

Dear Friends:

The most successful credit and collection managers have a variety of collection tools at their disposal. Many debtors respond to one method of collection but not another, or require several different methods of contact before the matter is resolved. A sometimes overlooked but nonetheless effective tool is the collection letter. This issue's feature discusses ways to make letters a practical and compelling part of your collection efforts.

At the MFM/BCCA convention last month, we were pleased to present the 2013 Peter F. Szabo Career Achievement Award to Mike Denson, VP Network Credit and Collections, Katz Media Group, for his contributions to BCCA and to the media credit and collections industry. The Szabo-sponsored opening night party was a great success, and our Szabo team was voted "friendliest exhibit staff" by the convention's attendees!

Our summer calendar includes our annual Szabo Quality Awards Dinner, August 26 in Atlanta; the Media Financial Management (MFM) Media Outlook 2014, September 12 in New York, New York; and the IAB (Interactive Advertising Bureau) Mixx Conference & Expo 2013, September 23-24 in New York, New York.

Best wishes for a wonderful summer,



Robin Szabo, President
Szabo Associates, Inc.

The Letter . . . Is It Still an Effective Collection Tool?

Debtors are like us, at least in one important way. They are busy folks with dozens of distractions in any given day. The urgent distractions often edge out less urgent but more important ones, which then get shuffled to a lower place in the stack. Besieged by emails and junk mail, our debtors often trash, without opening, the ones that fail to engage them with the subject line or sender's name. So how much of a chance does your collection letter, floating like a lone dinghy in a sea of written communications, have of reaching your intended recipient and actually getting the result you want? Better than you might think.

We have always championed conversation via personal visits or phone calls as the best methods of collecting overdue accounts. That said, well-crafted collection letters can be valuable adjuncts in your arsenal of collection tools. And, they do have an advantage that phone calls do not. It is easy enough for your debtor's gatekeeper to tell you that the debtor is "not in" or "not available to take your call," but letters are assumed to reach the party to whom they are addressed. Like it or not, the debtor is confronted, in clearest black and white, with the nature and details of your request. Additionally, you have a copy of the letter should it become necessary to provide documentation of your communications in a court of law.

As with other methods of collection, collection letters have two objectives: to get the invoice paid, and to retain your customer's goodwill. Proper attention to timing, style, and content can help ensure that your letters will meet those objectives.

Timing.

Inconsistency and procrastination send the message to the debtor that he or she can do the same with regard to payment. Follow up on a predetermined schedule to establish an expectation in the customer's mind that you intend to get paid according to your agreed-upon terms. As we described in our last issue (see *Collective Wisdom, March 31, 2013*), employ your Collection Action Plan 1, for new customers, from 15 to 30 days from your invoice date, before the account becomes overdue. This plan, whose goal is to train new customers to pay within your terms, should always be executed by phone or in person. In this friendly conversation, solicit feedback, confirm receipt of your invoice, and find out if the customer has questions about your invoice or payment terms.

Employing Plan 1 consistently should significantly reduce the need to employ Collection Action Plan 2 (40 days from your invoice date), Collection Action Plan 3 (60 to 75 days from your

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invoice date), or Collection Action Plan 4 (90 to 105 days from your invoice date). Plans 2, 3, and 4 may be conducted in person, by phone, by letter, or any combination of the three. You should determine how to schedule your collection letters most effectively within the framework of your action plans, supplementing or replacing phone calls with letters or emails. For example, you might send your first reminder letter 30 to 35 days from your invoice date, then follow up the letter with a phone call on day 40. You might also use a follow-up letter to reiterate and reinforce an agreement made by phone.

Style.

Collection letters should follow a business letter style and format. Every organization should develop its own collection “form” letters, which will provide the basis for more personalized applications. Two or three variations of the same message can disguise the letter’s appearance as a form and add flexibility. Draw up a set of guidelines to help your collectors personalize the letters without altering the message.

The letter should fit easily on a single page, and most of the page should be white space. This creates a more inviting appearance and focuses the reader’s eye on content.

Show the customer that you care enough to write a customized letter. Use company letterhead, open the letter with a traditional greeting (Dear Mr./Mrs./Ms.), and close with your handwritten signature. Be sure to include your contact information. Always send the letter to a specific individual rather than to a title only. Mark the envelope “confidential” or “personal” to respect the debtor’s privacy.

Use brief sentences, brief paragraphs, and simple words that anyone can understand. This is not an opportunity to showcase your “increase-your-vocabulary” app. Clarity is key. Avoid using jargon or any words or phrases that might be interpreted differently than the way you intend.

While all collection letters should have a business-like style, avoid using lofty or overly formal language that creates distance between you and the debtor. Write as though you were speaking to the customer. The tone should vary according to the stage in your collection efforts. The “First Reminder” letter should be mild and non-accusatory. Imply that the nonpayment is probably the result of an oversight, which it may well be.

If the first letter goes unanswered, the “Second Reminder” letter should ratchet up in tone to convey puzzlement over the nonpayment. In a non-threatening way, suggest that the nonpayment might still be the result of oversight or some other reason unknown to you.

Your “Third Reminder” ups the ante again to reflect growing concern. If the customer has not paid by this time, there is a serious reason behind the delinquency. At this point, look at the balance between the amount you are trying to collect and the cost of collecting it. Consider placing the account with a third-party collector. A large account may warrant a phone call rather than a third letter. In some cases, no single method of collection will produce payment. Consider a combination of letters, phone calls, and even a personal visit.

If all of these efforts fail, your “Final Demand/Other Action” letter serves to notify the debtor of your next move if the account is not paid. Be prepared to follow through on your “other action” if this letter fails to produce payment.

Content.

Make sure you know all the facts before you begin composing a collection letter. Few things are worse than asking for money that already arrived, or demanding payment under original terms after those terms were adjusted to accommodate the debtor’s present situation.

Gather all the information you will need to make your letter complete. These items should include order information, invoices, memos, unapplied checks, related correspondence, previously disputed items, and statements.

Review your credit file for recent information about your customer’s paying habits with your organization and with other media organizations. Conduct an updated review of the customer’s financial condition and operations. This information may give you clues as to why your customer is delinquent.

Include in every collection letter the amount due, the number and date of the invoice, and the date the account became overdue.

The First Reminder letter suggests that the nonpayment was unintentional. Perhaps the invoice was not received or was misfiled. To support that suggestion, you might include a copy of the original invoice with the letter. Ask directly and clearly for what you want: “Please mail your check for \$5,000 today.”

Your Second Reminder letter should plant an image in the customer’s mind of you scratching your head, confounded but still convinced that nonpayment is the result of a mistake. “We have had no response to our recent reminder of your past due account. We still believe the items called to your attention have either been overlooked or delayed in payment for some other reason.”

Or, you might try this very pointed approach: "Did we do something wrong? If so, please tell us so that we may correct whatever might be amiss. We are puzzled by the delay since, to our knowledge, both the schedule and invoicing were in order."

The Third Reminder letter reflects your growing concern. Include a positively phrased benefit statement to motivate the debtor to take action. Although the letter may fail to uncover the reason for nonpayment, it will remind the customer how he stands to benefit by paying up. Word the benefit statement in a positive, non-threatening way. "If your payments fall behind, we will cut off further business" is threatening. A better approach is to say, "If your payments are maintained on a current basis, we will be able to continue doing business." "If you don't pay, your credit standing will suffer" is a stick in the eye. Dangle a carrot instead: "Payment of the invoice by the 10th will ensure your continued favorable credit standing."

Three letters later, you remain empty-handed. Your "Final Demand/Other Action" letter lets the debtor know clearly that you have reached the proverbial end of the road. Make absolutely sure that your information is current before sending this letter because the abundance of goodwill contained in your previous efforts is nowhere to be found here. Make your request for payment, stating that this is your final request, and inform the debtor that nonpayment at this point will result in your taking "other action."

Usually "other action" consists of referring the account to a third-party collection firm. Consider wording of this sort: "We have reminded you numerous times of your \$10,000 past-due account. You have yet to offer even partial payment or a response of any kind. We simply cannot understand your neglect of this serious matter. Accordingly, we now advise that unless we receive full payment by July 15th, we will refer the matter to our collection firm. Send us your payment, and save us both this extra time, effort, and expense."

Consider sending your final demand letters by an overnight carrier such as FedEx or UPS where the customer must sign for it. This not only indicates your sense of urgency, but also ensures that the customer received it. You might also send it by certified U.S. mail; however, a customer who suspects the item is a collection letter may refuse to accept it.

Email vs. "snail mail."

The immediacy of email is a significant advantage over traditional mail. Particularly in matters such as billing and disputes, the Internet provides the opportunity to quickly exchange pertinent data that can expedite resolution.

The disadvantage of email is the flood of information that comes into one's inbox every day. If the information is unsolicited, there is a good chance the message will be sent packing into cyberspace without being read. Here is where attention to the subject line can mean the difference between success and failure.

If you choose to use email for past-due collections, do your best to ensure that your messages stand out in the crowd. The subject line needs to be an attention-grabber. You want the debtor's eyes to come to a sudden stop as he scans the day's mail. It must appear not only serious but also urgent, worthy of immediate attention. "Payment overdue!" conveys importance and urgency in a way "Friendly reminder" does not. Similarly, "Stop credit notice" is likely to get the attention that "Important notice" will not. And "Urgent: Please resolve this matter immediately" demands action much more effectively than "Final request."

In the message, put the reference line at the top: RE: Unpaid invoice (#). Upon opening the email, the recipient will know

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"From Mr. Harvey: 'I truly admired your letter requesting payment and wish I possessed your gift for brief, concise, and clear written communication. That said, herein is my explanation for why I cannot pay.'"

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immediately what the message is about. The salutation line (Dear Mr./Mrs./Ms.) is next. Keep the body of the message brief and to the point. At the bottom of the email, below your name and position, put a disclaimer, such as, “This communication is confidential and may contain privileged material. If you are not the intended recipient, you must not use, disclose, copy or retain it. If you have received it in error, please immediately notify me by return email and delete the email.”

Your collection letter series should serve the vast majority of your needs. There are exceptions, however, that will require special style and content. Nonpayment by a major

account or a new account, an unusually large amount outstanding, or a complex situation may require a carefully composed letter that addresses the specific circumstances. These custom-tailored letters should be firm but courteous in tone and, as in all collection letters, addressed to a particular person and signed personally by hand. Whether form or non-form, snail mail or email, collection letters that you intend to use should be submitted to your attorney for review to ensure compliance with federal and state laws.

Working Smart.

The effectiveness of any collection tool—personal visits, phone calls, letters—depends heavily on sticking to a predetermined collection schedule. Within this schedule, prioritize your accounts

in order to use your valuable resources most productively. Go for new customers first, riskier customers second, high stakes customers third, and slow pays fourth. Collection letters can be particularly valuable with low-priority slow pays because of their ease of use.

While you probably would not choose to use a routine collection letter to collect a six-figure balance that is 90 days overdue, the letter can be an effective collection tool in most cases and particularly with smaller accounts. It takes less time, less effort, and costs less than any other collection method. Additionally, a well-crafted letter can be the least offensive collection communication, serving as a gentle reminder that will often produce the payment. ♦