South Jersey
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Dealing With Debt

Being professional goes a long way when it comes time to collect.

[By Lucia Patalano]

No one likes owing money.

But in times of economic instability, one would think debt collectors would be feasting on increased opportunities to cash in on business as companies are faced with varying struggles. Therein lies the problem. As these cash-strapped businesses wrestle with financial shortfalls, owing the money is one thing, but paying off their debts is an entirely different ballgame.

Years ago, this would lead to besieging the client with confrontational phone calls and terse memos on company letterheads, or threatening to bring in a collections agency, effectively terminating the relationship.

However, these times call for a more calculated approach, one that produces results without alienating the parties involved.

Perry Videx, a $30 million dealer of used processed equipment and machinery based in Hainesport, faced a cash flow dilemma when one of its credit customers was nearly $40,000 overdue on a payment. Rather than sic the dogs on the client, the company employed open and professional communication to resolve its situation. "We want to maintain relationships if we can," explains Bob Bowdoin, controller at Perry Videx. "There are different things we will try to do with customers because we realize that relationship is important and we don't want them to go to a competitor."

After learning the debtor was owed a large sum of money from a major customer, Perry Videx accepted an initial one-third payment, then established a reasonable payment plan for the remaining balance, and, most importantly, preserved the business relationship. It's a tactic being used more and more by businesses, both large and small, in an effort to sustain future business.

TIMELY FOLLOW-UP IS KEY

According to the experts, it's imperative to establish a clearly-defined collections policy based upon timely follow-up, and then to implement it consistently. Otherwise, you're giving your customers the mindset that late payment is acceptable.

"Creditors train their customers when to pay them in some cases," explains Chuck Grimley, president of Grimley Financial Corporation, a full-service collection agency based in Haddonfield. "If you don't reach out to your slow-paying customer until, say, 60 days, they'll pay you in 60 days forever. They'll rarely improve.

"But if you're on the phone in 25 days, on a term of 30 days, they become conditioned to hearing from you five days prior to the due date, and you become the squeakier but professional wheel, so they start to process your invoices and payment sooner."

A 30-day payment cycle is the norm in most commercial transactions, and experts strongly recommend that companies follow up on unpaid bills around day 25 for new or sporadically-paying customers and around day 30 for existing, well-standing clients. The initial communication should be a friendly phone call or letter to the person in charge of accounts payable. Reaching out to the client early is the key, since collection is closely tied with the age of the receivable. According to industry sources, the probability of collecting an overdue account drops to 73 percent after just three months, to 57 percent after six months, and to only 29 percent after one year.

"A company doesn't want to wait until the receivable is overdue," says Grimley. "The best time to make that first call would be five days prior to when the monies are due, to make sure that the invoice was received, that payment is being processed, and that there are no disputes, so you can reconcile any matters that would prevent timely payment and chiefly gain a status on when payment can be expected. The further you move that process back, the further you're moving your cash flow back."

TAKE A PROFESSIONAL AND FRIENDLY APPROACH

The combative approach to collections that stereotypes the industry should be avoided at all costs. Instead, communication should be friendly and professional, disguised as a follow-up customer service call to thank the client for their business and to ensure that there are no problems with the invoice, products, shipping, etc.

"When you're working with customers, you can kill more flies with honey than you can with vinegar," says Bob Leib, president and CEO of Leib Solutions, a Gibbsboro-based collection agency that handled $110 million in delinquent accounts in 2010 and represents 41 Fortune 500 companies. His firm employs a "no noise, no escalation" approach to collections and shuns harassing phone calls and unprofessional conduct.

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>
> —**Paul Ruzga**, director of Customer Financial Services, Simon & Schuster

"It needs to come across as a customer service friendly reminder," adds George Bresler, president of GB Collects, a collection agency in West Berlin that currently handles more than 750 clients. "What you're doing is reaffirming the relationship with the customer."

Developing this type of positive approach with credit customers is critical to negotiating payment, should an account become delinquent. For example, at book publishing conglomerate Simon & Schuster in Riverside, customers deal with the same credit representative with each transaction and thereby build a solid rapport with that person, making it easier to learn of any financial issues the client may be experiencing and to negotiate a payment arrangement if necessary.

"By building those relationships, it's not as offensive if you're saying to somebody, 'Do you have a problem?'" says Paul Ruzga, director of financial services at Simon & Schuster. "And then they'll negotiate something if there's a long-term, good-standing customer that just has a short-term cash flow problem."

KNOWING WHEN HELP IS NEEDED

The in-house collections process should generally consist of three phone calls or letters about 30, 60 and 90 days from the invoice due date. If payment is not received by then, and if the customer is not willing to work with you on a payment arrangement, then it's probably time to call in a professional collection agency. Look for an agency with industry credentials and ask for references. Most importantly, visit the agency in person, meet with the people, and listen to how they speak to customers over the telephone. "If you're hearing things that you don't like in terms of harshness, harassing phone calls and unprofessional behavior, you need to walk away as fast as you can from that collection agency," Grimley warns.

In essence, the collection agency should be a positive reflection of your company and demonstrate a willingness to work with the customer. "It should be an intelligent continuation of your team," explains Leib, who stresses that bringing in a collection agency doesn't have to mean the end of the business relationship with the debtor client. Oftentimes, companies continue to do business with a slow-paying customer who went to collections, perhaps initially using scaled-down credit terms, such as requiring payment in full or a partial down payment or perhaps a lower credit line.

Bowdoin recalls how Perry Videx successfully resumed business with a "nightmare" problem customer nearly one year after using a collection agency to recoup a delinquent account. The second time around, the customer was asked to pay in full up front. "Now, the next time they buy, we may say, 'Give us half up front and the balance net 30 and let's see how it works out.' We realize that people can run into issues," Bowdoin explains.

Moreover, a collection agency can often provide creative solutions to cash flow problems including negotiating a payment plan or even arranging accounts receivable financing with an outside investor.

"Today's collection agency clearly has to work more like a credit management department," says Grimley. "If all you bring to the table is collection skills, you're antiquated. You've got to be able to bring sophisticated credit skills to the accounts receivable problem to present options, to be creative, and to work with the debtor." ▸