



## Optimizing Receivables

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For every business serious about maintaining optimum cash flow, it is imperative that effective practices be implemented for securing monies owed and curtailing potential debtors. The past several years have seen some troublesome statistics materialize with respect to business debt collections. The statistics are particularly upsetting for small and medium-sized businesses trying to collect on their invoices. Consider these figures:

- According to collection industry research, the average delay for a due payment is 55 days for big businesses and 66 days for small businesses.
- Just 10% to 15% of small businesses insist that their terms of payment be met and also rely on third-parties such as collection agencies and litigators to address outstanding receivables.
- The greater the size of the debt owed, the lower the percentage of likelihood that the debt will be collected.

In all instances, the likelihood of successful debt recovery is increased dramatically when the process is outsourced to a reputable, third-party credit management firm. **In fact, today, it is estimated that over 90% of big businesses and approximately 10% of small businesses rely on professional debt collection agencies, with middle-market businesses falling in the middle.** These companies are already benefiting from third-party intervention. For those businesses that have yet to be sold on the benefits of outsourcing their receivables management and collection processes, it is important to gain greater insight into how to avoid potential problems and implement best practices for credit management.

### **“The Best Defense: A Strong Offense”**

A key strategy for debt recovery is, of course, not to incur the debt in the first place. For this objective, there are definite measures a business can take to prevent tardy receivables. It starts with the right documentation to establish your company's "Terms of Business" (TOB). The TOB must clearly state:

- What your customer should expect from you (i.e., type of product/service, quantity and projected date of delivery/completion); and
- What you expect in return for the product/service rendered, including: payment to cover cost of product/service, payment due date, late payment penalties and/or allowable interest.

It is important to present the TOB prior to shipping product and/or providing services and it is best to secure a customer's signature on the TOB document at the outset. In addition to gaining customer's confirmation of these terms, companies communicate this information to their own employees; not just those serving in the accounts payable/receivables department, but equally important, sales, marketing and customer service personnel. Sales representatives, specifically, in an effort to land an account will often forego the formality of delineating the company's payment policies; a practice which could lead to a bad risk and future debt. Therefore, they must be trained to openly share this information with their new accounts and present the terms in a positive light. A technique that works well is for the sales representative to present the sale of your company's

product/service as representing a win-win for both organizations. Sales representatives should be enlightened as to how good communications of business terms generally garners a prospective client's respect and does not jeopardize a sale, but conversely, bolsters it. As an added strategy to motivate sales representatives, many companies have found that holding back a sales representative's commission until their customer pays can be effective in facilitating prompt payment and avoiding collection problems.

## **"Be on the Watch for Red Flags"**

Assuming the company's business terms were clearly presented and agreed to, there are still those instances where potential payment problems could arise. Recognizing the red flags is a start for offsetting delinquent payments. Circumstances which can signal an organization's possible cash flow problems include: payments by post-dated checks; routinely late payments; frequent changes in accounts payable department management; failure to respond to inquiries for financial information; and frequent bank changes.

There are also several common excuses that can forebode payment trouble ahead, including:

- The check is in the mail.
- We're having a cash flow problem.
- We never received the invoice.
- We're experiencing a computer problem.
- The accounts payable manager is traveling.
- We have a problem with the amount shown on the invoice.

## **"The Psychology of a Debtor"**

In addition to upfront due diligence and a watchful eye on receivables, businesses can strengthen their collections position by understanding how a debtor thinks and behaves. There are really two main reasons why customers don't pay: They can't or they won't pay.

As for the first reason, the idea is not to do business with companies who can't afford to pay. Therefore, it is critical that references be checked, credit reports obtained and prospective customers agree to a company's TOB. With respect to elevating a bill's priority status, that takes a real commitment to that objective, backed by strong negotiation skills.

## **"Effective Debt Negotiations"**

The negotiation must stem from a core principle whereby nothing is given without getting something back in return. In other words, if a debtor wants two more weeks, ask for a portion of the payment in one week. By listening to the customer's situation and reiterating the situation given as their reason for a delayed payment, you can establish a common ground. What should be avoided in all instances is creating an adversarial position or a potential stalemate. When negotiating, trade concessions with the client. For example, "If I could do this (i.e., get the client more time to pay), could you do this (i.e., provide a partial payment now)?"

**Think about negotiating the debt collection in terms of the following steps:**

1. Let the customer make the first offer. Then, be quiet.
2. Devalue the customer's first concession.
3. Upgrade your concession.

4. Obtain a specific commitment.
5. Avoid round numbers. (Odd numbers are viewed as representing a specific percentage of the payment owed. They are also more likely to be paid than numbers that appear to have been rounded off.)
6. End on a theatrical note. (e.g., Let me see if I can work out something for you.) Do not show triumph or victory, but instead demonstrate that you are working with them to resolve the debt.
7. Get it in writing. According to a survey by the National Association of Credit Managers, there is a measurable increase in the odds of getting paid when the creditor obtains the debtor's commitment/payment arrangement in writing.

Most individuals responsible for handling their company's outstanding bills have a fear of collection calls, collection letters, the unknown as it may relate to legal actions and/or the possible loss of their job in the event that they do not handle the situation effectively. These fears should be taken into account when collection calls are made. The best collection agencies and credit management firms never employ badgering tactics, but rather take the high road in their approach to collecting debts. They are professional in the types of voice messages they leave when working to collect debts on behalf of their clients, with management monitoring staff to make sure that all messages are appropriate. In addition, there is a concerted effort to speak with the right person, ensure that the individual with whom they are speaking understands that the call is a collection call and, that they obtain the complete name of the individual with whom they are speaking.

### **"When Aggressive Tactics Are Needed"**

Sometimes, even with the best intentions and negotiating skills, it is necessary to create a greater sense of urgency that a payment must be made. In those cases, there are some "tricks of the trade" which should be employed. For instance, the use of executive connections may be required (i.e., a top executive of the company calls a top executive of the customer/debtor). Another approach is to have the sales representative with whom there may exist a friendlier, social relationship (i.e., they may have shared lunch, golf, ball game, etc.) make the call.

Calling the individual "person-to-person" can have a more weighty effect than a regular call. Then there is the choice of language used. Never say, "I'm sorry," which minimizes the obligation on the customer's side and implies that your company did something wrong. Similarly, when making strategic demands, use the word "settlement" or "adjustment" which conveys a willingness to negotiate, rather than a hard line stance. When making these strategic settlements, don't change the amount of the invoice, change the payment terms and as previously stated, only give something (i.e., more time to pay), if you are getting something specific back in return (i.e., a post-written check, a personal guarantee in writing, or perhaps, a non-monetary concession such as a product, prospecting list, networking opportunity, etc.).

If all else fails, sometimes a more aggressive approach is required. Don't resort to overt statements such as, "We're going to have to sue." Rather, use more subtle language such as, "Our attorney wanted me to ask these questions...", which implies potential litigation and still gives the debtor room to make a concession. If, on the other hand, the debtor is taking a confrontational stance, then rely on a cause and effect tactic. For example, say "If you do that, we'll have to do this." For added impact, present a copy of a Suit Affidavit, which conveys, "We mean business." Continue to stay abreast of the debtor's credit report and document negative credit reports. Additionally, let the debtor know the company's intention to share news of the failure to pay with the credit reporting bureaus, but always give them the option of paying first before doing so.

### **"Criteria for Selecting a Credit Management Firm"**

By employing these best practices for debt prevention and recovery, businesses will significantly improve their cash flow. However, it is important to recognize, that sometimes as with other business processes, a better outcome can be achieved by outsourcing the receivables function. To assure the optimum results from an outsourcing relationship, it is important to select the right credit management firm. Following is a list of key selection criteria that should be used:

- Commitment to high standards as evidenced by membership in key industry associations including the Commercial Law League of America (CLLA) and the Commercial Collection Agency Association (CCAA).
- Qualified professional and longstanding staff members.
- Broad and strategically situated geographic coverage (i.e., in the United States, Europe, Asia, etc.)
- Market intelligence including an extensive, global database of debtor profiles.
- Complimentary credit management services (e.g., call center, asset location and skip tracing, etc.).
- State-of-the-art technology including a secure wide area network, sophisticated voice, data, and video-conferencing systems to facilitate optimum communications.
- A proven track record serving businesses in diverse industries ranging from manufacturing and distribution to telecommunications, utilities, professional firms and education.
- Value-added customer support services such as educational seminars for accounts receivables department personnel, "How to Guides," easily accessed online tips.
- A credit management firm capable of meeting these criteria will serve a company as a valuable business ally and help companies stay far ahead of debt problems.