Automating the Collection Process

FEDERATION of CREDIT
and FINANCIAL PROFESSIONALS

EXECUTIVE SUMMARY

Collection of past due accounts is always going to require Credit Department personnel involvement, way beyond what we have seen in the cash application process. It's a simple fact of life that people with money wish to hang on to it for as long as possible, without hurting their ability to buy and expand. On the other hand, people without readily available money will try to delay, either until they get paid or until…a variety of other reasons/excuses.

Again the technology and software available today will still allow a company to take some of the more mundane tasks of the collection process and automate them. That will free up time and the Credit Professional to do the really important part of the collection part of the job, collect the money and still keep the customer, so he or she can keep buying, even if it's on COD.

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Workflow Automation #3: Collections

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Information Required for the Process

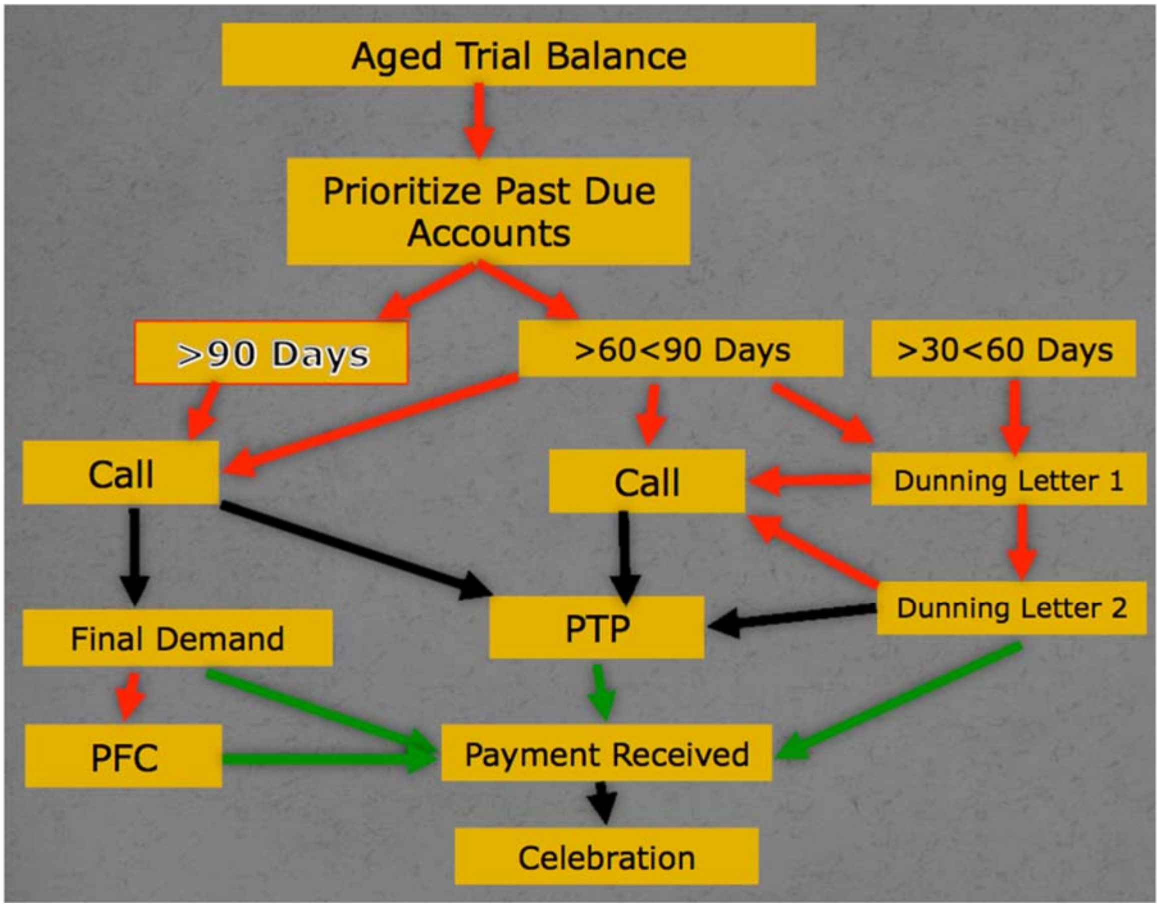
In order to properly automate collection workflow, there must be data and tasks:

- Databases:
  - An accurate Aging, plus Open Item Detail
  - Payment history for each customer
  - Notes on prior collection history
  - Prepared dunning letters
  - List of Sales Associates and Branch Managers
  - List of Credit Department Personnel
  - Customer Master List
  - Identification codes for all of the above
- Tasks:
  - Immediate access to information
  - Prioritization of past due scenarios
  - Various what-if scenarios, including thresholds for additional action
  - Various notifications
  - Certain manual tasks, such as telephone calls, that cannot be automated, other than the distribution to the appropriate people.

This information is essential to the automation process, so it must all be available from the start. The step-by-step automation process includes reading the data, analyzing it by the what-if scenarios, taking the next step and then taking the next one and so on.

The Basic Process

Before discussing the step-by-step activity, here is a general layout of the collection process (The acronyms below are defined as: PTP= **P**romise **t**o **P**ay and PFC= **P**laced **f**or **C**ollection.):



The concepts illustrated here are:

- The Aging is scanned, via OCR (Optical Character Recognition) type technology, to identify those accounts with past due amounts:
  - These amounts are categorized by the seriousness, both in terms of age and dollar amounts. The parameters are predetermined, via a set of filters, such as Total AR, Dollars in each aging column and those amounts as a percentage of the total. There should also be a threshold for each column amount.
  - Identify the accounts by Credit Representative, and then the branch, if applicable, and the assigned Sales Associate.
- Based on your company's policies and priorities, there will be a number of accounts that meet the criteria for an immediate phone call, usually revolving around the 90-Day column, regardless of whatever actions were taken previously:
  - The call(s) may take place over time, with varied results and promises, as represented by the black lines above.
  - At some point, in the absence of a satisfactory payment or payment arrangement, there will be a decision made to issue a Final Demand.

- In the absence of a payment, represented by the green arrows, the account gets placed for collection. This can happen by the manual push of a button, or the process can be generated at the conclusion of a time frame and the lack of a payment, all programmed into the system.

At this point, what we see is what many would define as the standard collection process. It is common and nearly all done manually, even the last bullet point, and it can be, and is, done successfully. The downside is that it requires a lot of time. It is done manually for all aging categories and all types of accounts, requiring enough staff to get the job done. As a company grows, that staff must expand, and, if it does not, less time is available to allow them to do the other tasks required of a Credit Professional, namely making those all-important business credit decisions to help with the sales expansion. Sales do not just come from the financially strong customers, they come from the troublesome customers also, but those accounts require time and effort. That time and effort is more productive, if it is not filled with mundane manual collection work.

Automating the Mundane

Look at the right side of the diagram above, which is very general in nature. Once again, please understand that aging column labels and such will mean different things to different companies, based on the overall system used and that company's policies. Two examples:

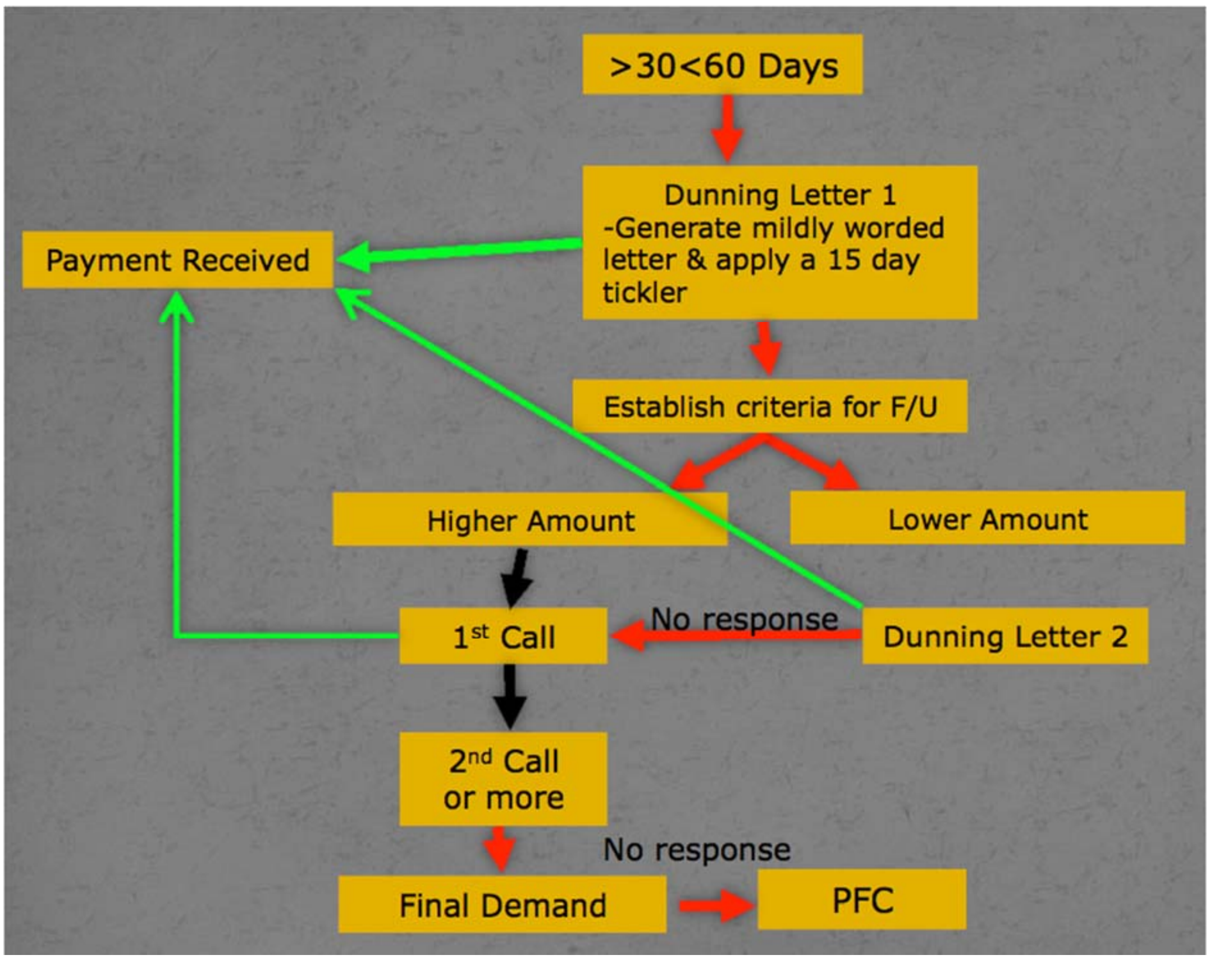
- Terms of Net 10th Prox.: Payment is due by the 10th of the month after the invoice date.
- Aging Columns:
  - Total AR: Total amount owed, regardless of due date.
  - Future: Invoices generated this month, but due the following month. This can also include any invoice generated over the previous months, but have extended terms. It can also include dating terms with multiple due dates for the same billing.
    - Bill on the first day of this month, technically due in 40 days
    - Bill on last day, and its due in 10 days
    - Timing is balanced by both invoices sitting in Current for the entire month.
  - Current: It sounds obvious, but it can be a little confusing, since the actual due date is the 10th of this month, but the month is 30 days long, and the item stays in place. It does not re-age until month-end. Depending on your policies, a Service/ Late Charge could be billed during the month, after a grace period, or not, or you could wait until month-end. What is important is that the customer will have had 30-60 days to pay, and will still look "current"
  - 30-Day: By the end of this month, since "re-aging" is only at month-end, the customer will have 60-90 days.
  - 60, 90 and 120+ columns: Just add more time…

Obviously, the actual number of days-to-pay from the invoice date is a better metric for credit decisions. That same metric can be used for the automation process, or you could still use the column heading itself. All of it depends on policies.

- Terms of Net 30: Payment is due 30 days after the invoice date:
  - Current: Every new invoice immediately goes into this column.
  - 30 Days and beyond: Invoices in this instance may re-age on the due date, so that invoices in these columns come and go daily. In this case, the automation process should also be based on the Days-to-Pay. For the sake of simplicity, the re-aging may only occur at month-end.

Why give these examples? Simple, it just confirms, again, how complex credit and collections management really is, and it illustrates the fact that any automation project must take this into account.

This is a diagram of the actual flow of an automated collection process:



Keeping in mind the various differences in how systems and payment terms manipulate the Aged Trial Balance, choose the earliest level of past due that would concern you:

- To control costs and to avoid upsetting a customer over a trivial issue, set a minimum past due amount and its relationship to the total AR.

- Draft a mildly worded reminder to the customer that he or she is past due. Keep in mind that this is a standard form letter going to many customers, all with different circumstances. In many, if not most, situations, this will generate a payment.
- In anticipation of a lack of payment or other type of response, set up a tickler date, to take the next step:
    - In some cases, this may prompt a reminder to a credit person that the account is still past due, so that person will call the customer.
    - In other cases, it will generate a second dunning letter. This letter will be a little stronger, but not to the point that it would cost you a customer.
    - Include on both letters a statement about crossing in the mail and a "thank you" for payments on the way.
    - Also provide precise contact in formation, for the person assigned to the account, unless, of course, your policies and practices include some sort of general reply system.
    - Depending on circumstances, you can also copy anyone else that you or your policies consider important.
- A certain degree of flexibility can be built into the system, perhaps to include a third letter to some customers.
- It is also possible to advise a particular class of customer that a lack of response by the tickler date may result in the account being closed to on-account purchases.

Example

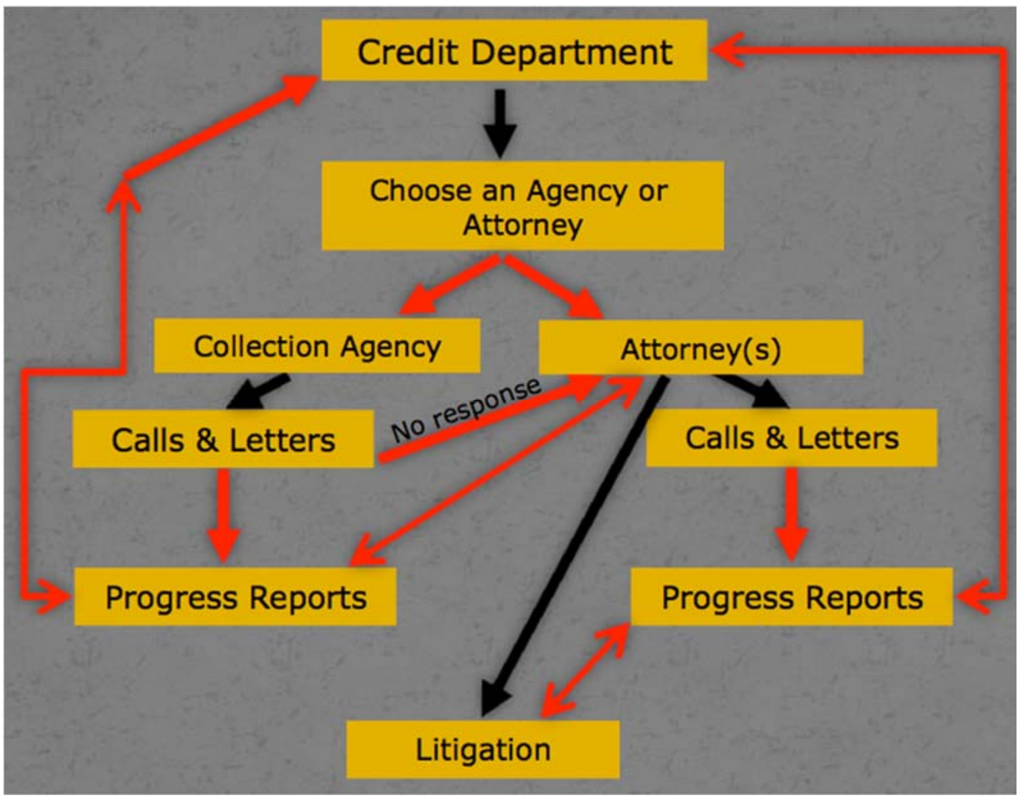
This is intended to provide a more detailed example of the questions/ filters/macros, whatever one may wish to call them:

- You have an account that has rolled past due 30 days
    - Automated Question #1: Does the amount in the 30-Day column meet the minimum that was pre-established in the system? If "Yes":
    - Is there an unapplied payment in the system (Lockbox batches or a negative chargeback coded as "unidentified payment"? If "Yes", then refer to the appropriate Credit person, based on the assigned credit rep code. If "no", then proceed:
        - Generate Letter #1:
            - If the account is coded for electronic communication, then send it via email to the properly coded address.
            - If not, then mail it.
            - Create a Tickler Date, which will show up later on the assigned Credit rep's report.
    - If there is no such payment, then proceed.
- If the account has a history of rolling into this column, according to a pre-set model, then:
    - Generate a slightly stronger document called Letter #1A, or similar. This letter will mention the repeated failure to pay according to terms.

    - Copy the appropriate Sales Associate, if that person is within your company policy. Some companies require active sales participation and some do not.
- If the pre-determined Risk category is bad enough, meaning a High-Risk account:
    - Substitute the promise (threat?) of putting the customer on COD or Credit Hold, if payment is not made immediately. Such a letter could be called Letter 1B, or similar.
    - CC the field person(s) responsible for the account.

As the so-called seriousness of the situation increases, whether in terms of dollars past due or the number of dunning letters sent, with no satisfactory reply, meaning a payment or a promise for one, the parts of the process that can be automated decrease somewhat. Of course, smaller amounts could remain in the automated part of the system all the way to a Bad Debt write-off.

At some point, a decision to place the account for collection may be required. While that sounds like a lot of extra work, which it is, today, more than ever, much of that process can be automated.



This diagram, again, provides an overview of the process of placing accounts. Normally, Credit Department personnel will have to put together a packet of information, including:

- Copy of the Credit Application & other legal documents, like a Personal Guaranty, etc.
- The amounts owed, usually in the form of the most recent monthly Statement of Account.
- Copies of the invoices
- Payment history, including, possibly, copies of recent checks and remittance advices.

- Collection notes, and so on.

Today, Credit Files can be scanned and stored electronically, along with every other item in the file, if it is not electronic already. A macro can be created to compile this information, followed by other instructions on where and to whom to send it. There can even be a pre-programmed cover letter to the attorney(s) or agency(s). Many of these people and organizations can reciprocate the process. Daily or periodic updates on progress made or not made, recommendations, etc. can all be sent electronically, in both directions. Generally speaking, the only manual contact required is when extraordinary circumstances or occurrences have to be discussed and decisions made concerning them. Attorneys may have to physically appear in court to file a suit, and so on. Some things simply cannot be, or should not be, taken out of human control. Variables do exist that will still require human intervention, person-to-person in some cases. The business world, and the decisions necessary to run things in a productive manner, will need, or should need, a human being to analyze things, to make an informed decision. In the meantime, though, mundane, but still important, tasks can be automated, if only to free up time for that human thought process. Staff members can always step in, when needed, and you, the Credit Professional, can take into account your company's policies, directions and other abstract, but measurable needs. To repeat, the automation process must always reflect your company's needs and wants. What you see here are suggestions, based on experience.

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