



## **Effective Collection Procedures**

### ***A Guide to Improve Collection Procedures***

#### **Don't assume that accounts know your credit policy**

While there are usually established trade practices in every industry, it is sometimes the differences that make customers choose one supplier over another. It is important that your accounts know what your credit policy is to eliminate misunderstandings. Statement of that policy and that payment is overdue, is a first step in facilitating payment.

#### **Know your customers individually**

As part of doing business, you undoubtedly maintain credit files on each of your customers. Credit should never be extended to a new customer without first ascertaining a company's credit reliability. Once credit is extended, it is important to maintain accurate and timely records on an account's payment history. If records indicate a deviation from past payment patterns, and especially if payments become unusually slow, immediate follow-up is warranted.

#### **Keep your credit records current**

Companies don't remain static. Changing market conditions and management directions can abruptly alter the course of a company's health and operations. It is always prudent to keep abreast of trade reports on specific companies, as well as industries.

#### **In periods of uncertain economic conditions, tighten your collection procedures**

If business conditions are uncertain, it is time to review and tighten up your collection procedures. You can't guard against unforeseen events, but you minimize your company's chance of loss by maintaining rigid adherence to your collection policies. A good place to start is by revising your collection letters—make them stronger and more action-oriented.

#### **Try to discourage extended payment terms**

Screen requests for extended payment terms carefully. Direct your sales department to discourage these requests so that they are kept to a minimum.

#### **Pursue partial payments with requests for the balance due**

Generally, slow-paying or delinquent accounts believe that by making partial payments, they can “get the heat off.” While such payments do show good faith, they should not slow your effort to collect the complete amount due. The best practice is to acknowledge part payments promptly—and follow-up with communication to accelerate payment of any balance remaining.

### **Shorten your collection schedule**

Shorten the time period after an account’s due date for continued extension of credit privileges. This “shock treatment,” communicated to a principal, can sometimes exert needed leverage on accounts, particularly those accounts who rely heavily on the supplies or services of your company.

### **Keep your lines of communication open**

While you are talking, there is always hope. But make sure you are getting through to the right person at your account—the decision maker. Phone this person. Offer to visit the slow-paying or delinquent account to discuss the balance due and establish a payment schedule.

### **Try to resolve disputed matters quickly**

If the basis of non-payment is a dispute over quality of merchandise or service, price or delivery, a mutually agreeable settlement should be arrived at promptly. The customer may use a minor dispute to withhold a substantial payment. Insist that the undisputed portion be paid immediately, indicating that the balance will be negotiated.

### **What to do when all else has failed**

Your judgment will tell you when you have exhausted all the means at your disposal to negotiate a satisfactory payment while maintaining an account as a customer. At this point, you should take positive action by referring the account to a Commercial Collection Agency Association (CCAA) certified member.

### **When to employ a collection agency**

1. When indebtedness approaches 90–120 days delinquent.
2. When inquiry discloses serious customer financial reverses, falling sales or other creditors’ collection actions.
3. When the cost of your own personnel’s efforts do not justify further time investment.
4. When a customer demonstrates bad faith and loses credibility.

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\* Source of information: Commercial Collection Agency Association