



# collecting dust

## STRATEGIES FOR IMPROVING COLLECTION OF OVERDUE ACCOUNTS

BY MIKE GINSBERG

**A**s the recession continues, most companies are striving to limit the number of accounts past-due and making changes to collection strategies to contribute as much as possible to the bottom line. If you have not already done so, now is the time to re-evaluate your procedures for collecting delinquent debt.

### INTERNAL COLLECTIONS

The biggest opportunity to limit your risk happens at the moment you extend credit in the first place. Keep in mind that in the current economy, people are hanging onto their money longer – delaying payment even if they still have the ability to pay – thus compounding the risk of delinquency even among good customers.

Review your current credit policy and internal collection procedures. Making sure you're adhering to your own policies and procedures alone may yield better results. You may find that you need to adjust the terms you're using for payment to reflect the new economy, such as requiring cash deposits for less credit-worthy accounts, for example. Also make sure that all your customers know your credit terms to avoid any misunderstandings that lead to late payments.

*Respond quickly to accounts coming past-due.* The longer an account is delinquent, the less likely it will be paid. Pay close attention to the payment patterns of your customers for signs of distress, and act immediately. Keep your credit records current, so you are aware of changes in your customer's situation and can establish new payment terms if necessary on future orders.

*Spend resources working on most-collectible accounts.* Most companies focus their collection efforts based on the age and size of the account, so typically the oldest high-balance accounts get the attention. This may seem logical, but in reality, this does not return the best results. A better strategy is to look at which customers are more likely to pay. There are a number of analytics tools available in the market today to assess your delinquent accounts and "score" them on collectibility.

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Good recovery practices established now will continue to help drive profitability in the future.

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### IN-HOUSE VERSUS OUTSOURCING

Using an outside collection agency can be an effective way of liquidating past-due accounts. Trained collectors are skilled at locating debtors and negotiating payments on your behalf. However, using a collection agency is not for every company, nor is it appropriate for every account. Contingency collection agencies typically work on a commission, usually a percentage of what they collect, so there is a cost associated with using an agency but not additional risk.

Depending on the extent of your internal resources, you should develop a ranking of accounts to be kept in house and those that may be candidates to send to a collection agency. In addition to determining most-collectible accounts, you should keep your best customers that you know well and can contact easily. Customers that are early in delinquency or have a good payment record and good credit can likely be called on more profitably in-house.

However, using an agency may be an option for customers that haven't responded to your efforts. These might include customers who have ignored your repeated attempts to contact them. Or you may have outdated contact information and cannot locate them. Other candidates include customers who keep promising to pay but haven't, or are using unreasonable stalling tactics in order to avoid payment. In these cases, sending their accounts to collection usually expedites payment.

### OUTSOURCING STRATEGIES

Regardless of whether you are currently using agencies or investigating hiring one for the first time, it's important that you manage this resource as carefully as your internal department.

*Contract with the right agencies.* Good agencies specialize in a certain industry or geographic region. Work with an agency that collects accounts similar to yours. Make sure that the agency is licensed to operate in your state as well as others and that it is bonded and insured. As with any outside vendor, check references.

*Continually measure agency performance.* A key performance indicator for tracking agency performance is the "net back" – the amount of money returned to you from an account after the agency has collected its fee. If you work with more than one agency, be sure you regularly track and compare their recovery performance and share the results with the agencies in your network, so they see how they compare with their competition.

*Incent performance in creative ways.* The best-performing collection agencies are seeing a great deal of demand for their services in this recession. They do not treat all of their clients equally. In this sense, credit issuers compete for the best performance of a collection agency. You can gain an advantage by creating performance incentives with creative approaches to fees, bonuses or prizes.

*Recall and replace accounts.* It is surprising how many companies place accounts with a collection agency and then leave them there indefinitely, glad to receive payments whenever they happen to arrive. A better strategy is to actively recall accounts from agencies after a certain period of time if they have not been collected upon and place those accounts with competing agencies, and then repeat the process. An active recall strategy like this also helps incentivize agency performance by keeping competition for your accounts active and fresh.

Charged-off debt is a cost of doing business. However, by more closely scrutinizing your current collection strategy, you can recoup more of these potential losses and improve cash flow – an important source of "found money" in the current economy. The silver lining in this difficult climate is that good recovery practices established now will continue to help drive profitability in the future.

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