



A Collection Guide for Creditors

By Michelle Dunn

As a credit grantor, you should be aware of some basic principals:

- Granting credit carries an unavoidable element of risk. You will have some losses regardless of how closely you screen applicants.
 - There are some fundamental procedures that can help in your collection efforts. While no collection procedures will completely cover all your needs, there are some general ideas that can assist you, regardless of the goods or services you provide.
 - A clear understanding by both parties of the terms of the credit transactions when it is initiated.
- A systematic and diligent follow up of every account.
 - A periodic age analysis of every outstanding account.

Extending Credit

As a credit grantor, your business is one of many that allows consumers to use goods and services immediately and pay for them later. While extending credit increases your gross sales, it also puts you at risk of some losses due to nonpayment.

Most businesses that "write-off" a percentage of sales to bad debts have an established rate of procedure for this action. In most businesses, this rate runs from 0.5% to 1% on low-profit transactions, and up to 5% on high-profit sales and services. When the charge-off rate exceeds 5%, it becomes necessary to find ways to improve controls over bad debt losses.

You don't have to accept excessive losses as an inherent part of doing business and extending credit. The fundamentals of establishing and maintaining effective controls over bad debt are comparatively simple, and it is possible to reduce these losses.

Identifying Bad Debt

You can keep bad debts to a minimum and have more success recovering them if you identify them early. Your actions at this point of your credit-collection procedures are vital. Your reaction can mean the difference between recovery or loss. When you identify a potential bad debt, you need to act promptly and decisively. Usually the more time that passes, the less consumers pay.

Accounts that are carried indefinitely usually originate with creditors who do a limited amount of business, have the highest credit losses or the lowest debt recovery. Most national associations keep track of averages of delinquency for their industry.

Reducing Bad Debt

You should have a standard, in-house written policy on handling accounts. The policy should include when to call new customers, when to call established customers and when to send letters.

Assuming that there is regular account billing, you will find that most credit users will pay as agreed. A certain number will pay after a mild reminder. Some will encounter a change in economic situation that makes it difficult to pay, such as illness or loss of job. After a regular

follow-up with these consumers, they will usually give insight into their financial situation, their reason for nonpayment, a promise to pay and eventually they will fulfill this promise. A small number of consumers, rarely over 5%, will require more attention, but will eventually pay.

These consumers are not our main concern. They are mentioned only to emphasize a simple, fundamental collection practice - keep the account good. This can usually only be achieved by giving each account proper and constant attention.

A successful in-house policy must:

- be tough yet flexible
- have specific guidelines of action
- contain self-evaluation
- be consistently enforced

Proper and consistent attention involves developing a collection schedule and following each step fully before moving on to the next step. It means that you never move backward or repeat a step in the hope of salvaging an account.

When to Hire a Professional Collector

As an account ages, the chances of collecting on it decrease dramatically. It's expensive to carry accounts that you will not be able to collect using the methods at your disposal. It's often a better use of your company's time and resources to concentrate on other aspects of your business.

A Professional collection service can assist you in collecting accounts that remain delinquent. Collectors have a vast knowledge of collection techniques, technology and compliance issues. Using a professional collection service will save time and likely yield better results.

Look for the following signs that you may need to work with a collection service:

1. A new customer does not respond to the first reselling notices. For some unknown reason, the consumer will not or cannot pay. Potential losses could be kept to a minimum by prompt referral to a collection service.
2. Payment terms fail. In some cases irresponsible consumers pay when and if they want to. This group is responsible for 25 to 50% of the cost of collections. Cost and potential losses are reduced by quick action.
3. The consumer makes repetitious, unfounded complaints. Such consumers are often better handled by collection specialists.
4. The consumer totally denies responsibility. Without professional help, these accounts are usually written off as total losses.
5. Delinquency coexists with serious marital difficulties. These also require professional collection help, with the added urgency of obtaining payment before the disappearance of one or both of the responsible parties.
6. Repeated delinquencies occur along frequent changes of address or jobs. This group is responsible for 90% of all "skips". A skip is a consumer who has moved without informing creditors or leaving a forwarding address. The chance of finding a consumer and collecting a debt will decrease over time, so quick action is important.
7. Obvious financial irresponsibility is apparent. In such cases, little hope exists for voluntary payments and a quick settlement.
8. There is an unauthorized transfer or disposal of goods delivered in a conditional sales contract. Often only prompt professional assistance can make any recovery.

Working with a Collection Agency

List collection agency accounts on special listing forms. Accurate information about the account will improve collections. In all cases, the minimum information should include:

- the correct name, address & telephone number of the debtor
- name of debtors spouse
- whether mail has been returned
- debtors occupation or last known occupation & phone number
- names of relatives, friends, and references
- summary of any disputes
- date of last transaction
- cellular phone, fax, pager numbers
- nick names or aliases, maiden name

Cooperate with your collection service. Rely on the experience, diligence and judgment of your collection service for the best and quickest results and promptly refer any developments on the assigned accounts to the collector.

See that your collection service is fully acquainted with the nature of the goods or services involved. Professional collection services are personal in nature. If the collection service is familiar with the goods and services your company provides, it will be better suited to handle the complex situations that arise during collection.

Do not place an account with more than one collection service. Make sure that if you change collection agencies, the account is only being worked on by one service.

Selecting a Qualified Service

Choosing a professional collection service to manage delinquent accounts and other related tasks is a wise decision. The agency should represent your organization in a responsible and professional manner, and provide a satisfactory rate of recovery while maintaining your public image. This decision involves more than just giving your business to the lowest bidder - it requires careful consideration.

Consider the following qualifications and credentials when choosing a collection service.

- Is the agency a member of a national trade association? Membership is an indication of professional integrity.
- Does the agency belong to a local Chamber of Commerce?
- Does the agency charge fees that are clearly stated?
- Is the agency prepared to give the best possible service? An agency cannot guarantee results on any specific date, but will often estimate an average recovery rate that one can expect.
- Will the agency be sensitive to a consumer's individual situation? The agency should promptly notify you when it discovers a consumer who is a hardship case and recommend a proper procedure to follow.

Psychologists tell us that up to 90% of our behavior is habitual.

If you have a habit of letting your receivables get overdue, which is one of the most common unsuccessful habits, you will always get a predictable result. Negative habits breed negative consequences.

If your negative habit is letting your accounts receivables get overdue you want to choose a better, more successful habit to replace that. There are steps you can take to change this habit:

1. Review your accounts receivables weekly or at the very least, monthly.
2. Stay motivated by trying to collect as much money as possible.
3. Stay focused; don't let excuses veer you off track.

Once you have these habits in place, keeping your receivables up to date will be your new habit and a habit that makes you more money and helps you grow your business. Those are the kinds of habits we want!

Check Your Credit Policy Expertise with Michelle's Quiz

Every Business Owner should know the answer to these or know how to find out:

1. How does debt and credit affect small business owners?
2. What is a credit policy?
3. What makes a successful credit policy?
4. What is credit risk?
5. How do I turn prospects into credit-approved customers?
6. How can I maximize cash flow?
7. How can I make more money and more sales with a credit policy?
8. How do I handle customer deductions?
9. How do I handle debtor excuses?
10. How can I maximize cash flow?
11. What are common collection downfalls of new and small business owners?
12. When do I use a collection agency?

If you don't know the answers to most every one of these 12 questions without looking them up you are sure to benefit from *Become the Squeaky Wheel, a credit & collections guide for everyone* available on Amazon, http://www.amazon.com/Become-Squeaky-Wheel-Collections-Collecting/dp/0970664516/ref=pd_bbs_sr_3/002-4165958-7857656?ie=UTF8&s=books&qid=1189971995&sr=1-3

It should be sitting on your shelf right next to the other award-winning books in "The Collecting Money Series" by one of the Top 5 Women in Collections and Collection Advisor's Top 50 Collection Professionals for 2007, Michelle Dunn.



AUTHOR BIO

Michelle Dunn, author of an award winning book, one of the Top 5 Women in Collections in 2007 & 2008, one of the Top 50 Most Influential Collection Professionals of 2007 shares her hard-won expertise on debt collection with the titles in her “Collecting Money Series.” She is the founder and president of Never Dunn Publishing, LLC and her 10 year old Credit & Collections Association with thousands of members. Michelle started and ran M.A.D. Collection Agency for 8 years and has worked in the debt collection industry for 20 years.

An internationally-known expert on the topic of credit and collections Michelle Dunn is a leading authority on collecting money to businesses everywhere. Overseeing renowned authorities from the financial, legal and accounting communities, she brings them all together to bring solutions and unique opportunities to every member of her Credit and Collections Association.

Michelle is a regular contributor to the Wall Street Journal and has been featured in Forbes.com, Smart Money Magazine, MSNBC, Home Business Magazine, Entrepreneur magazine, Professional Collector, Credit & Collections Risk, the NH Business Review, and in many books and publications worldwide. Michelle has been a featured guest on (NPR) National Public Radio, the Jim Bohannon show and many other radio programs as well as being a repeat guest on television shows such as The Book Authority and Process for Profit. She has many published articles and 7 published books to add to her list of accomplishments.

In addition to writing and marketing her books, Michelle is a published columnist and shares valuable credit & debt information with business owners on her blog at www.BizCreditPolicy.com. Visit www.michelledunn.com and www.credit-and-collections.com

