



SOLUTION COLLECTING FOR AGED RECEIVABLES

Succeeding Where Others Have Failed

The success of a collection depends primarily on the method by which it is pursued. The majority of companies utilize one of two general techniques. The first is the aggressive approach often used in consumer collections, which seldom succeeds in the commercial realm. The second is an extremely passive methodology in which the company sends repeated invoices but rarely follows them up.

Neither method is ideal to reduce DSO (day sales outstanding) or to minimize the use of working capital for the company experiencing these overdue receivables. The extremely firm approach often puts the debt in question low on the target company's list of payment priorities, and an extremely passive approach can have the same effect.

The key to a successful commercial collection lies in remembering one key tenet: the collection agent is very rarely asking someone for his or her own money. Typically, the agent is working with an accounts payable person who has no personal stake in whether or not these invoices get paid.

SOLUTION COLLECTING

A more effective methodology for successful commercial collections is called Solution Collecting. This system of collecting is so effective that it has been able to penetrate on even the most difficult account that have been forgotten for years or that other companies have failed to collect.

There is always a barrier that prevents the debtor company from paying, and there is also a key to removing that barrier. The focus of Solution Collecting is to find the precise solution that permits the collection to be completed.

The methodology uses a positive approach to identifying the key that will enable an Accounts Payable (AP) clerk to pay an invoice. An agent using this approach is trained to find a solution to the AP person's problem by putting themselves in their shoes: how do they get this specific invoice cleared and off their desk. Approaching collections with a view to answering this question instead of blindly demanding payment greatly enhances yield.

The collection agent is rarely provided with the exact documents that debtors require, but by working with an accounts payable representative in a firm but positive way, following a thoroughly planned procedure, the agent will log a very high rate of success in collecting even the most enduring receivables.

Knowledge & Creativity

Many factors lead to a successful collection. The first step lies in understanding precisely the nature of the target collection, and, where possible, the background of previous collection attempts. Knowing the products and services for which the invoice has been issued will help to identify potential invoice-related disputes and aid in executing our system to resolve them quickly and establish a payment plan.

The collectors' ability to be creative is what ultimately leads to success. For example, they can determine whether or not a service or product delivery slip is sufficient to enable the payables department to reopen an old account. In the absence of a contract or purchase order, reviewing a standard contract and the fact that the debtor has a history of previous



payments may provide them with sufficient proof of the validity of the receivable. Knowledge of the product and circumstances, and this creativity in identifying both the source of the dispute and the key to unlocking the funds, are factors that have contributed to the successful track record of Solution Collecting.

Authority

Another aspect of Solution Collecting is identifying which individual has the authority to issue payment for an invoice. If the accounts payable person does not have the ability to release payment, as is often the case with our larger collections, the collection agent quickly establishes contact with the individual who does possess that authority.

Relationship

It is vital to build a positive relationship with the individual who is able to issue a payment. If the lines of communication are constricted by negative attitudes, then finding a payment solution is highly improbable. Without a positive relationship, the invoice can sit on their desk for months. Effective relationship management, despite being within the framework of a collection, is a crucial point of contact with your customer and an opportunity for your company to demonstrate superior customer service.

In the case of larger balances, this often means arranging a professional but friendly face-to-face meeting to establish a positive relationship and to facilitate the collection of larger delinquent balances.

When the collectors occasionally run into aggressive debtors, a calm but firm manner is required to create a resolution.

Negotiation

A key component of Solution Collecting is the ability to recognize when a straightforward, collaborative solution is unlikely to be found. In such cases, successful collectors rapidly assess the options available to them. If leverage is an option, then escalation of an account in that direction may make sense. In the absence of this, the collector must immediately begin the negotiation process.

The negotiation process is intended provide a solution for the accounts payable person. Solution Collecting agents never lose sight of the fact that they are looking for a way to approach their superior to explain why a specific check needs to be cut. Empowering that individual to believe that they have negotiated a settlement will often encourage them to seek authorization from their supervisor. Essentially, through negotiation, a solution is created for the contact person on the other side.

Escalation

Escalation is necessary if the process encounters non-responsiveness, slowness to respond, or unwillingness to cooperate. In such cases it is crucial to move up the chain of command. Most cases will first escalate to the controller, then to the CFO, and ultimately to the CEO. These key executives will typically be annoyed that the issue has not been handled properly by their staff, and will issue an order for these individuals to handle the problem quickly.



Leverage

Knowing what leverage is available against a debtor forms an important part of finding a solution for aged receivables, especially when more senior executives are involved. Some will be concerned about their credit rating, some with the mounting interest charges and others will want to ensure the continuity of the relationship for future business. The threat of a lawsuit is the most common type of leverage used to ensure that an invoice is paid. However, if a case reaches court, it should be considered a failure. The possibility of legal action is primarily used as a way to invigorate discussions and reach a preferable solution.

Deadlines

Maintaining a deadline orientation ensures that the collection process does not lose momentum and that it is executed expeditiously. At each stage of the collection process, the agents work with their counterparts in accounts payable to establish goals and to obtain a commitment to a date by which the next step will be complete. A follow-up call is undertaken immediately after any deadline is missed.

Payment Prioritization

There are several ways to organize payments, and collectors will insist on the speediest payment method appropriate to the situation. The hierarchy of payment methods is wire, hand delivery, courier and mail. Each method is progressively slower, and the determining factor in choosing a particular payment method is the size of the payment, with larger amounts issued by wire.

The Incoho Difference

Incoho differs from other collection houses not only in our positive, Solution Collecting approach, but also in the caliber of our people. Not just anyone can become an Incoho agent. Our staff members are chosen for their lateral thinking ability and the creativity with which they approach different situations. A rigorous training program provides the confidence, knowledge and polish to get the job done in the shortest time possible with the least amount of friction. By quickly establishing who has the authority to enable payment, establishing deadlines and working towards a solution, Incoho succeeds where other companies have failed.