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"MAKING THE MOST OF COLLECTIONS?"

By: David Schmidt

In 1999 my good friend and fellow consultant, David Schmidt, wrote the following article for Business Finance. I believe it is more relevant today than when it was written 17 years ago. I not only hope you enjoy the article but that you share it with your peers, bosses, and most importantly with your hiring manager.
David Balovich

A collections staff can have a tremendous impact on a company's cash flow and its image in the marketplace. But reaping the benefits requires carefully selecting the players and removing obstacles to the team's success.

Many companies fail to get their money's worth from their collections staff because they do not fully understand what constitutes a good collector — and their corporate environment just exacerbates the problem. Many senior managers are not aware of the handicaps their companies impose on the collections function, and organizations that recognize collections problems often underestimate their impact on the bottom line. As a result, many collectors never realize their full potential.

In most companies, collectors are charged with cleaning up after problem accounts. Managers believe that good accounts pay on time (or close to it) and that delinquent accounts are a necessary evil of doing business. The primary problem with this mind-set is that many, if not most, of the accounts collectors deal with are past due because of internal corporate processes.

"If managers do not understand what collections jobs entail, they are not going to have the right people to begin with, and they are not going to have the right expectations," says Abe WalkingBear Sanchez, president of A/R Management Group Inc. in Canon City, Colo. He says that a study by Indiana University found that roughly 25 percent of corporate receivables are past due at any given time. Bad-debt write-offs average less than 0.5 percent for most industries, so Sanchez concludes that "most past-due accounts are not efforts to beat a business out of money. These are not debtors; they are customers. Therefore, the task at hand is not collection; it is completion of the sale."

Commercial collectors spend relatively little time trying to pry payments out of debtors who willfully refuse or lack the means to pay. They devote some time to customers who are temporarily short of cash but are otherwise willing to pay. But collectors spend most of their time removing obstacles to payments that are created either by cracks in the customer's systems or, more often, deficiencies in the creditor's corporate processes. The job requires an attitude that facilitates problem resolution, not a mind-set focused on enforcement. When managers understand the collections function, they can pull together the right people and put in place a program that optimizes cash flow and customer satisfaction. Such an environment can provide rich rewards, and the collections function can serve as a catalyst for total quality management improvements in other corporate processes.

Build Relationships With Customers

Collectors who have personal relationships with their counterparts in customer companies easily and effectively resolve late-payment problems. "You don't sell to companies; you sell to people," Sanchez observes. "You don't collect from companies; you collect from people."

This philosophy has been the foundation of one company's success in the highly competitive building-products industry. Amerhart Ltd. in Green Bay, Wis., services more than 1,200 customers throughout the upper Midwest from five distribution centers. Credit manager Matt Kuepers handles all of Amerhart's credit-and-collections work with the assistance of a clerk who applies cash, investigates payment deductions and takes care of related paperwork. In most companies, 1,200 accounts create more work than one collector can manage, but because of Amerhart’s strong customer relationships, Kuepers has to deal with relatively few past-due problems. Kuepers’ role is even more impressive because Amerhart is showing solid growth in an industry that is dominated by larger competitors and that is not known for prompt customer payments.

"The success we have had," says Kuepers, "comes from taking care of our customers. There are parameters you have to work within, and sometimes you have to make decisions that are not what the customer wants to hear, but you try to make the best of it and make each situation win-win for both companies." Over time, customers have learned Amerhart’s expectations. They often call Kuepers to work out payment problems if they know their credit status might cause a problem with future orders. Amerhart’s relationships are clearly two-way streets.

Despite Amerhart’s emphasis on building customer relationships, the company does not have a customer-service department. Kuepers reports to the CEO and shares information regularly with the sales force. "I am open with my salespeople, and I expect them to tell me the good and bad things that are going on. A lot of our problems are solved before they become payment problems," he claims. Issues that come up repeatedly are addressed at the source to prevent future recurrence. As a result, 75 percent of Amerhart’s customers pay within a short discount period. Within a few days after customers’ accounts become past due, Kuepers contacts them to find out why they have not paid and try to solve the problem so it won’t happen again.

Require Communication Skills

You cannot build working relationships without effective communication. Kuepers spends most of each day sharing information with customers and Amerhart employees in an effort to solve problems. All competent collectors spend a lot of time communicating with parties inside and outside their companies. However, communication skills are not always a company’s first consideration when it’s hiring for commercial collections positions. A casual perusal of help-wanted ads under the headings "collections" and "credit" will confirm this fact. Often, such ads don’t even mention communication skills.

Most "credit" positions involve much more collecting than credit analysis, but many companies’ hiring processes emphasize financial and accounting skills rather than communication skills. Through his consulting and lecturing, Sanchez finds that, "all too often, the wrong people are in credit. Collection requires the abilities to communicate, follow up and get things done." He knows of one shy woman who went into accounting because she was uncomfortable talking to people. She got a job as a receivables clerk, and her company asked her to start calling past-due customers. Management makes such decisions when collection is associated with accounting rather than with completing sales.

John Broderick, executive consultant with Smyth Corporate Staffing, a New York placement firm that specializes in commercial credit-and-collections professionals, concurs that communication and people skills are essential for collectors. "Personality is an extremely important factor to consider when you are hiring a collector," he says. "You can teach the hard skills, but the soft skills are not so easily learned. Communication skills are at the top of my list."

Don’t Forget The Training

No matter how much experience a newly hired collector has, training is vital to his or her success. A speaker at a recent seminar about automating collection asked the credit managers in attendance how long it takes them to get newly hired collectors up to speed. The typical respondent said that educating collectors on company policies and procedures takes three to six months. Learning how things work and where to find information takes even experienced collectors a long time. Automation puts a lot of information on collectors’ desktops, but training and support remain crucial to newly hired collectors’ success.

Professional training must include education about the legal aspects of collections. "Collectors do not have to be attorneys, but many have no idea what they can and cannot do from a legal standpoint. In a lot of cases, collectors’ bosses tell them to do things that are out of line," observes David Balovich, president of 3JM, a consulting firm based in Lake Dallas, Texas. Balovich leads credit-and-collections seminars for Dun & Bradstreet Inc. He is regularly asked what behaviors are legal. Many new collectors lack a basic understanding of the bankruptcy laws and the uniform commercial code, knowledge longtime commercial credit professionals take for granted. "A lot of the problem is that when companies downsize, they often create situations in which the people who are responsible for accounts payable or customer service must also now ask for money when they talk to customers," he says.

Support the Collections Staff

In addition to hiring the right people and providing adequate training, management needs to create a supportive environment for the collections staff. First, a company needs to develop clear collection policies and procedures that all employees — both managers and collectors — adhere to. One of the worst actions a credit manager can take is stepping in and overruling a collector’s decision that meets company policy. Such management actions undermine the effectiveness of the company’s collectors; through no fault of their own, the collectors lose all credibility with customers. "Right away, the signal to the customer is that the collector does not represent the organization’s position," says Balovich. "I have always abided by the theory that collectors will be as successful as their organization wants them to be. If the organization gives them the authority to collect and stands behind them, they are going to do a bang-up job. But if collectors are not allowed to make decisions and if the organization does not stand behind them, that is going to be reflected in the status of the receivables."

To build a supportive environment for his collections staff, William Balduino, director of credit at International Paper (formerly Union Camp Corp.) in Wayne, N.J., maintains an "operating style that provides full disclosure from a management perspective, heavily emphasizes a team atmosphere and offers individual recognition within that team." A shared vision guides Balduino’s team collectively and individually. "You need to get people to buy in to a common vision statement," he says. "That takes time, and the person at the top has to be in a position of support. Everybody has to have a full understanding of the roles, responsibilities and critical elements. If I can live up to our vision and value statement and reward people as they accomplish things, people will begin to buy in to the vision and everybody will contribute."

A collections department’s shared vision can reiterate the idea that collection activities need to focus on the completion of the sale. "The functional role we try to fill is that of financial consultant to the business units. We are not the credit gestapo. If we disagree about the risk/reward mechanism, all we do is push that discussion further into the organization," says Balduino.

Because his department’s perspective is aligned with the corporate focus on profitability and market share, his collectors maintain ownership of their accounts throughout these discussions. They are involved in the final decision, and they continue their dialogue with the customer throughout.

By encouraging open and honest discussions, Balduino has created an almost collegial atmosphere. His team members learn from each other, and management facilitates the exchange of knowledge about what works and what does not. "We give everybody equal opportunity for success and then let them do their jobs. If something is working well, we try to monitor it, trap it and reproduce it," relates Balduino. In addition, he rewards individual accomplishments with bonuses and promotions. His department does not have a fixed number of positions, so when team members increase their contribution to the organization, they do not have to wait for a position to open up to advance.

Evaluate Performance Consistently

Of course, managers cannot reward performance fairly unless they can objectively measure improvements. One metric many companies rely on is days sales outstanding (DSO). Unfortunately, monthly increases or decreases in sales volume skew this measure of receivables turnover, so DSO does not provide a consistent standard for evaluating collectors. To evaluate his employees, Balduino looks at average days delinquent, deviations from sales terms and similar metrics that reflect directly on collector performance. Balovich recommends tracking the percentage of beginning-of-month receivables that an employee collects by the end of the month. "You should evaluate collection performance by what employees do, which is bring in money," he says.

Another performance-measurement option is to look at collectors’ input into the collection process rather than the process’s output. Collection software can provide strong metrics in this regard, since it tracks collector activities and customer responses. Simple manual reports can also do the job. Sanchez suggests having collectors fill out a daily collection report that identifies customers contacted, the reasons for their past-due balances and promised actions. "The payback from that daily report is that it motivates collectors to make more calls," he explains. Managers can use collection reports to ensure that employees are contacting the customers with the largest past-due balances first and to confirm that collectors are identifying the problems that lead to past-due balances and uncovering areas for improvement.

Whether a company measures collection input or output, consistency is the key to accurate measurement. Employees have trouble improving performance if they cannot clearly see their own contribution to the department; anecdotal evidence can often be misleading. Providing collectors with standards for comparison motivates them to look for ways to improve.

Creating an environment in which collectors are self-motivated has the potential for dynamic improvements in performance. By giving collectors a level playing field, clearly stated roles and responsibilities, the tools and support they need to do their job, and an understanding of how they can contribute to corporate profitability, a company gives them the opportunity to be successful.

************************************ JUNE 2016 **********************************

Day	Date	Group	Location	Time
Tues	7	Austin Construction	Texas Land & Cattle, 6007 N IH 35 & Hwy 290, Austin TX	11:30
Tues	7	Coastal Bend Group	Holt Cat, Corpus Christi TX	11:30
Wed	8	Rio Grande Group	Pro Build, Mercedes TX	11:30
Thurs	9	SW Food Credit Group	Las Palapas, 4802 Walzem Rd, San Antonio TX	11:00
Fri	17	SW Electrical Group	The Onion Creek Country Club, Austin TX	11:30
Tues	21	Austin Construction	Texas Land & Cattle, 6007 N IH 35 & Hwy 290, Austin, TX	11:30
Wed	22	Victoria Credit Group	Sky Restaurant, 236 Foster Field, Victoria TX	11:30
Thurs	23	Austin Ad Media	Phone Conference Meeting 1-800-791-2345	2:00
Thurs	23	Fuel & Lube/Heavy Eq.	Phone Conference Meeting 1-800-791-2345	2:30
Thurs	23	HVAC Credit Group	Texas Air Products, 11122 Gordon San Antonio TX	11:30
Tues	28	SA Construction	Las Palapas, 4802 Walzem Rd, San Antonio TX	11:30
Wed	29	Laredo Credit Group	Phone Conference Meeting 1-800-791-2345	2:00

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NACM COLLECTION SERVICE

Our collections staff is willing and certainly able to take on those tough, overdue accounts to which you've been devoting too much of your valuable time. We act promptly, personally contacting the debtors on the same day we receive your accounts. We are equal opportunity collectors, that is, no matter where your debtors live in the nation or who they are, we will find them and collect. In cases where we don't collect, we charge no fee, albeit we do so grudgingly…..we don't like failure. For your protection, all funds collected are placed in trust accounts. Also, all employees and attorney's are bonded. When you hit that wall in your collection efforts, give us a call at (210)225-7106 or you can fax your problems to us at (210)225-1777.

WHY IS IT BENEFICIAL TO PARTICIPATE IN NACM'S CREDIT INDUSTRY GROUPS:

1. **Networking of credit associates you can use as a resource for establishing credit.**
2. **Monthly information on customers you may have concern with.**
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4. **New business that may be coming into the area.**
5. **General discussions on how to handle NSF check, credit applications, COD's, etc.**
6. **Insightful data on current problems in the area.**
7. **Last, but no least, is the fact that is takes just one bit of information from your credit meeting, that you were not informed about, that could save your company thousands of dollars.**

These are not all the benefits for going to your credit groups, but again, if you only came and gathered information on one company that helped save your company a PAL (write off) at the end of the year, IT'S WORTH IT! So, get involved with your industry group, give us a call at (210)225-7106 and we may be able to find a group or start one for you.