WHITE PAPER

Revenue Cycle Management

BEST PRACTICE

COLLECTION STRATEGIES

A SMYYTH / CREDITEK / White Paper

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Results that matter tm

Overview

Boiled down to basics, a business has product, sales, and cash collection, yet one of these critical areas receives almost no attention or investment.

According to the U.S. Bureau of Labor Statistics, in 2012 there were about 1,800,000 people involved with bill collecting, most working directly for creditors and perhaps 500,000 with agencies. Clearly, this is an area that can benefit from technology.

Many a company's success rests on its ability to manage the receivables collection function effectively, so it is an area deserving of more time and investment than it usually gets. Starting with smart technology to drive and track the process, to educating and managing staff, to monitoring and tracking results, there is much to do - but the payoff is significant. It comes down to policy, process, practices, people, and systems. This area needs special attention if you have not changed your ways of doing business or updated your collection systems for some years. Today, policies, practices and workflow can be built right into a system (SaaS) which by virtue of its tools, mandates best practices.

If you sell a product or perform any service on credit, you are also in the accounts receivable collection business, and your company's financial health depends on how well you do it. Unfortunately, it is one of those operations that is usually performed with insufficient forethought as to the systems, staff, strategy and tactics to employ in order to deliver exceptional results. With superior planning, execution, and technology, you can improve your company's standard metric of cash flow performance, Days Sales Outstanding, by an amount that could reduce working capital requirements enough to cut bank loans, while at the same time cutting bad debt losses.

Also, paradoxically, more aggressive, proactive collections effort also serves to increase your revenues. When a customer becomes too long past due, they often place their orders elsewhere, knowing they might have to pay you if they submit a new order. In some industries, being overly forgiving to customers' late payments actually depresses your sales.

The accounts receivable collection function is ripe for improvement, and herein we offer some ideas how to approach it. This paper examines practices and solutions that will help companies of all sizes reduce their DSO, working capital, and bad debt losses. In addition, not only should credit and collections performance improve but if done well, the cost of related administration and overhead can be reduced.

Contents

I. Introduction-Revenue Cycle Management

The Revenue Cycle Function is composed of four key areas, all contributing to the company's success and operational efficiency. This white paper will focus on the Collection Management responsibility.

Credit Management, which includes development of credit policy, on-boarding new customers and managing the trade risk exposure of the company. Tools used include analyzing credit reports, financial statements, employing automated credit scoring, credit application processing, checking customer references, collaboration with internal departments (e.g., sales) and perhaps automated workflow to control credit operations.

Dispute and Deduction Management. Handling customer deductions may be the most complex job in the accounts receivable department since these "exceptions" are the result of process, product, promotion, price or shipping errors. Accordingly, a system is required to prioritize, route and track these issues throughout the company for resolution, and to highlight root causes since systemic deduction issues will not be cured otherwise.

Cash Application and Accounts Receivable management using automation to handle cash application, EDI, ACH and credit card payments. A modern cash application system will be virtually manpower-free and automatically match payments and invoices, credits against deductions, etc., as well as initiating new transactions (for example, debit memos) from the "cash app"process.

Collections Management Management of the receivables collection function is very important, yet receives little time, management attention, or investment. Starting with advanced technology to drive and track the process, educating and managing staff, to monitoring and tracking results, there is much to do - but the payoff is significant. A well-run collection function will employ automation that prioritizes, drives and tracks collection activities governed by corporate rules and standard best practices as part of the system.We have seen performance variances as much as 50% between companies in the same business with the same customers , depending on how they operate and enforce their business rules. Imagine two similar companies, one with a DSO of 38 days and the other with 52 days.

One has $9.6 million dollars less cash and tied up in working capital, quite unnecessarily.

	Sales	DSO	Est. Cash Variance
Company 1	$250 Million	38	-----------
Company 2	$250 Million	52	-$9,576,000

II. Key Performance Indicators - "What gets measured gets done"

It will not happen overnight, since you have to change processes, policies, attitudes, and sometimes people. Nevertheless, your goal should be **continuous improvement** in Key Performance Indicators (KPIs) to match the industry's best performers.

There are two KPI "**baselines**" to consider; **Internal** and **Industry**.

Internal Baseline KPIs represents your historical and current performance so you can track the progress you are making in your improvement efforts compared to where you have been.

Industry KPIs from your industry's best performing companies will be your objective - where you should go. You can develop this information from Credit2B.com or perhaps the Credit

Research Foundation.

KPI performance goals need to be in writing and both collectors and management held accountable for results. While collection objectives need to be compatible with corporate cash flow goals, they require far more specificity as to day-to-day activities (i.e., number of completed calls per day) so as to drive the right behaviors for every collector.

If you are employing an advance collection system, the system will take care of it for you. Otherwise you will need to use a spreadsheet application for this purpose. Regardless of how it is accomplished, it is important that you develop Accounts Receivable KPIs. Here are some examples:

Example KPIs for Collections

Key Performance Indicator **(examples)**	**Internal Baseline**	**External Benchmark**
Weekly/Monthly Cash Goals		-----------
Days Sales Outstanding (DSO)		
Days Deduction Outstanding (DDO)		
Receivables aging over 90 days		
Number of accounts over 90 days		
Number of accounts handled per collector		
Number of collection calls and conversations per day		
Bad Debts as a percentage of sales		
Cost of operations; overhead as a percentage of revenue, per invoice, etc.		

III. LEVERAGING TECHNOLOGY

Perhaps the best investment you can make is licensing an advanced SaaS system which will give you the structure to implement real discipline in your collection operations. It will improve cash flow, reduce bad debts, eliminate manual work, and slash overhead. An example of this would be Carixa, developed by the author's company.

If you think your accounting system offers the necessary features to boost your cash collection results, you had better look more closely. If you believe as we do, that collections is a "production" function, it needs a production engine.

A great SaaS collection system incorporates best-practice policies, business rules, scripts, contacts, escalations, automated letter campaigns and workflows into the collection process. Just as you could not do business without a CRM system to manage customer relationships and sales followups, in today's business environment you simply cannot get by without a collection management system to manage your cash flow.

Manual collection processes and spreadsheet management present problems, including very low productivity, errors, and poor cash collections.

By implementing automated workflows, companies can unlock cash, reduce bad debts and improve customer service with greater visibility. A good system can also prioritize collections for more targeted collections.

By implementing a collaborative accounts receivable workflow system such as Carixa™ any customer facing staff can initiate a solution when a customer calls about a payment, deduction, dispute, or credit related problem rather than delaying action with callbacks and emails.

Using a system for timely identification and validation of disputes and deductions, the process must include timetables, routing of collection problems and deductions, and management escalation for serious issues. Tracking of collections and deductions with a robust deduction system will provide valuable insight on gaps in compliance or service levels vis-a-vis customer expectations, particularly useful in identifying systemic, recurring problems.

Use a credit and payment scoring model (or policy) that triggers workflow actions; for example, at what point should you commence collection action? The scores should reflect credit risk, industry payment data, as well as your own experience with a customer.

With the right system, you can initiate all actions automatically based on a customized workflow timeline that details specific action steps for the identification of delinquent accounts based on customer credit rating/ payment histories or customer risk class. This allows you to more efficiently manage the company's accounts receivable investment. You should look for a system that:

- Is able to handle all categories of transactions on-line, without resorting to off-line manual activities or patches. If you need Excel downloads, it's the wrong system.
- Incorporates your business policies and best practice rules for standardized process.
- Offers a collaborative resolution platform for employees, partners, and customers.
- Offers customized workflow so every transaction is handled by the right person at the right time.
- Incorporates both credit and payment scoring so your staff works the priorities.
- Drives "production" in the credit and collection process so that your investment in people delivers the results you need.
- Has detailed audit and reconciliation tools built it.
- Empowers management with a reporting window into performance and daily operations down to the customer level.
- Provides a 100% cash application hit on the most complex receivables, while automatically initiating deduction and dispute transactions.
- Has features that provide automatic access to customer data and documentation over the web.
- Can seamlessly work with outside agencies and services.
- Is Software as a Service (SaaS) so it can be implemented quickly, with no hardware or software to purchase.

IV. CREDIT AND COLLECTION POLICY

Credit Policy (for which we will issue a separate paper) should be written and govern regular operating needs, including credit exposure parameters, requirements for verification information, and payment delinquency action-triggers. In difficult situations, credit lines and payments can be worked out collaboratively with the customer, to achieve the objectives of both parties.This may require creativity on the part of the credit manager, and use of security, documentary and other credit management tools

1. Have a contract with an instant online credit reporting service where your portfolio can be monitored by management. (credit2b.com)

2. Penny-wise, pound foolish. Many err by trying try to save the cost of a legitimate credit report, either by doing nothing at all, or relying on cut-rate credit services worth no more than a couple of dollars. This is like rolling the dice and risking many tens of thousands of dollars in bad debts.
3. The customer credit application and credit policy should be online and integrated with credit reporting and monitoring systems (see credit2b.com) for a streamlined start to the credit department-customer relationship.
4. Credit decisioning workflow is available for high volume accounts systems such as the Carixa system, which also incorporates corporate policies.
5. Have terms payment rules as part of your policy, and educate employees and customers on what the expectations are. Terms needs to be unambiguously clear on your invoices as well.
6. All customers should receive an official "welcome" letter stating full business and payment terms and expectations, signed by the CFO or CEO, and it should include a list of all relevant business contacts. Place a spot for the customer's signature, <u>and ask for a copy to be returned.</u> This can also be accomplished very effectively via an online e-signature application, such as Docusign or Adobe Esign, although we would recommend also mailing a hard copy after signatures.

V. BILLING AND PAYMENT OPTIONS

1. Invoicing

- Bill immediately. Many small companies bill weekly, monthly, or when someone gets time, and mail or transmit the invoice immediately instead of when the receptionist gets around to it.
- EIPP (see #3 below)

2. Cash Discount Terms. Cash discounts have had their day, or maybe not. You can offer Early Payment Discounts, but only for prompt payment: If you do extend trade credit, try a prompt payment cash discount, such as 2%/10 Net 30 Days. Customers are more inclined to pay on time or early if they can get a discount. However, it can be dangerous unless it is enforced.

- Enforce Early-Payment Discounts. If you give a discount, whatever you do, don't get into the habit of letting the customer have the discount and pay late, too.

- Within your industry, the word can get around, so be careful not to set a precedent that will haunt you.

- You can use 'Payment due upon receipt", or "Cash-in-Advance" for problem payers or those with no history with you.

- If customers have substantial past due balances, you can have a policy which allows them to re-order by paying, for example, 150% of the new order in advance, with 50% of that going to the past due balance.

3. **Offer Options For Payments.** You will be able to increase your collection efficiency by offering various means of making payments besides the usual check by mail.

- Accept all forms of electronic payments, including ACH, E-Checks, Credit Cards and even Paypal for smaller customers.

- Electronic Invoice Presentment and Payment (EIPP). Consider using SaaS solutions (such as Carixa) for a self-serve portal that can be easily integrated into your process, or an independent third-party service that provides these services, where a customer can securely access your portal showing their due invoices, and then pay them via any common payment method.

Because of the rapid acceptance of web applications, most small businesses feel comfortable handling their transactions over the web. Consequently the time has arrived to embrace the self-serve concept which, in not too long will be the standard. The ideal scenario is a portal that allows view, download, payments, collaboration for disputes, and reconciliation of business transactions.

VI. COLLECTION PRACTICES . Prioritize Collection Activities around the money and the priorities instead of an "alphabetic order" type of collection effort.

1. **Create a Plan of Action** using situational strategies based on the accounts and circumstances but remember that measuring collection metrics is not the same as following the strategy.

a. **Collection Strategy and Corporate Goals.** Even if you do not have a modern collaborative collection system, you can still incorporate many elements into your manual process.
    i. Manual collection processes and spreadsheet collection management are very inefficient and ineffective, very low productivity, and error-prone.
    ii. Your process should require you to think about and choose collection "strategies" (vs. the usual A-Z collection approach) which will create an environment where performance matches the corporate objectives for cash flow.
    iii. Your process should incorporate an easy to modify "rules-based" action driver that takes into consideration your corporate objectives and policies and manages collector activity and priorities. It also will adjust collector actions based on changes in customer risk.
    iv. It should support simple-to-assign alternative collection strategies, or a combination of strategies, depending on the collection staff expertise and #T customer risk categories.
        1. "Risk Scores" strategy, attending to the riskiest customers first to avoid bad debts.
        2. "Payment Scores" strategy, using your historical payment information to re-train customers payment habits.
        3. "Payment Gap" strategy, which benchmarks your customer aging against your industry to (ask Smyyth for more information on this).
        4. "Cash Goal" strategy to focus on maximum cash goal for a month or quarter, which could mean focusing on the largest dollars regardless of age.
        5. "Delinquency Reduction" strategy which focuses on reducing the number of accounts past due aging buckets.

b. **Workflow**. System rules should establish workflow, as well as escalation to management, which will change according to the circumstances, age, number of collection calls, etc. A collection strategy can include (automatic) collection call reminders, system collection emails, letters, etc., all determined based on what the result of the last action was and a timetable. For example, if the customer made a promise to pay, the system should generate an email confirming it, and then set up an automated follow-up on the appropriate day.

c. **Standard Documents Library**. Not only can all collection documents can be standardized, and then customized if needed, but also automatically transmitted. Letter campaigns, for example, can be outsourced to mailing companies, without any manual intervention.

2. **Prioritize Collection** activities by size and risk, and around the resources and time available to do it, for the biggest return. Whether this is controlled by your collection system (the best way) or by manual ledger review, the priorities would include.

- The largest account balances first to get maximum cash flow.
- The riskiest and oldest accounts in order by balance to prevent bad debts.
- The prioritization must take into effect the staffing levels and the skills of individuals, so the right accounts go to the right people.
- Divide the work by skill levels and experience.
- A good system will organize the collection function by not only account, but also be employee skill.
- Payment and risk scoring can be built right into a system so that the selection of what to work first can be done scientifically, for maximum impact.

3. **Monitor** all accounts receivable at least on a weekly basis and follow up on those customers when due, or in the case of very large invoices, a few days ahead of the due date as a friendly reminder to them that it is important to you.

4. **Define Responsibilities** and Roles of the Collection Department Around Skills

- High volume, quick hit collectors
- Complex account collectors
- Final demand -tough collection
- To whom and at what point are accounts “escalated” to a higher level.
- Dispute resolution specialists

5. **Schedule** your calls by time zone, and try to catch decision makers earlier or later than you would accounts payable department. Note: west coast companies often start at 8AM.

6. **Quickly Resolve Disputes** .The timely management of invoicing problems and disputes can make a dramatic difference in your ability to collect outstanding balances, as it can affect your customer relationships.

IX. COLLECTION CONTACT FREQUENCY

1. The longer you let accounts build up, the more money they will end up owing, the higher your risk exposure, and the more difficult it will be to collect, and keep as a customer. Being a nice guy is counter-productive. It is a “zero sum game”, cash flow wise; if they win you lose.

2. Collection contact. Pick up the phone and call delinquent accounts directly, early and more frequently because the personal touch -- if handled professionally -- is much more effective than email and letters. The “squeaky wheel gets the grease” may be a cliche, but it is true nevertheless.

3. Most companies wait 30 or more days before calling. Break that trend where.Your customers will not pay you sooner than you expect to be be paid. If you allow 45 days before you call, they will all, over time, not pay you before 45 days past due.

    - Small businesses, including mom and pops, will pay you according the message you send. Not calling until 30 days past due sends one message, and calling when 5 days past due sends another. Which message do you want to communicate?

    - IF you call and ask for the money as soon after a short grace period, perhaps 5 day, consider this as customer “training” - you set an expectation and if they know you mean it, they will generally comply.

    - Big companies, because of their own payment systems and policies, will not generally address past dues much earlier than their standard method of operation.

- However, everyone is trying to optimize their working capital, and some companies have software that tracks when vendors call for payment, which then establishes the informal payment terms standard for the payer.

- Don't let your emotions inhibit your business sense or get in the way of the objective. The customer may be a nice guy, or maybe you have developed a friendly relationship with them, but it is a zero sum game. They win, you lose.

X. THE COLLECTION CALL

1. **Confidence and Attitude**. Different collectors have different styles, but to be successful one must exhibit a positive, professional attitude as the debtor will be judging you, your seriousness of purpose, and determining how they have to deal with you. Confidence is important. And, you are the first line of defense and often the first or second impression you can make for your company. And, your "Body Language" comes through over the phone, so sit up, smile and speak clearly, using your script with confidence.

2. **Call preparation.** A call plan has multiple, logical parts, which is why smart companies have acquired a system to manage the workflow, script and tickler

- Introduction -opening
- Body, where you work out the details, get additional information, etc.
- The "close" for the payment
- Repeat specifically what was agreed
- Send an email confirming what was discussed
- Following up when the payment is due

3. Collection Toolkit

Prepare a toolkit for collectors to use that has solutions related to the debtor's situation, common problems, and debtor excuses. These are simple examples only - the list is much more extensive, and specific actions will be driven by the amount owed, and the age of the account. In each case, you should order an up-to-date credit report.

Situational Remedies

Debtor's Situation	Investigation	Possible Action
Can't pay all past dues but needs goods	Make sure it's not a long term situation	Ask for 150% of the new order upfront until paid off
Short -Term Money Problem	Get tax return, and financial statement Call Accountant	Establish a payment plan, get some money now. Ask for personal guaranty
Longer -Term Money Problem	Get tax return, and financial statement Call Accountant	Restructure payments. Get confession of judgement promissory notes or turn over to collection agency
Will never be able to pay full amount	Get tax return, and financial statement Call Accountant	File suit, obtain judgement, Settle for a percentage
Paperwork disorganization	Confirm email address	email statements, invoices and pods and confirm receipt while on phone with debtor
Has other personal assets	Get financial statement	Get personal guarantee confession of judgement promissory notes
Debtor is uncooperative		Turn over to collection agency

Collector's Tools - Examples

Payments	Security	Other Actions
Part payments	Personal Guarantees	Holding New Orders

Taking a percentage settlement for immediate payment	Promissory Notes- Confession of Judgment	
E-Checks, ACH	UCC-1	Collection Agencies
Credit card payments	Liens	Attorneys
Taking Returns of Goods		Email or letter acknowledging the absence of disputes
Promises in writing (email is OK)		

4. Call Strategy and Tactics

Pre-Call Planning" Based on what you know about the customer, set a strategy ahead of time.

a. Understand your responses ahead of time, based on the template you have prepared.
b. Always be professional and calm. Keep it short. Take control, and listen. Focus.
c. Do not allow distractions. Focus only on one thing, and that is the account at hand. No cell phone, no doodling, and no multi-tasking.
d. Depending on your business and your customer locations, you have choices about what times to call to reach tem, vs voice mail.
e. Acknowledge the customer. Talk about the current business and state of affairs.
f. Don't talk all the time. Wait for them to respond. Use silence as a tool.

5. Open Ended Questions. Ask open-ended questions, rather than question to which they can respond Yes/No.

- No -Closed ended Q: Can you send me a check this week?
- Yes- Opened ended Q: **How much can you send me this week**?
- No - Closed ended Q: Do you have a cash flow issue? Yes
- Yes - Opened ended Q: **How much can you send me this week?**

6. The Collection Call

a. State the reason for the call, its importance, and tell them you need payment today. Hear them out, and listen. Wait until they respond.
b. Nail down a promise of payment before you hang up, and obtain the specifics...when will it be mailed, exact amount, etc. Otherwise you have just wasted time. If you can not get the full payment, get a part payment and a schedule for the rest.
c. If for whatever reason you can not obtain a promise of payment, get a firm commitment as to the next step. For example, when you will be able to get payment.
d. Religiously follow-up on the scheduled dates to find out why the payment was not received.
e. To get even better future results , call back to let the customer know you received the payment. They will remember.
f. Make good use of calls to obtain missing contact and credit information; for example, the email addresses of management and accounts payable, current financials, etc..
g. Develop productive relationships, and maintain continuity in dealing with customers.
h. Document all collection activities. If you do not have a system, keep good manual records so you know what was said and promised to whom when.Do not assume you will remember everything that was discussed; you will not.
i. Do not let customers get abusive, and never, ever respond in kind. If they get upset, let them cool off.

7. Escalations

When you are not making progress, escalate the account to your “closer” - a higher or another level of response, rather than continuing a fruitless pursuit. Each case will have its own solution, depending on the size, importance of the account and the circumstances.

- This can be your boss, or a “final demand” type of collector.
- If a strategic customer, this can be your CEO.
- If an ongoing customer, this can be the sales department, if the situation could impede future orders the customer needs.
- This can be the designated collection agency if the customer is not cooperating and will not be considered for future business. If a debtor does not meet his promises, or fails to pay, you need to follow through with the consequences.

8. Partner With Sales

Make the sales department your partner in your collection efforts if they have a relationship with the customer. We do not suggest to delegate the responsibility (it is our experience that as a rule they are not effective at collecting), but get their active support. In addition, the sales representatives are usually commissioned, so it helps them if accounts are kept current, and buying more product.

9. Disputes and Billing Problems are a common reason for non-payment. Consider segregating disputes or hard-line collections to specialists (since they are more complex and difficult) if required.

- If not properly handled, they can postpone a cash collection for months so they must be handled expeditiously.
- The problem may be “systemic” which needs fixing by other departments, so the collector must report it, and track it to conclusion.
- A skilled collector will identify how much and what the dispute is, and close for payment on the undisputed balance while promising to resolve the dispute quickly. Do not let the customer get away with not paying the undisputed balance.
- If it is a complex dispute (or deduction) it should be assigned to a specialist, since these require a lot of time, and often are beyond the skill level of the collector.

XI. PERSONNEL BUDGET

If your department personnel budget has been determined historically (you had 6 last year, so this year you get 6) as opposed to evaluating the actual manpower needs for what has to be done today, you will need to revisit the methodology. If the collection department is viewed as a “production” department (which it should be), the budget should be prepared from the standpoint of what is <u>needed to to do the job to produce the desired result</u>, and not an extrapolation of the prior years.

If your operation is largely manual, you will pay a price very year. It you invest in automation (see Carixa.com), you can exponentially increase the "production" (accelerated cash flow), while requiring less overhead. Good technology will pay for itself many times over.

XII. COLLECTION AND NEGOTIATION TRAINING

Poor training, especially in negotiating skills, can negate all the other investments you have made in your operation.

a. **Supervision** skills should be trained. There are few naturals.

b. If the **Fair Debt Collection Practices** act applies to your situation, you must make sure that staff is trained in its don'ts, as violations can be hugely expensive. The FDCPA normally covers only consumer - not business - transactions, but some states see it differently. Many of its regulations are common sense for ethical collectors (what times to not to call, what not to say to third parties or in voice mails, etc.), so our recommendation is to train for this regardless of your business.

c. **Your Business.** Train new hires on your business, its systems, and its policies. Be sure that your staff profile fits your company culture, so your collectors do not hurt to company's industry reputation or create legal complaints. The collection profession can attract people that become magnets for complaints, so hire wisely.

   - Your company has unique contracts, terms, and policies. These should also be summarized for collection staff in simple "cheat-sheet" form.
   - Provide training across all departments that deal with customers to ensure understanding of company policy and objectives, in order to provide a consistent message to the outside world.
   - Teach your customer business practices that impact payments, and eliminate barriers to prompt payment, including when and how to reach them.
   - Teach what points of leverage you have in dealing with customers. Is it brand, continued supply, or contractual?

d. **Collections**. Train staff in basic collection procedures, and refresh annually. Most people start out afraid to ask for money.
   - If your staff includes a competent collector-trainer, you might consider a buddy system where new employees, after basic training, are onboarded.
   - The collection staff is often the first line customer service department, so they have to be trained in courteous handling of problems, disputes, and inter-company problems.

- **Negotiating Skills.** Negotiating skills are particularly important and, for many, represent a very uncomfortable experience. As an example, of typical negotiating skills, new car shopping is one of the most dreaded experiences for many, because they are embarrassed by the dickering. Check your negotiating prowess.
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- **Example 1 - Maybe someone you know?**
  1. Sales: We can put you in this car for $23,750 if you do it today.
  2. You: Can't you do any better?
  3. Sales: No, that's really a great price. Maybe I can get the manager to throw in front floor mats.
  4. You: Well OK, but I want the floor mats included
- **Example 2 - This would be the writer..**
  1. Sales: We can do this for $23,750.
  2. Me: Whoa, that's way too much. I can't go a dime over $21,500 (I already know from research their invoice is $21,500).
  3. Sales: That's under our cost so it will never fly, but what if we split the difference. Let's see that would be $22,625. Does that work for you?
  4. Me: No, way too high, but tell you what. I'll go to $21,650 if you thrown in the fancy floor mats.
  5. Sales: Do you have a trade in?
  6. Me: We'll figure that separately
  7. Sales: OK, let me go see the sales manager and see what we can do.

XIII. INCENTIVE PROGRAMS?

We do not believe in special incentives, commissions and bonuses for doing a what is expected of the job, and have seen a number instances where it is counter-productive, resulting in employees organizing their priorities for their benefit and not the company's. However, incentives may be useful for a one-time project, for example to bring in a certain amount of cash during a critical month, which relates to corporate strategic objectives.

Except for Sales, other departments do not offer special incentives for doing a job well. You expect good performance and should not have to pay extra for it. That is not to say that annual increases or a year-end bonus for extra effort, or for a special project or period, are not good incentives - they are. We just do not believe in an incentive associated with day-to-day results.

XIV. USING OUTSIDE SERVICES

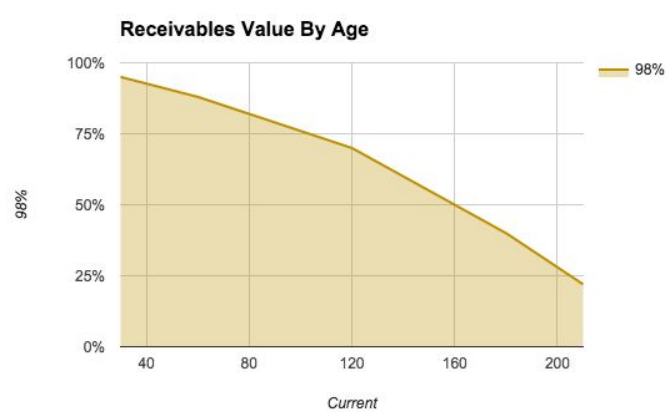
If you are experiencing an unacceptably high level of slow payments, bad debts, or disputes, there are turnkey solutions, including credit and collection outsourcing and collection agencies

"First Party Collections" means the collection function is performed under your name, generally handling receivables as they become due for payment, and before they are very old and hard to collect. The advantages of this are significant, and include:

- No worries about personnel, staffing, and supervision.
- Specialized technology to manage the collection function.
- Intense focus on your receivables, with no distractions.
- Experience cradle-to-grave with receivables resolution. f not paid, an account can automatically convert to third party handling.
- Often a variable fee based on performance.

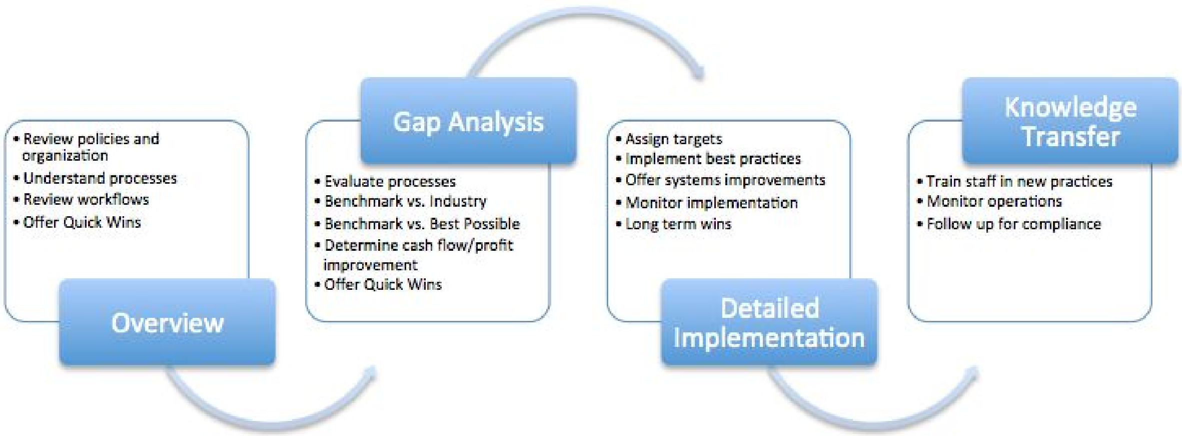
Third Party Collections - Collection Agency Approach

It is a cliche but the value of a receivable plummets after 90 days, whether by turning into a dispute or uncollectible bad-debt. Consequently working the accounts to a near-death stage does not help your company. Remember - you can't collect everything, so hand it off for outside action. If you have pursued your accounts diligently for 60 or 90 days and have little to show for it, admit that your efforts are not working, and the debtor is not paying attention to you. The longer you wait, the bigger the debt grows, and the less likely you will collect all of it, and the less likely your company can retain the customer. If you get outsource these bad paying accounts, you will have more time to focus your efforts on receivables that it will pay off.



Consultants

You can accomplish superior results with inside talent if you have the time and focus. Otherwise, consider professional consultants. This chart (from Smyyth.com) shows the process for achieving best-in-class results.



XV. CONCLUSION

The function of managing collections and accounts receivable is important, and deserves more attention than it receives. Many large companies have taken a "commodity" approach to it, even outsourcing it overseas, without recognizing the often hidden downstream losses they will incur in failure to resolve and recover disputes and deductions, which get expensed.

By taking a more strategic view, with planning and investment in both staff and especially technology, performance can be remarkably improved, <u>even at much lower cost than offshoring</u>. Other corporate "production" operations are engineered and automated to deliver the objective needed by the company; to a large extent this has not yet happened with accounts receivable.

With carefully thought out <u>strategy</u>, state-of-the-art <u>technology</u>, <u>process</u>, and <u>training</u>, it is possible to make *dramatic* improvements in cash acceleration, and with commensurate benefits of fewer losses for disputes and bad debts, as well as lower overheads.

This paper was prepared by the Revenue Cycle Consultants at Smyyth LLC.

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