

10 Tips To Improve Your In-House Collection Procedures

1) **Have a Well Defined Credit Granting Policy**

Large corporations have well defined credit granting policies. This alone reduces their losses from un-recoverable accounts receivable up to 50%. Most small to medium businesses do not have any policy other than using a check verification service. Following are policies which most businesses should have:

- Invoice at point of sale
- Signed credit application
- Net 30 terms
- Interest and/or collection fees added at 30 days past due
- Monthly statements
- Phone call at 30 days past due
- Turn over to collection agency at 60 – 90 days past due

2) **Get detailed information at the point of sale.**

The more you have the more you will be able to recover on the back end. It's as simple as that. You should have:

- Name

- Address
- Phone Numbers, home, work, cell
- Employment information
- Social Security numbers
- Drivers License number

3) **Know the Collection Laws For Your State**

There are both Federal and State regulations which govern collections. These laws apply to both businesses and collection agencies. It is important you know the basics and adhere to them. The attached chart has a summary of the most common laws by state with regard to interest and collection fee charges. Additional information can be found on the American Agencies website.

4) **Send Invoices and Statements on a Regular Basis**

More often than not a customer does not pay because they have not been billed or reminded to pay in a timely manner. You should have a systematic billing system to manage your accounts receivables. All accounting software has these capabilities.

5) Have “RETURN SERVICE REQUESTED” Printed on Your Envelopes

Finding customers is the most common problem in resolving account receivables. In the collection industry, tracking customers is called “skip tracing”. The Post Office has a special service designed to help find people who have “skipped” (moved). It is their “Return Service Requested” program. If a customer has moved and you have this printed or stamped on your envelopes the Post Office will research the address 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, they are required to forward the envelope to the customer and give you a form #3547 with the new address and charge you approximately \$50.

6) Follow Your Credit Granting Policies, Not Your Feelings

Always remember, if you aren't being paid, someone else is. Stick to your credit policies or you will get taken advantage of. You or your staff may be lenient on a customer who you know and “think” will pay. You'll quickly know who really intends to pay and who doesn't.

7) Practice Good Customer Service

Diplomacy does not mean “write off” bad debt. A good A/R clerk is also a customer service representative. FIRM but FAIR

should be your guiding principle. Customer retention requires diplomacy. Customer retention should also be the goal for professional collectors. If you have well defined policies you can always fall back to them.

8) Best Practices Bookkeeping

A good bookkeeper is worth their weight in gold. They should have the latest and greatest software at their disposal. Accurate and timely recording of payments will help you in several ways. Payment history should be used to evaluate future credit, trends, and potential problems. If payments become unusually slow, immediate follow-up is warranted. This not only gives you an early alert to impending payment problems, but it also gives you the chance for early intervention.

9) Tighten Up You're A/R Timeline

“The squeaky wheel gets the grease”. Contacting delinquent customers only once a month is not enough. Good policy is a contact every 10-15 days. Doing so will diplomatically remind the customer of your terms of payment. After pursuing past due accounts for 60 to 90 days your customer is telling you something. You have invoiced, sent statements and made several phone calls. Statistics show that after 90 days, the effect of in-house collection efforts is 80% less effective. 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 payments is coming from someone other than you.

10) Do Not Expect to Recover 100% of you're A/R

By following these tips you will increase your collections, and save yourself and your company a great deal of time and money. Even though a few may fall through the cracks, all in all you will find the slow pay and no-pay accounts will be greatly reduced. You should know your bad debt ratio and be able to analyze it according to aging to fine tune your credit granting policies.

