Today’s credit executive faces challenges far different from the traditional role of the credit manager in a business. The credit executive must constantly look not only for new methods of successful collection, but innovative philosophies and procedures of collection that enable him or her to maximize in-house collections with limited resources. Too often we consider the credit granting function as the “action” of the credit department.

And, in some ways, it is the “action.” The credit executive is in some degree of control: gathering information, determining the risk, and making a decision on whether credit will be granted.

Collections are traditionally regarded as the “reaction” function of the credit department. The tables are now turned. Instead of the debtor wanting something from you, you now want something from the debtor.

However, the control of the collection effort is diminished or even eliminated when its purpose is reactive as opposed to proactive.

By using collections practices which are event sensitive you will see a significant increase in your department’s results and thus its contributions to the company’s profitability and revenue growth.

Today’s debtor comes in a variety of different guises. Whether the debtor company is a prompt payer of bills, a slow payer, careless or simply a deadbeat, that debtor is better educated and more knowledgeable and better equipped to stretch out their payables or ignore them altogether. We all understand some of the reasons why this is the case. Today’s economy affects every company’s accounts receivable. However, understanding the problem is only part of the solution. It is necessary to take a proactive approach in dealing with the problem of delinquent accounts.

**CONTROL & ALLOCATION OF RESOURCES**

You control the credit granting function by asking for the information you need in order to make a credit decision. It is critical in the collection process to maintain control from the date the invoice is mailed until the money is collected. It is only with control that you can properly manage your company’s accounts receivable and ensure maximum return. It is control which protects your customer base. By controlling the collection process you are able to maintain the customer relationship and prevent customers from becoming debtors.

Private and governmental studies have found that approximately 75-85 percent of a modern company’s accounts receivable are under 60 days. Conversely, 15-25 percent of the company’s total revenue is in the over 60 days category.

Most companies allocate 85 percent of their resources to collection of accounts over 60 days old and only 15 percent to accounts less than 60 days old.

Under this “time sensitive” allocation of resources a company is reacting to bad debt problems, not acting to exercise customer control. Regaining lost ground is more than just an uphill battle. You will never regain all that is lost when accounts go beyond net terms. Further, as accounts grow more delinquent the opportunities to save the customer for future sales diminishes. Your credit department ends up working harder to get less.

**THE COST OF DELINQUENT ACCOUNTS**

A past due customer sets into motion a chain of costly collection procedures which tax the limited resources of your credit department.

1. Customer allowed to go beyond 60 days past due: 62 percent probability it will occur again.

2. Customer allowed to go beyond 60 days past due a second time: 95 percent probability that the customer will always pay beyond 60 days past due.

3. Accounts allowed to go 60 days past due: 67 percent will reach 90 days past due.

4. Accounts that go beyond 90 days past due: 87 percent will require the efforts of an outside agency to collect.

When a company’s collection resources are allocated in such a way that more time is spent on the older past due accounts rather than the newer accounts, the following happens:

1. Customers are educated that they can go beyond the net terms required by the company. Customers are told that not only is it okay to pay late, there are no serious consequences if they do.
2. Credit departments’s efforts are spent in reacting to past due accounts and trying to make them good, while the current or good accounts are given a chance to become past due.

3. The older the account, the less the chances are of recovering the full balance or a portion of the balance. The profit from sales is significantly diminished when revenue is compromised by the recoverability of delinquent accounts.

4. The older an account gets the more likely the company will end up writing all or a portion of it off as bad debt loss. The additional sales required to overcome bad debt losses are harrowing.

**SEPARATING THE CUSTOMER FROM THE DEBTOR**

At some point a determination must be made when a customer has become a debtor. If your company is like most, it makes the decision more on the passage of time than on the actions of the customer.

The proactive approach is to let the customer make the decision to be a customer or debtor. By letting the customer decide whether he is a debtor or customer, the decision is based with more emphasis on events and less emphasis on the passage of time. Remember, control is one of your company’s resources in the proactive approach to collections. If the customer makes its own determination by its actions as to whether it is a customer or debtor within the procedures you set up, then you exert more control.

Too often the legitimate concern of a company that future business from the customer may be lost leads to credit and collection decisions which achieve the opposite result intended. The best way to ensure future sales is to use the proactive approach in collection. Once the customer has made his determination as to whether he is a customer or debtor, based on your procedures, the chances of that debtor becoming a customer again are actually improved. By utilizing an event sensitive proactive approach to collecting your company’s money, you will have the opportunity to rehabilitate that debtor back into a customer. That opportunity to rehabilitate is only available because you are acting rather than reacting to a delinquent customer.

By letting the customer make a determination on whether he is a customer or debtor based on events, rather than the passage of time, you are able to exercise customer control much earlier. Customer control and rehabilitation are considerably more effective when the account is under 60 days past due. The result? More money collected and more future sales. And, the future sales are to customers who have been trained to pay on time, not trained that they can pay late.

**CONCLUSION**

Meeting the challenges of the 90s means utilizing innovative tools to manage accounts receivables. Implementing an event sensitive, proactive approach to managing accounts receivable will shift the emphasis away from traditional time sensitive collections and focus on the actions of a customer. Let the customer make the decision. It will result in more money being collected in-house, more customers buying in the future, and accounts that require third party intervention will have a higher recoverability ratio.

**About the Author:**
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