Taking the Right Steps in Collections

A credit policy has four critical elements. They are: establishing the credit standard; determining credit availability; setting credit terms; and, defining a collection policy. "The best collection process is one which is proactive and consistent, and which reflects the mission and goals of the credit department," according to *Principles of Business Credit*.

The most important thing to remember when making collections on past due accounts is to focus on consistency, said Ray Wendolowski, Esq., of Bernstein-Burkley in Pittsburgh. "You want to have systems in place and forms to rely on if problems do arise. You need to have a procedure to follow through on," he added.

This is not an easy process; it is difficult to have customers send money especially if they are already having problems making payments. "Great customer service before collections makes it easier," said Wendolowski. Customers could feel ashamed or regret the fact that they cannot make a payment. There are certain things that can be done to make the collection process go as smoothly as possible.

Preparation
This was the most important takeaway from Wendolowski's *How Smart Credit Policies Improve Collection and Litigation Results* webinar hosted by NACM earlier this month. This is what the credit and sales departments should rely on before going into collections. If the right steps are taken, there should be an improvement in credit collections and a decline in defaults, he said in the webinar.

His preparation tactics include having a credit policy manual, credit agreement, credit enhancements, terms and conditions, and standard forms. All five should work together to help the collections process. If one or more is not in harmony with the others, there could be holes in the system. One tactic is not any more important than the other, but the credit agreement may have a slight edge with terms and conditions, added Wendolowski. Standard forms include the credit application and invoices for all products. Everything should look the same for the customers no matter how they order (phone, email, online, etc.) he said.

Despite having items in place for the collections process, it is not always possible to control everything. There are external and internal factors that impact collections. External factors, such as the economy and competitors, have a greater impact on collections, Wendolowski said. Even though internal factors do not have as much of an effect on collections, they could be a bigger problem. One example of an internal factor is not streamlining the collection process with the correct system. He added that there may be a small subset of credit professionals that do view internal factors as having a bigger impact on collections.

Since collections are part of the credit industry, there are some similarities, one being what Wendolowski calls the three Cs of collections: Character, Capacity and Capital. "You want to use them to position yourself in the best way possible when trying to recover your invoice value in a timely manner." They can also be used as a form of recourse to fall back on should things go south. The three Cs should be used to judge the immediate present, short-term future and long-term future, but it is important not to place too much weight on one, said Wendolowski.

Once a policy is put in place, there are 10 steps to progressive collection. They range from customer service calls to confirming letters to collection agent referral on the extreme end. For obvious reasons, Wendolowski sees the bulk of his clients reach the final step and eventually litigation. Between 80 and 90% of credit professionals go to litigation at least once during their credit history, he said. This is not the best position to be in, so it is important to take the necessary steps to avoid the courtroom. Much of this can be done before credit is even extended with the right preparation tactics and great customer service.

-Michael Miller, editorial associate