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**PURPOSE**

The purpose of this document is to establish a method for collecting accounts receivable (A/R).

Technically speaking, accounts receivables are assets; however, they can sometimes affect a business in the same way that liabilities do. When a business has high accounts receivable, the condition exists that while the money for business expenses has been paid, there is little in the way of incoming funds to offset these outlays of cash.

There are two problems at issue. The first is with customers who are slow at paying. The second is with customers who do not pay at all. A good credit and collections procedure addresses both problems.

**ACCOUNTS RECEIVABLE- INHERENT TRUTHS**

There are several truths to remember about accounts receivable:

- *No transaction is complete until the money is received by your company.*
- Past due accounts represent an extended use of the Company's money and deprives you of the use and benefits of money that you have earned.
- As accounts become older and more delinquent, they become increasingly harder to collect. It is crucial to collect them before too much time has passed. Historically speaking, in fact, accounts over 90 days past due have about a 5% chance of being paid in full.

The first principle of good collections is to avoid the necessity for collection action. This is accomplished by clearly defining the terms of service, and by carefully evaluating credit risk.

The second principle of good collections is to identify which accounts are past due. Past due invoices are identified by examination of the monthly A/R aging report.

The third principle is to establish a standardized collection procedure. This ensures that all accounts are treated fairly, that no past due accounts are overlooked and that consistent follow-up is maintained.

**REASONS FOR NON-PAYMENT**

Failure on the part of customers to respond promptly to statements and other requests for payments can be due to several reasons. We will now discuss some of those reasons, and offer some possible strategies to counter them. Not all of them will be experienced by your A/R manager. You should pay attention to the strategy of empathizing with the



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client's issue, but eventually returning to the company's stance that the account has to be collected.

- Thought that the account had been paid – explain to the customer that you could understand that this could happen, however you must also explain that considerable time has passed and they should make their payment immediately. Ascertain from them a specific day that they will put a check in the mail.
- Person responsible for payments not available/out of the office – whenever a customer gives this reason, acknowledge the response, then inquire as to when they will be able to pay.
- In the mail – determine the date the payment was mailed, along with the amount and check number. If only a few days have passed, tell the customer you will be watching for it and follow up with another call if not received in three to four days. If it has been over a week, ask the customer to re-issue the check and determine when it will be mailed.
- Lack of money – inquire of the customer as to when he/she will be in a position to pay. It is important to pin them down to a specific date. Then ask them to place a check in the mail on that day.

### **THE COLLECTION PROCEDURE ESSENTIALS**

In order for any collection procedure to work effectively you must have the following:

- A correctly “aged” listing of accounts receivable.
- A ‘tickler’ file that facilitates the appropriate amount of follow-up. This can take any form with which the A/R Manager is comfortable; usually, it is done by using an expandable file, or a computer-based system (as part of the cash flow spreadsheet, notes in Outlook, etc).
  - A computer printout is prepared when collection activity beyond the first invoice or statement is taken. The heading indicates the person's name, address, contact person, phone number, and amount delinquent.
  - When any collection activity is taken, that activity must be inputted into the computer and a follow-up date established. Make a record of the transaction, showing the date of the activity, who was spoken to, what was done, what promises were made and the follow-up date established.

### **RECORDING COLLECTION ACTIVITY**

In reality, the collection procedure really starts when the customer initially contacts us for our service, or when the contract is agreed to. It is during this time that the



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customer should be informed of our payment policies. The process continues until full payment is received. If the account remains outstanding beyond the terms of agreement, the account becomes delinquent and a prescribed set of telephone calls and letters is initiated. As the delinquent account collection process begins, it is essential that a complete history of each step is maintained.

➤ **TELEPHONE CALLS**

It is extremely important to handle the collection procedure in as effective and as efficient a manner as possible. In fact, this process begins with the first call to the customer. Typically made two days after the invoice has been sent, this call is made to ensure that the customer is satisfied with the service, and has received the invoice.

This call should not be made in conjunction with collection efforts of other past due invoices. The purpose of this call is to eliminate delays that cause delinquency. The sooner that a commitment to be paid is received, the less likely that there will be a problem in being paid.

➤ **Invoice Over 30 days Past Due**

- There may be valid reasons why a customer did not pay on time, as discussed before. Sending an impersonal form letter or another bill with “Past Due” stamped on it to a good or long-time customer does not engender or perpetuate positive customer relationships. The personal touch, a telephone call at the right time a few days after the payment was due, could do much in maintaining a good relationship with the customer.
- A telephone call can be effective because it brings the A/R Manager in direct contact with the customer. Furthermore, it is the most inexpensive contact possible. Company personnel who ask the right questions over the telephone are able to determine problems and to take appropriate action. Telephone calls allow us to be flexible, thorough and personable.
- Flexibility – by knowing our customer’s problem or situation, we can adapt to any and all situations. We can change to fit the current situation. However, the primary goal continues to be to bring the account current.
- Thorough – the only way to be thoroughly familiar with every aspect of the situation is through direct, personal contact.
- Personable – it is important to keep in mind whenever an “over-due account” is on the other end of a phone call, that the person needs to be treated with respect and



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care. We should ensure that everything in our voice and personality builds a positive image of the company.

- Although the telephone can be a valuable asset in the collection effort, the following practices should be avoided:
  - Repeated calls. Generally, make just one call per week per account.
  - Calls to a third party, except to locate the customer you are trying to reach.
- To be successful in the collection effort by telephone, you must maintain complete control over the transaction. Before the call is placed:
  - Ensure that all information is correct, including invoice numbers, amounts, and customers' personally identifiable information.
  - Familiarize yourself with any potential problem areas with the account. If there are outstanding issues still to be resolved, the collections effort will not be successful.
  - Familiarize yourself with any previous collection activity.
- Prepare an opening statement and fact-finding questions.
- Establish a follow-up date, and then record the results of the call.

### **PAST DUE COLLECTION PROCEDURES**

Every possible effort must be made to ensure that payment is made as soon as possible after the delivery of the service. This is the best possible time to collect payment and/or establish payment terms.

At least once a month, an "aging report" should be generated for all accounts receivable. After the reports are generated, the next step is to analyze the reports and determine who is past due and what their dollar balance is. Proceed to place a call to all new past-due accounts in the system, starting with the "oldest" and "largest" (dollar-size) and working backwards. This process involves three distinct phases, as discussed below:

#### ➤ **REMINDER PHASE**

- This is the first step of the past-due accounts collection system and is used for all customers who have just become past due.
- This step is designed to determine the reason for non-payment. The most effective way to do this is by telephone contact followed by a letter. The telephone contact should be initiated on the 5<sup>th</sup> day the account is past due.



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- Determine that you are speaking to the person responsible for paying the customer's bill. **Do not discuss the account with anyone else.**
- Follow up the call with a typed letter. It will serve as a written confirmation of the call, as well as an additional reminder. Also, it provides support documentation in the event of future problems.
- Give the customer three working days past the date they committed themselves for making payment. This should allow for mail delays if the payment was made as promised.
- If no payment has been received, proceed to the next step as follows:
  - **REQUEST PHASE**
    - In this phase, another call is placed to the customer. Undoubtedly, further excuses for non-payment will be made. Whatever the excuse, tell the customer the company has made efforts to accommodate them, however, payment must be received within a week as evidence of good faith on their part.
    - After this second call, mail a request letter more strongly stated than the first. This letter should be mailed immediately after the second telephone call. In case the customer had doubts about your seriousness, the letter confirms the call.
  - **DEMAND PHASE**
    - This is the final phase of your "in-house" collection efforts. If no payment has been made or a commitment has been broken, you must make every reasonable effort to get the customer to pay.
    - In the final phase, keep the conversation short and to the point. Sometimes the mention of a collection agency stepping into the picture may be all it takes to convince the customer that you are really serious about collecting the bill.
    - After the third telephone call, mail a strongly stated follow-up letter indicating the seriousness of the situation.
    - In the latter stages of collections (the demand phase), mailing letters "Return Receipt Requested" helps to emphasize the seriousness of the situation.
  - **ETIQUETTE FOR COLLECTIONS**
    - Legally, company personnel cannot harass or threaten a debtor. The following guidelines will help avoid loss of goodwill and potential litigation:



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- Do not cause the customer to feel embarrassed or feel a cause for libel or breach of confidence.
- Do not apologize for calling or appear hesitant about soliciting payment.
- Do not stray from the topic of collections. Allow the customer to express himself; however, make your point concerning the purpose of the call.
- Do not allow the customer to avoid making a commitment for payment.

➤ **COLLECTION AGENCIES**

- Once any account has reached the final step in the collection system, it must be turned over to the collection agency. A list of all accounts must be compiled and approved by the president prior to being turned over.
- A duplicate list should be made and maintained to record the dollar amount sent out for collection.
- Separate records should be kept for accounts returned as non-collectable and also for closed accounts – those accounts returned as collected.
- Records of the dollar amounts turned over for collection should be kept on a monthly basis. The length of time the agency has had the accounts and the extent of financial returns will determine the feasibility of continuing to use the services of that agency or any other agency to be hired in the future.

**SUMMARY**

- The real start of collection procedures is to avoid the necessity for them by establishing a clear understanding of the terms of payment and adhering to them.
- There are few real reasons for non-payment - be prepared to deal with all of them.
- Customers due for collection activity must be readily identified from review of the A/R Aging Report with daily notation of all payments received.
- Debtors deserve to be treated with respect.
- The collection system is designed to collect the money owed the company and to maintain the customer's continued use of the company. Toward these ends, the A/R Manager must be business-like and professional at all times, while not allowing the customer to take advantage of the company.