

# OVERDUE ACCOUNTS HEMORRHAGING CASH FLOW?

## Handle Overdue Receivables Professionally

By Lloyd Turner

**Y**ou walk into the accounting department one day and notice that the amount of outgoing mail is quite large. Upon closer inspection, you notice some of the recipients haven't done business with you for quite a while. Asking for an explanation, you learn what you had been dreading to hear.

These are clients that have owed money for months, and this is your collection process!

You're not alone here. Most businesses do not have a plan to deal with overdue deadbeat clients. This is just plain fear of making a debtor "mad" at you. So grow up. If you can alienate enough non-payers, maybe they'll start doing business with your competition. You'd probably be surprised that they probably are, anyway.

However, you can change a bad debt back into a good client worth doing business with. Unfortunately, this may take time and persistence. Something that your office people aren't trained to do. Plus, there are going to be confrontational moments that only a skilled professional can handle.

Take a good look at your staff. Now, be honest – do you see any of them really making the necessary effort it's going to take to collect YOUR money?

Many organizations not generally viewed as credit grantors will at some point experience negative cash flow problems. This condition in many cases is brought on by slow-paying customers. Trends have shown that slow-pays usually evolve into no-pays. Whether it's overdue account receivables, or simply bad checks, bad debts are a huge business problem. The sequence of slow-pays to no-pays can quickly hurl non-credit-granting companies into the role of credit grantor.

Debt is any obligation or alleged obligation of a consumer to pay money arising out of a transaction in which the money, property, insurance or services which are the subject of the transaction are primarily for personal, family, or household purposes, whether or not such obligation has been reduced to judgment.

Companies that find themselves in these uncharted waters can feel bewildered; but even worse, can experience cash flow

shortages, reductions in purchasing power, and loss of customer goodwill. It's an unfortunate fact of business that, sooner or later, organizations will find themselves facing debt collection problems. When it happens, your reaction to it can very well determine whether or not you meet your bottom line.

People tend to rationalize and internalize the problem. They may simply believe that they must accept the unfortunate situation as being inevitable, write off both the debt and the debtor, and suffer the loss. It's not always big events that bankrupt a business; it's an accumulation of small things. Company executives tend to believe that a deadbeat is a deadbeat; you can't wring blood from a turnip, so there's not much you can do about it.

Generally, non-credit grantors (and in some cases credit grantors) are not equipped to methodically pursue and rehabilitate bad accounts. First of all, debt collection activities require that you drain staff productivity away from your primary business pursuit.

Then there is the problem of skip tracing – the unavailability of current address and phone numbers for your debtors. Why not just turn it over to an attorney and sue them?

Attorneys write letters, file law suits, and collect their fees from you, the client, win or lose. So you could wind up throwing good money after bad. Even if you get a favorable judgment, there is no guarantee you'll collect even one cent. From my experience, the people you're trying to collect from have a long track record of this. Court orders notwithstanding, they aren't going to be intimidated. Debtor's prison is a thing of the past.

Many collection services generally work on a contingency basis, which is one key factor to consider when deciding whether or not to use professional help and determining which agency to use.

The term "debt collector" means any business whose principal purpose is the collection of any debts; or who regularly collects or attempts to collect, directly or indirectly, debts owed or due or asserted to be owed or due another.

Quite simply, a collection service is an organization that utilizes a systematic

approach of personalized follow-up to effect the collection of a debt. Organizations should use the same care and approach in choosing an agency as you'd use in choosing your dentist or family physician. Be informed, and know the right questions to ask.

In today's culture, call center organizations tend to be multifunctional and consequently can lose some of their effectiveness. These companies can be all-inclusive of both inbound and outbound customer support services, credit services, telemarketing, etc.

Bigger is not always better. Bigger, in some cases, can cause the collection company to lose its ability to provide the basic function of close personal follow-up. Don't lose your focus; you only want your money collected. Sophisticated voice operations and automation cannot replace close personal follow-up. Your initial contact with a potential collection agency should provide you with assurance that the representative is knowledgeable of the industry and emphasizes customer rehabilitations.

We want to convert this non-paying customer back to being a satisfied PAYING customer. You're trying not only to collect what's owed now, but bring that sheep back into the flock!

Collection agencies are governed by the national Fair Debt and Collection Practices Act. The purpose of this Act is to eliminate abusive debt collection practices by debt collectors, and to ensure that those debt collectors who refrain from using abusive debt collection practices are not competitively disadvantaged, and to promote consistent State action to protect consumers against debt collection abuses.

Knowing that abuses can take place makes the decision to use an agent the more difficult, but one thing is for sure ... your debtor most assuredly will not pay you and will no longer patronize you if you do nothing to collect your money.

Companies are required to adhere to the professional standards outlined in this Act. Abusive and aggressive tactics usually only serve to further alienate customer and client, and generally will not effect a collection. Agencies should train their collection personnel in accord with the guidelines of this Act as well as maintain a copy of this

Act on the premises. Besides Federal law, some states also have enacted laws to govern the behavior of collection agencies.

Choose an agency that you can trust, because in order for the agency to be effective, it must have the latitude necessary to completely act on your behalf. Most agency executives will tell you that the fastest way to kill a collection in process is for a client to intervene in the process. Just as children can pit one parent against another, the debtor can pit the client against the agent and totally negate the collection process. Additionally, as mentioned earlier, a potential client must be concerned about the cost factor of collections.

Contingency fees can be costly, ranging between 30-50 percent; and don't forget to ask about the legal limit of "add-ons."

That is, the added maximum amount state law allows you to collect from a debtor. The added account value can help to offset the agency's contingency fee. The agency representative should conduct this counseling session with you. The purpose of the counseling session is to help you, the client,

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avoid future pitfalls; and provide the agency the opportunity to gather much-needed information to pursue the debtor.

Ask if the agency will provide you both with payment reports and progress reports. Progress reports should detail account activity, and are generally provided upon request by the client. This report indicates the type of letters sent, the number of phone calls placed, and may also indicate a future course of action the agency may take to collect the debt.

The payment report should provide a listing of paying debtors. It should list the debtor's name, account number, total amount paid; and the percentage split between the client and the agency. You should have an arrangement up front as to whether the debtor can make payments directly to you, or whether the payments must be made directly to the agency. Payments made directly to the client should be listed on the payment report as "direct payments."

Lastly, the decision to use an agency hinges upon the delicate relationship you have with your customer. Some are just slow-pays and will pay eventually, but be mindful that a slow-paying customer is usually an indication of trouble up the road. A good rule of thumb is that if your customer is consistently 30 to 60 days behind, you should begin to consider other pay arrangements with this customer. Generally, when a debt becomes 90 days delinquent, you should turn it over for professional help. **N**

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