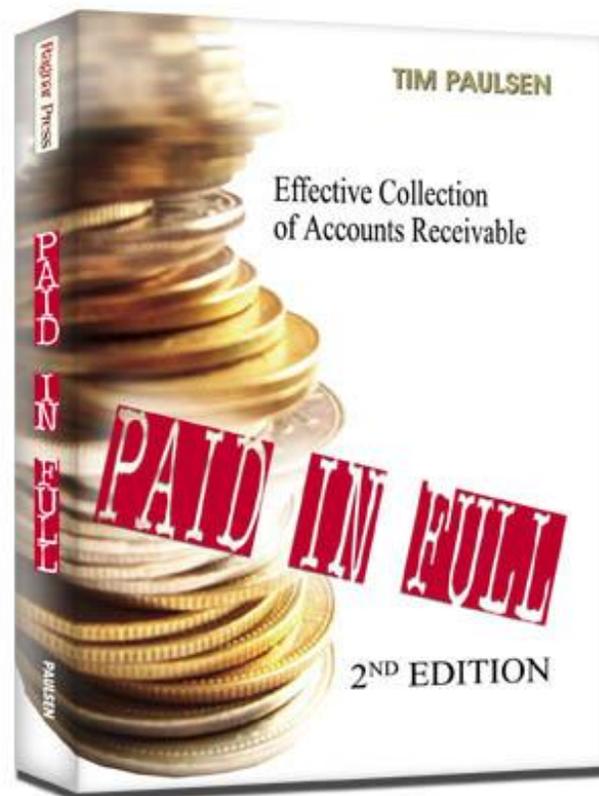


Tim Paulsen

Paid In Full

Effective Collection of Accounts Receivable



*How to turn your
receivables into cash and
your delinquent customers
into buyers*

Tim Paulsen

Ragnar Press

This book is dedicated to the great people who
attended and contributed to my seminars on
Effective Collection Techniques.

You know who you are!

Keep up the good work and remember,
cool, calm...and *collected*.

Note: Names of debtors, creditors and staff are all invented. If in any case I've used a real name, it's purely coincidental.

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INTRODUCTION

If you're in collections, you know your work is essential to your company. What good would it do your firm to sell lots of great products or services if you weren't using your knowledge and skill to bring in the payments?

Yet often collectors are working without a net; too often there's little training, and there are very few books out there that tell you how to do your job well.

In fact, somewhat more than twenty years ago, I couldn't find any. So I drew on my collection experience to write *Collect Those Debts* (Self-Counsel Press). The book was well received, and I soon shifted from collection management to training and consulting.

Since then, I have worked with hundreds of firms and thousands of individuals not only in Canada and the United States, but also in Bahamas, China, India, Kuwait, Jamaica, Malaysia, Philippines, and Singapore. The technological revolutions have come to the business of collections. Personal computers, the Internet, other software and telephone wizardry have brought great changes since the days I first began to call customers about their past due accounts. There have been economic and social changes too, with many companies and individuals forced to do more – with less. It was time for a new book.

Paid in Full came off the press in 1998 and though we ordered a number of printings, there hasn't been any serious editing and updating until now. Despite all of the changes, I believe most veterans will agree that despite all of the technology, collections is still about communications, essentially between two people. Whether one is working with an old rotary dial telephone or the most sophisticated power dialer, you still need to master skills of persuasion and negotiation. The heart of the collection process is not marvelous machines or software, it's *you*, the collector or collections manager.

This book is for you if you are:

- a supervisor or manager and you want your associates to perform their capable best within the shortest amount of time
- a new hire or recruit to the business of collecting and you want to become effective and comfortable with your new responsibilities
- an experienced collector and you want to review your techniques to become even sharper and more effective

Are you in charge of a big department, with representatives turning to you for guidance? Are you just one of that big staff, trying to become the best you can be and to advance in your field? Are you the only collector in a small business, or maybe the business owner, juggling collections with all your other

responsibilities?

Great – I'll be talking to all of you.

However, not everything in this book will be for you. Look through it and take what you need and is useful to you. If you are a manager, you won't spend a lot of time collecting on the telephone. (But, you should still read the chapter on 'Striking Iron' and 'The Golden Voice'.) If you are a new collector, you won't be designing credit applications, but you may find the background information useful to your collection process. In other words, no matter what position you currently play on the collection team, the more you know about the game, the better.

Some of you will collect from individuals (consumer collections) and some from firms (commercial collections). Most of the techniques and ideas covered in this book will be useful to you in either case. However, there are some differences and I will let you know those that are important. Once again, take what's useful to you and set the rest aside – for now. You never know where your career will take you.

Until recently, this book was only available in print form, ordered and shipped from our office or bookstores.

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Chapter One - What It's All About

Collection Philosophy:

Policies and Procedures

Most people justify the way they live; that is to say, instead of fitting their lives to a philosophy, they invent a philosophy to fit their lives.

The late Bishop Sheen, Chicago

A credit manager was telling me recently about a former boss of his. The company had a credit and collection policy: "What you do," he was told, "is put anyone who applies for credit on the books—and then cut them off if they are one day delinquent."

It is a policy. Not a good one, but a policy nonetheless. If you've ever worked in collections, I'm sure you can picture with horror some of the accounts that would build up before the due date—some of it money you would never collect. Nor would the damage be limited to collections. Think of your best customers. Would you like to be the one to tell them their credit is no longer valid because they're one day past due? Would you like to be that customer? Sure, you pay your bills on time, but have you never been even one day late?

Well, then, how do you establish a credit and collections policy? How do you decide when to grant credit? How do you, or your collectors, know when to be tough and when to take it easy? The first part of the answer is implied in the question: you need a policy. A department run on an ad hoc basis, with decisions made on the fly, is asking for trouble. Decisions will be inconsistent, and no one—not the collectors, not the managers, not the customers—will know what to expect.

Beyond that, there's no one right answer for everyone. Credit and collections must be planned together, and tend to balance. You can be very tough on credit, and then cut your hand-picked customers a little slack on collections. Or, on the other hand, you can have a lax credit policy and then toughen up on collections. There are firms that do very well with the latter approach. Finance companies, for example, often grant credit to people who can't qualify anywhere else. How do they do it? Well, for one thing, they charge high interest rates to make up for expected high rates of delinquency. They will also be on the telephone just a few days after a missed payment. They know they have to be the squeaky wheel.

Your staffing, your market, your competition, and your inventory will help you decide what policies and procedures are best for you. But before you get down to the details, you need to decide on your philosophy, or, in current business language, your mission statement.

What, a mission statement for collections? Yes. Just as the company as a whole needs to know its goals, so does each department—and collections is no exception.

Before you start filling in the numbers and the details, take the time to develop a statement that is right for you. Your policies and procedures should be flexible and change with time, but your mission statement should be etched in stone. It should be the light shining on all your dealings with customers and staff. Don't be like most people, who look at their present operation and wrap a policy around it; choose your philosophy, state it clearly, and then make sure every decision in your collection operation or your company reflects it.

The money or the customer?

How about this for a mission statement?

Collect the money, no matter what.

After all, isn't that what collections is all about?

Actually, a policy of collecting the money at all costs is often poor business practice. For one thing, "all costs" can run pretty high. You may end up spending \$100 to recover \$50.

Besides, you could lose a lot of customers. Suppose the customer has a legitimate argument for not paying. Or suppose the customer is a company right on the edge, and by insisting on immediate payment you push them over. In either case, you've collected a debt but lost a customer.

Still, there is something to be said for such a policy. One Midwestern insurance firm is willing to spend \$1000 to collect \$100, if that's what it takes. Sure, they lose money on the deal. But by now, people know their policy. As a result, the company's overall losses are much lower than the competition's. Their toughness is a deterrent, like those great big locks you can put on your steering wheel—designed not just to make it harder to steal your car, but to warn anyone thinking of stealing it that you're protected. The lock doesn't make theft impossible, but chances are the car thief will move on to an easier target.

The Customer is Number One!

No argument: without customers, we'd all be out of business, so perhaps a missions statement based on that philosophy might be:

Make every attempt to keep every customer.

This may appear to some sales representatives to be an attainable goal, with the help of a very lax collection policy. In reality, it just doesn't work. The customers who know they are past due with you will cross the street with their hat pulled down to cover their face—literally or figuratively—and buy from your competitors. Some may be embarrassed; others will just figure you won't sell to them. They may even be paying C.O.D. elsewhere! Not only have you lost out on the collections, you've lost future sale as well.

The Money and the Customer

The customer is not always right, but is always the customer.

There isn't an individual or a business that sets out to fail. Your customers want to succeed, financially and otherwise. They had every intent of paying you when they came to you for credit. Maybe their circumstances have altered; maybe their planning was unrealistic. And, let's face it; some people just aren't very good at keeping promises. They mean to do better next time, but it's hard to change character.

Maybe your customer chose to renovate the store rather than paying your bill. From your point of view, that was your money laying those carpets and applying faux marble to those walls. From the customer's point of view, the work had to be done to maintain the business.

What do you really want? You want both: the money and the customer. At the end of the day, you may have to settle for the money alone, but why not try for what you really want?

(Note: We're talking here about genuine customers, not fraud artists or cons who were out to take you from the get go. They are not customers at all, but criminals. You should do whatever you can to stop them from applying and to cut your losses when they do. You should follow through to see them punished; give them a reason to think long and hard before they come back to 'do business' with you again.)

So here's my collection mission statement:

Collect more money, quicker ...and keep our customers.

Simple enough and straightforward too, though you may decide it is important to be a bit more eloquent.

We believe it is in the best interest of our firm, as well as our customers, that payments be made according to the agreed-to terms. We will contact and follow up with our customers, dealing with them in an open and diplomatic manner to ensure they understand and adhere to those terms. When there have been changes in customers' environment, we are willing to negotiate and work with them to find solutions acceptable to both parties. Should we encounter a customer who refuses to negotiate in good faith— as will happen on occasion— we will proceed with any and all effective collection efforts.

Now, spread the word. Tell everyone about your new philosophy.

The Policies and Procedures Manual

Once you have your statement, whether it's a simple eight-word sentence or a flowery paragraph, you can develop supporting policies and procedures. Written policies and procedures, organized in a manual.

I can hear groans from some of you. Won't it take time and effort? Yes, it will. First, you have to review what your department is doing right now and document it. Then you need to consider policies and make decisions. You have to input the manual, assemble it, and distribute it. After that, you need to update it regularly. But all this effort will pay off.

"But it's a lot more fun just to wing it," some folks will protest. Granted, it might be more exciting. As a World War II veteran once told me, *"Someone shooting at you does wonders for sharpening the senses."* But the purpose of a well-managed collection department is not to provide the thrill of combat, it's to collect outstanding accounts efficiently and diplomatically. To do that, you need the preparation and guidance that a good manual provides.

The Benefits of a Manual

- **A picture of how things are done now:**

If you stopped after the review process and never distributed your manual, you would still gain immensely. When you document who's doing what how, you'll probably get some surprises. Questions will arise:

- Is that really the way we process the order?
- Why do we send five copies?
- What does the sales department do with that report?

Once the procedures you're actually following are visible, you can begin to make changes.

- **Information sharing:**

Other departments can review what happens to information they send you, and vice versa, so both parties can make recommendations. A quality circle can develop that fosters all sorts of improvements.

- **Faster, more effective training:**

"You'll catch on," new people are often told. Perhaps they will, eventually; but when you learned geometry, you had a workbook; when you learned to drive you had a rules booklet. You can bring new people up to speed quicker when they have a clear understanding of what happens in your area and a means to review.

- **Time saving:**

If the answers and directions are in the manual, staff won't have to waste time asking questions, and managers won't have to waste time answering them. The hallmark of an effective manual is that the same question does not need to be asked twice.