

# Top Ten

## Ways to Improve Collections

By Gary E. Loring, Transworld Systems Inc.

When a company provides a product or service, it has a right to expect to be paid on a timely basis. However, anyone who's been in business a month or more has learned that prompt payment is not always the case. Often, accounts get seriously past due, or when payments are made, there are insufficient funds in the customer's account to cover a check. Accounts not paid within terms can have a dramatically negative impact on the cash flow of a business.

### **1 Have a Defined Credit Collection Policy**

One of the major causes of overdue receivables is that the business has not defined to its customers and staff when accounts are to be paid. If customers are not educated that accounts are to be paid on time, then chances are they'll pay late or sometimes not at all. Make sure that your company's terms of payment are clearly stated in writing to each customer.

### **2 Invoice Promptly and Send Statements Regularly**

If you don't have a systematic invoicing and billing system, get one. Many times the customer hasn't paid simply because they haven't been billed or reminded to pay in a timely manner. This situation usually occurs in smaller or newer businesses where they're short on staff to invoice and bill.

### **3 Use "Address Service Requested"**

One of the most difficult collection problems is tracking down a customer who has "skipped". All businesses should be aware of a special service

offered by the Post Office. Any statement or correspondence sent out from a business or professional office should have the words "Address Service Requested" printed or stamped on the envelope, just below your return address in the top left corner. If a statement or invoice is sent to a customer who has moved without informing you of their new address, and the words "Address Service Requested" appear on the envelope, the Post Office will research this information and return the envelope to you on a yellow sticker that gives the new address or other updated information. If the customer has placed a "forwarding order" with the Post Office, the Post Office is required to forward the envelope to the customer and give you a form #3547 with the new address and charge you approx. 50 cents. This will keep your address files up to date.

### **4 Contact Overdue Accounts More Frequently**

No law says you can contact a customer only once a month. The old adage "The squeaky wheel gets the grease" has a great deal of merit when it comes to collecting past due accounts. It's an excellent idea to contact late payers every 10-14 days. Doing so will enable you to diplomatically remind the customer of your terms of payment.

### **5 Use Your Aging Sheet, Not your Feelings**

Many businesses (or well-meaning people on their staff) have let an account age beyond the point of ever being collected because he or she "felt" the customer would pay eventually. While there are a few isolated cases of unusual situations, the truth is that if you aren't being paid, someone else is. So stick to your systematic plan of follow up. You'll soon know who intends to really pay and who doesn't. You can then take appropriate action once you know where you stand.

### **6 Make Sure Your Staff is Trained**

Even "experienced" staff members can sometimes become jaded when dealing with past due customers. This usually occurs when they have made and broken promises for payment.

Make sure the staff is firm, yet courteous when dealing with them. Your collection staff could benefit from customer service training because, in effect, they must "sell" your customers on the idea that you expect to be paid. Make sure that your collection staff is trained to not only bring the account current, but to also maintain good will with them.

## **7 Admit and Correct any Mistakes on Your Part**

Sometimes customers don't pay because they feel you've made a mistake. If you have, quickly admit it and correct it. Your customer realizes that mistakes can happen in business. Unfortunately, many customers believe that "the owner/president doesn't need the money". Denying an obvious error only fans the fire of resentment your customer may already feel.

## **8 Follow the Collection Laws in Your State**

In many states, businesses are governed by the same collection laws as are collection agencies. For example, calling customers at an odd hour or disclosing to a third party that they owe you money are just a couple of the numerous collection practices that can cause serious repercussions. If you're not sure, call your state's department of finance which governs and monitors collection agencies.

## **9 Use a Third Party Sooner**

If you've systematically pursued your past due accounts for 60 to 90 days from the due date, (and they still haven't paid) you're being delivered a message by your client. More than likely, you've requested payment four to six times in the form of phone calls, letters and statements. Statistics show that after 90 days, the effect of in-house collection efforts wears off 80%. That means that the time and financial resources budgeted for collection efforts should be focused within the first 90 days where the bulk of your accounts can and should be collected.

From that point on, a third party can motivate a customer to pay in ways you cannot, simply because the demand for payment is coming from someone other than you. Before paying a

percentage to a collection agency, or using small claims court or an attorney, check into using a fixed flat fee collection service such as **Transworld Systems Inc.** Transworld has 130 licensed offices nationwide, has the highest recovery rate in the industry, and charges a **fixed fee of around \$10 per account**, regardless of the amount owed, or where the debtor is located.

## **10 Remember that Nobody Collects Every Account**

Even by setting up and adhering to a specific collection plan, there are a few accounts that will never be collected. By identifying these accounts early, you will save yourself and your company a great deal of time and money. Even though a few may slip by, you'll find that overall the number of slow pay and nonpaying accounts will greatly diminish, and that's a victory in itself!

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Gary Loring, Account Executive and Accounts Receivable Specialist with Transworld Systems Inc. in Mobile, AL is available to answer questions regarding billing and collections. He has MORE tips on how to increase cash flow with making the best payment arrangements with your customers, along with providing you with a special "script" to follow. He will also give suggestions on what to look for when choosing a collection agency and what choices you have for recovering your delinquent accounts.

Gary is available for workshops for Trade Associations and business groups. There is NO FEE. He will also be happy to offer an accounts receivable analysis for your business at no charge.

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