

Manage Your Hostile Debtor!

Dear Friends:

Every credit and collections department has to deal with them ... hostile debtors! Is it possible to successfully employ "win-win" negotiation strategy with someone who has decided beforehand that you're the "enemy"? This issue's feature offers some useful techniques for turning that attack-dog debtor into a willing-to-please customer.

Upcoming on our calendar of events is an event-packed bi-coastal June! We hope to see many of our friends at the Global Debt Summit in Atlanta, Georgia, June 7-9; the BCFM/BCCA Annual Conference in Orlando, Florida, June 11-13; the INFE Annual Conference on Coronado Island, California, June 17-21; and finally, the Licensing 2006 International in New York, New York, June 20-22.

Best wishes for a terrific spring,



Pete Szabo, President
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You're armed with the facts of the overdue account and with an arsenal of "win-win" negotiating tactics. You are highly motivated to meet your immediate objective of getting paid as well as your longer-term objective of preserving a good business relationship. But wait. Something's not right. Before you can say, "How are you today?", the air is thick with hostility, and it's all aimed at you.

Your "win-win" strategy, designed in large part to prevent the negotiation process from escalating into outright hostility, appears to have limited applicability in a situation where the customer has decided beforehand that you're the enemy. Does this mean that you need to switch your negotiation tactics to the "win-lose" scenario, where you try to get the best short-term outcome and consider the long-term relationship a casualty in the process? Probably not.

The keys to successfully managing a "win-win" negotiation with a hostile debtor are to first, "disarm" the debtor of his hostility, and second, to redirect the process. If a debtor is hostile, it follows that the debtor perceives hostility as an advantage. By removing that perception, you can move the negotiation process off the "win-lose" track and onto the "win-win" track toward a mutually beneficial outcome.

The following are some nuts-and-bolts disarmament and re-

direction tactics to help you successfully deal with the combative debtor:

Disarm the Debtor.

1. Empathize. As every credit manager knows, debt can drive an otherwise even-tempered person to exhibit a wide array of unhealthy, unpleasant emotions. What appears on its face to be simple, unadulterated hostility may have at its root any number of emotions, such as embarrassment, helplessness, or fear. If we react to hostility in the way that feels most natural when threatened, that is, with hostility of our own, we merely heighten the other person's anxiety. The hostility continues to ratchet up, often to a level that is irrevocable. Better, then, to look outside ourselves and feel the debtor's pain. Empathy, conveyed wordlessly through facial expression and body language as well as with a few words of understanding, can go a long way toward helping a debtor recognize and control his hostility and its underlying emotions.

2. Respect. In this situation, the debtor most likely has a heightened sensitivity to your perception of her character and position. Expressions of hostility can amplify even more if the debtor perceives disrespect. Maintain a respectful attitude, even if it is not recip-

—continued on page 2

Hostile Debtor—

—continued from page 1

located. Be careful, however, that this attitude remains clearly within the confines of what should be reasonably expected in the negotiating arena. You do not want to give the impression either that your attitude is not genuine or that it indicates a willingness to make unnecessary concessions. Demonstrate appreciation for the debtor's viewpoints, carefully crafting your comments to convey understanding as opposed to a conciliatory attitude.

3. *Establish common ground.*

Try to find something that you have in common with the debtor. Discussing work, family, or outside interests can break down communication barriers and build emotional ties.

4. *Recognize and manage deception.* Hostile debtors often engage in deception, either by bluffing or misrepresentation. While calling your bluff (“I am willing to pay you half the invoice amount and that’s all”) is generally considered an acceptable form of deception, misrepresentation (lying) is not. Hostile debtors may misrepresent either emotionally (“Your demand offends me”) or materially (“I don’t have the money”).

There are verbal and non-verbal clues to deception. Examples of verbal clues are overuse of negatives (“no,” “not”), making irrelevant comments, or making over-generalized statements. Non-verbal clues might be a slowed rate of speech, excessive blinking, or inconsistent facial expressions or body language. While the best way to detect

deception is to watch for a pattern of behavior that includes clues of both types, deception is often difficult to detect. The most effective way to manage deception is to use a preemptive strategy, “heading it off at the pass.” Techniques that can prevent and defuse deception are developing a positive interpersonal feeling with the debtor prior to the negotiation, meeting in person, listening actively, monitoring your own behavior, and clearly documenting the agreement (see *Collective Wisdom*, December 2005).

Redirect the Process.

Once you have done all that you can do to disarm the debtor of his hostility, you must redirect the negotiation process toward a “win-win” outcome. Even if your disarmament efforts were successful, there are likely to be some residual resentments, sensitivities, or flashpoints that may arise in the course of your redirection efforts. When that occurs, you may have to circle back to techniques that you used early in the process to move the negotiation onto a positive track. Then, to redirect the process, keep it going on the right track, and get the desired outcome, you need to consider the wise use of strategic concessions and threats.

Did we say “threats”? Can the use of threats play a part in a negotiation process where everyone “wins”? The answer is, yes! In the context of negotiations, a threat is a proposition that issues demands and warns of the costs of noncompliance. Even if neither party resorts to the use of threats, the possibility that they may use them colors most negotiations. Although it may seem counter-intuitive, many people evaluate their counterparts more favorably when they offer promises com-

bined with threats rather than promises alone. The wise use of threats can be a strong complementary tool to strategic concessions as you navigate your way to your desired outcome.

There are several situations in which threats may be necessary and effective. First, a threat may be required to get the other party to take the situation seriously and agree to enter a negotiation. Second, a threat can be useful for steering the negotiation from an impasse toward a settlement. Third, a well-designed threat helps ensure that the party threatened will comply with the agreement.

Even so, threats may backfire, sometimes in unintended ways. A threat might provoke resistance due to a perceived loss of choice. An agreement may be perceived as illegitimate because it was reached under coercion, a rationalization that might be used as an excuse for later noncompliance. A truly effective threat is one that satisfies your interests without creating ill will. The goal should be to construct threats that invite the other party to respect and even like you. Respect encourages compliance, and being liked discourages defensiveness and hostility.

The following are some tips for making wise use of strategic concessions and threats:

1. *Make concessions clear to the debtor.* Successful negotiations involve both parties’ willingness to make concessions. This is easier said than done in any negotiation, but it is even harder to facilitate with a hostile debtor. The debtor may fail to appreciate the concessions you are willing to

make and to recognize the need to reciprocate. In fact, the debtor may choose to overlook your concessions precisely because they carry an obligation to give something in return.

Make a first demand that is serious and reasonable. Don't give up too quickly if the debtor balks. Doing so may make the offer seem frivolous and undermine subsequent concessions. Your original offer should act as the baseline to which any later concessions are measured. State that you are incurring a cost with the concession, which clarifies that it is, in fact, a concession. Emphasize its benefits to the debtor.

2. *Encourage reciprocity.*

If the debtor is slow to act on your concession, then clearly and diplomatically demand reciprocity. For example, if the debtor objects to a payment schedule, you might say something like, "This isn't something we ordinarily do, but we've adjusted our terms

to accommodate your needs. We expect that this schedule will put you in a much better position to bring your account into balance. We propose full payment in three months." This statement labels the concession, tactfully demands reciprocity, and offers a precise form for that reciprocity to take.

3. *Make incremental concessions.* Most negotiations involve going back and forth several times. If you offer everything in your first concession, the debtor may think you're holding back even though you've done all you can do. Making incremental concessions implies flexibility and a willingness to listen and respond to the debtor's needs. If your final offer will be a one-year repayment schedule, offer a three-month plan initially. Perhaps you will settle on a six-month plan, which will have allowed both parties to "win."

4. *Be willing to impose stated consequences of threats.* This is critical to maintaining your credibility, without which your

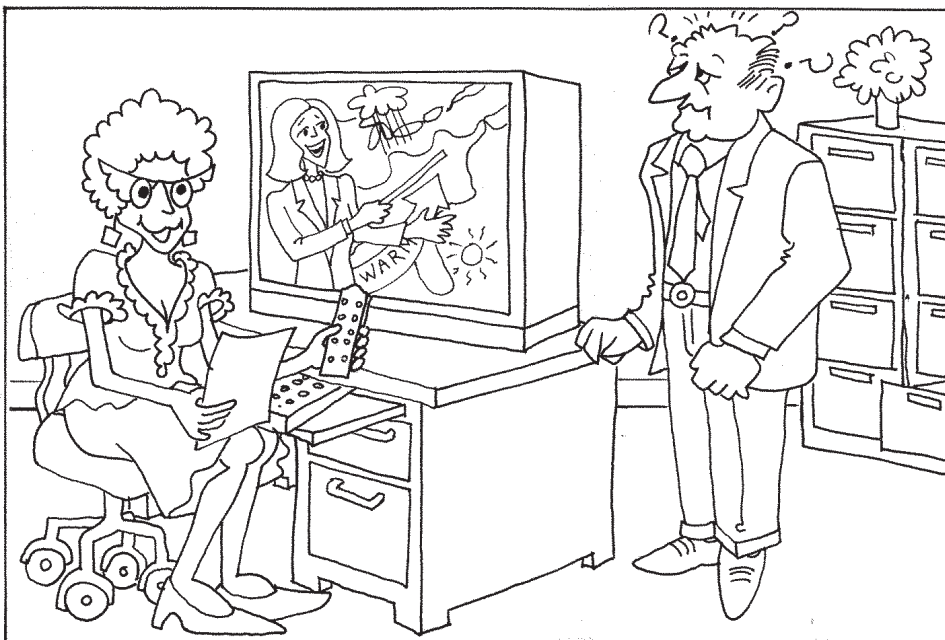
entire negotiation will be undermined. Once such a foundation is built, the possibility of a threat may be enough to encourage the desired response. Be careful, however, not to make a demand that the debtor, even if willing, cannot execute.

5. *Make threats that serve both parties' interests.* The reason for making a threat is not to "beat up the other guy," but to help achieve broader goals. If not executed carefully, a threat can be self-defeating, locking you into a particular course of action that may cause undesirable short-term and/or long-term costs.

Carefully plan threats in advance. They should never be made "on the fly," when emotions can compromise judgment. Designing the threat away from the negotiating table facilitates careful consideration of both short-term and long-term consequences. Never make a threat under the influence of anger, even if you think your anger is effectively contained. Doing so will cloud judgment and impair the ability of both parties to process what is happening.

Evaluate the possibility that the threat will incite an even larger counter-threat. Don't start a battle that you are not prepared to fight. Also evaluate the cost of the threat. Does it have the potential to be more costly to you than it is to the debtor?

If you determine that your threat will advance your interests, then consider how to make the threat serve as a motivator for the debtor to pay, and not to be perceived as punitive. Frame the threat in terms of how compliance will further the debtor's interests. Focus on the positive rather



"Mr. Ames said he'd send us his payment 'when Hell freezes over.' I told him I'd check the forecast but I didn't think it would support his offer."

—continued on page 4

Hostile Debtor—

—continued from page 3

than how noncompliance will be harmful. For example, rather than stating, “If you don’t pay, we and no other media will do business with you,” you might say, “Without payment and, therefore, with no advertising, how will you reach your customers with your message? On the other hand, your advertising can generate sales, which helps your financial position.”

6. Make sure the threat is precise. Being precise improves the chances of agreement. Your threats should express clear contingencies. Use an “if, then, else” progression of events that provides consequences for non-compliance at each level. Provide a clear timeline and course of action by which the debtor will avoid consequences. Being precise also helps avoid future disputes regarding whether the debtor actually complied with the agreement.

7. Allow the debtor to save face. Even well-designed and well-executed threats carry some potential for wounding a debtor’s pride. You can further help the debtor maintain his pride by offering alternatives of relatively equal value to you. If allowed to make a choice, the debtor will not feel you are compromising her self-respect by forcing compliance. Rather, she may view the offer of choices as an act of generosity as opposed to coercion.

Once the debtor makes a choice, respond with genuine appreciation and modesty. A response that shows no hint of self-satisfaction or smugness will make the debtor feel respected and valued.

8. Plan ahead. Before entering into any negotiation, and particularly a negotiation with a hostile debtor, plan thoroughly. Gather as much information as possible on the debtor. The sales representative on the account is a great resource for finding out details about the debtor’s personality and situa-

tion. The smallest detail can be useful in planning how to disarm the debtor’s hostility. Decide exactly what you want and when you want it. Issue threats only with great care and forethought.

Reap the Rewards.

Negotiations with hostile customers, while never pleasant, can be rewarding experiences if planned and executed wisely. Artful negotiation, including the wise use of concessions and threats, can pay off with substantial short-term and long-term financial rewards. Additionally, the personal rewards of successfully dealing with such a difficult situation should not be underestimated. What greater professional satisfaction can there be than helping a debtor turn harmful hostility into a receptive, positive attitude that benefits himself, his company, and your organization! ♦



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