WHITE PAPER

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Guidelines for Assigning Collector Workload

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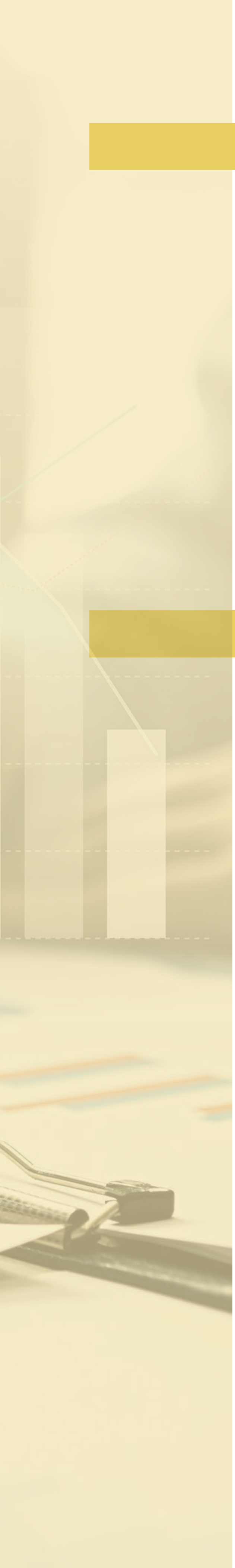


Overview

In the world of business-to-business (B2B) credit, nothing is black and white. The practices that work best for one credit department may not work perfectly for another. That is part of what makes the trade credit industry both challenging and fascinating. A standard "rule book" simply does not exist. As a credit professional, you are tasked with finding the tools and methods to help your department run at its highest efficiency, with the ultimate goal of protecting company assets and mitigating potential losses.

Every company's success starts with its people. But as the economy tightens, collection activity naturally increases and staffing in the credit department rarely matches up with the demands of maintaining collection efforts. Give your existing collectors every opportunity for success by assigning workload in a way that allows your team to divide and conquer collection activity.

When it comes to assigning account portfolios, one size does not fit all. It is a process determined by department size, industry type, company revenue and the organization's goals. How you organize your credit department should be customized for best results, and getting it right must be a priority. The following is a guide that can be tailored to your collection needs. It should be fluid and reevaluated often.

Determine Whether or Not Your Current Collections Strategy Is Working

If collections are suffering, workload assignments are the first place to look for the root cause. When workload is applied unevenly, it can have a negative impact on accounts receivable. But when done correctly, collectors should be able to reach their full potential.

Start by measuring the efficiency of your collection team using your favorite metric. For example, the Collection Effectiveness Index (CEI) can reveal a lot about a credit and collections department with little influence from sales. The higher the CEI, the more effective your department is at collections.

$$\frac{\text{Beginning receivables + monthly credit sales – ending total receivables}}{\text{Beginning receivables + monthly credit sales – ending current receivables}} \times 100 = \text{CEI}$$

If your CEI percentage is high, then the way you assigned collector workload is effective. But if the percentage is low, it might be time to reevaluate portfolios or even hire an additional collector. Start by asking yourself the following questions:

- Can any collection processes be automated?
- Do any of my customers require special attention/How much time does each customer require?
- Are the collectors responsible for performing other credit duties that takes time away from collections? (e.g., Credit risk reviews, deduction management, etc.)
- How long does it currently take to collect cash?
- How long does it currently take to correctly invoice the customer?
- Do unhealthy tensions exist internally and externally with the credit department?
- Does your department have adequate staffing?
- What are your department goals?
- Is your staff struggling to stay ahead of past-dues?
- How often do you want each collector to touch customer accounts?
- Is transaction count stable or has it increased significantly?
- Is your team working consistent hours each week?

Reflecting on these questions will give you a deeper understanding of your current efficiency levels and what you might need to change to improve collection results. It will also help you understand the portfolios on a much deeper level.

Choosing a Workload Assignment Strategy

Now that you are ready to refresh your collections portfolio strategy and take a closer look at how workload is divided, be sure to recognize the complexity of each account before testing which strategy (or a combination of strategies) will work best for you.

The way you assign workload to your collectors is going to be industry specific. For example, an industry where invoices are based on specific units versus an industry where invoice value is based on a process with variables, such as weight or size.

In an industry where invoices are based on specific units, such as washing machines or lot of computer chips, your company would likely be shipping large pieces—one item, one invoice and a large dollar amount. So, assigning workload by balancing the number of accounts per collector or by customer location would work well.

But in the construction industry, a credit analyst is likely to spend a lot of time tracking and filing liens, which takes valuable time away time from wearing the collections hat. The same goes for the cosmetics industry where credit professionals may need to spend more time prioritizing deductions and disputes rather than collections.

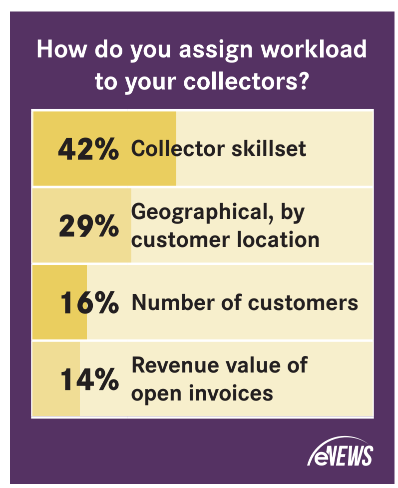
It is best to benchmark against similar industries and companies with similar characteristics. You also can try working backwards from your department's goals.

For example, if your goal is to be around **82%** current, that means the collector's workload should be **82%** current. That would mean **18%** of the portfolio is not paid on time and those are the customers the collector would need to work on a daily basis. So, if a collector has **500** accounts at **82%** current, **90** of those are past due. Of those **90**, maybe **30** always pay a few days late. But for the rest, the analyst needs to make about **20** phone calls a day or about **two** an hour. Keep in mind you won't be calling the same customer every day of the month.

It is important to note that the work of a collector is not limited to just time on the phone—it is about notating the account, account reconciliations and any necessary follow up. Also, this example is a snapshot at a specific time. The amount of past-due accounts will change as older invoices get paid and new invoices roll into a past-due status. It depends on the company strategy of how frequently a collector touches each account. For example, if you contact customers on day three past due, when is the follow up date?

According to an *eNews* poll, 42% of collectors are assigned workload based on their skillset, like ability to speak several languages and handle complicated relationships. 29% of credit departments assign workload by customer location, and 16% balance the number of customers per collector. Other strategies for assigning portfolios include:

- Alphabetical, by customer name
- Customer type
- Time zone/Geographic location
- Special accounts (e.g., Customers who require a payment portal)
- Balancing the value of invoices per collector
- By sales representative
- Last digit of account number
- Volume of transactions
- A combination of the above



Collector Skillset and Special Accounts: You may want to consider this strategy if you have a high concentration of international accounts. Those customers will respond best with a collector who can speak their language and understand their culture. Assigning workload by collector skillset will also work well if you have a collector who is particularly tech savvy. They will be able to better navigate accounts that require use of a payment or invoice portal. Customers requiring portals often take much more time than those without.

Balance by Invoice Value: If you want to avoid one collector being responsible for the majority of company revenue, consider dividing workload by the value of open invoices. One NACM member uses a 20/80 rule: the top 20% of accounts makeup 80% of a portfolio. That way those high-value accounts can be touched more often. But it is important to remember that higher invoice value does not necessarily mean more work for the collector. It can be just as difficult to collect a $10 invoice as a $10 million invoice. Caution should be paid that the focus is not only on the large dollar amounts in the collection strategy. Small and frequent deductions can be an indication of a breakdown in the process, so invoices have incorrect billing information such as price or amount. Unchecked disputes and deductions can ultimately result in uncollected revenue or higher write-offs.

Balance by Number of Customers: This is one of the simpler ways to assign portfolios, but it can create uneven workload if not careful. For example, one collector may be responsible for two accounts that make up 30% of transactional volume but require extensive activity. While another may be responsible for 200 accounts that are self-collecting and do not require as much attention.

Customer Location: Strong creditor-customer relationships are key to collecting cash. Assigning portfolios based on customer location is one way to facilitate those relationships. It also means the collector can focus on communicating with customers in one time zone. If one region is heavier with workload than another, the lines can be redrawn.

Sales Representative: Building a rhythm between sales and collection departments also can facilitate faster payments. By assigning a collector to a sales representative, they are able to work together to get accounts collected. If the relationship is not clicking, you can try switching the partnership.

à la carte: If one strategy alone does not work for your collection team, choose multiple or even make up your own method. One NACM member assigns workload alphabetically and divides those on each month's aging. They also have one collector dedicated to accounts that require payment portals. Another credit professional has one team focused on small accounts and another for large accounts. The small accounts team is transaction-based—focused on sending out notices and electronic communication. The large accounts team is relationship-based—focused on understanding the customer and building rapport.

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Final Considerations

As mentioned at the beginning of this paper, nothing in B2B credit is black and white. These guidelines for dividing collector workload are meant to be tailored and fluid. Finding the right balance will take trial and error. A credit and collections department needs proper organization, but it cannot work effectively under rigidity.

Going Through Changes: As the economy changes, so does collection activity. It only makes sense that workload is adjusted in lockstep.

Allow some crossover. If an experienced credit professional can help a newcomer with their workload, let them regardless of their assigned portfolios.

Workload needs to be continually monitored—as often as once a week—to make sure it is evenly distributed because the situation can quickly change. Encourage your team to be honest and communicative, especially if they feel overwhelmed by their workload. Ensure they understand specific customer ebb and flow of activity within a monthly cycle. One week may be busy while others are more relaxed.

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Need an Additional Collector? Track and record the time the collections team spends chasing past-dues. It also may be useful to involve senior management as early as possible if you have a hunch that you are short-staffed. Present management with results from the CEI if the percentage is low to support your reasoning for additional staff if collections cannot be improved in any other way.

Stage of the Credit Department: Your approach to assigning workload will be different if you recently took over a credit department in need of a cleanup. It might make sense to prioritize extreme past dues and easy collections first. The team may require some training, and even learning simple Excel skills will improve collection efforts. But in order to get ahead of payments, you will eventually need to create a plan and outline clear responsibilities for each collector.

Role of Automation: Throw automation into the mix and it completely changes the approach to assign accounts. It can alleviate collectors from having to contact low-maintenance customers so they can focus on more difficult accounts. For example, automatically sending out past-due notices can set a collector ahead and result in faster payments. “I remember when I first started in credit 20 years ago, you needed to do everything from setting up accounts, posting checks and updating addresses,” one NACM member said. “But now, automation can relieve and support the collections team.”

Customers tend to prefer consistency from the credit team. They like the same person handling their account when possible. When a customer feels they have a relationship with the collector, they could feel more inclined to reach out first if there is a problem with the invoice or if they are going to be late on a payment.

Your collectors build relationships with the accounts payable contacts they speak to on a regular basis. The strength and consistency of those relationships often create a comfort level where your company becomes a priority for getting the first batch of payments if your relationship is friendly and amicable.

Insight gathered from NACM’s Thought Leadership Groups and weekly *eNews* poll questions made this white paper possible. Member participation is critical for our ability to gather accurate data and write quality articles. We thank the members who are generous with their time and invite our Editorial Team to engage in further discussion. To learn more about our Thought Leadership Groups, please contact Tracey Lerminiaux at traceyL@nacm.org or 410-423-1830.