

the dollar as possible. The problem with this arrangement in my opinion is the lack of oversight. While it is true that there are administrative costs including attorneys fees in a Chapter 7 bankruptcy filing, the U.S. Bankruptcy Code includes various forms of protection for creditors including an assurance that no creditor in a particular class of creditors will be given preferential treatment over another... and speaking of preferences...an informal liquidation means that the debtor cannot recover any payments made that would otherwise be considered preferential transfers under the Bankruptcy Code. This answer/explanation is the long way of suggesting that you contact your attorney to discuss options and alternatives.

Q. A customer told me recently that their bank, as the secured creditor, has seized all the assets of the company and closed down operation. The debtor added that suing would be a waste of time since the bank has already determined that even after the assets are sold there will not be enough to pay even the outstanding bank debt. What are our options?

A. I have not heard this particular excuse for non payment from a customer for a while. My first comment is that the bank did not seize the assets of the debtor; the debtor voluntarily agreed to turn over the assets of the company to the bank. That detail aside, the debtor should willingly provide the name of their bank and contact information so that you can verify what they have told you. I would also suggest that you contact your attorney to discuss options and alternatives... including the possibility of a bankruptcy filing.

Q: What do you think about decision support software such as credit scoring software?

A: In my opinion, credit scoring software is a useful tool. A sophisticated model can reduce the number of credit decisions that must be made with human intervention.

Q: What do you think about credit insurance?

A: As America edges toward a recession, I think people will be looking at a variety of tools to manage risk, and credit insurance will be one of the more popular options.

Q. We received a check drawn on a closed account. The check is stamped "Closed Account." Why would someone write a check on a closed account?

A. This is a difficult question to answer... and there is not enough information to make any definitive statements. If this is a new customer or a first sale, I would say you should be deeply concerned. I assume that you have notified the debtor of this problem and demanded a replacement check. Any time a check bounces, I think it is appropriate to ask that the replacement be in the form of a Cashiers Check or better still that payment be made by wire transfer. If this is a new account, or if you cannot reach the debtor by phone or if they have not replaced the bounced check, I would discuss options and alternatives with an attorney. It is *possible* that you are the victim of fraud. It is also *possible* that this was an honest mistake.

Disclaimer

Nothing in this publication is intended as legal advice, or tax or accounting advice. Nothing in this publication should be considered an alternative to seeking professional legal or professional advice. You are encouraged to use your judgment in deciding which of the ideas to accept or adopt, and which to reject and ignore.