

The Art of Collecting ... Fine-Tune Your Skills for Bigger Returns

Dear Friends:

As the year rolls to a close, we at Szabo would like to thank our friends and clients all over the country (and abroad!) for a terrific 1998, and we look forward to continuing our relationships with all of you in the coming year.

We hope that 1999 will be a most profitable year for all of you. To that end, this month's feature article offers some tips on how to transform your staff's knowledge of basic collection principles into the "art of collecting," which can substantially reduce your days sales outstanding and help preserve valuable relationships with your customers.

On our winter calendar of events is the Broadcast Cable Credit Association Annual Conference, to be held on beautiful Amelia Island, Florida on February 15th through the 17th. 'Til then, best wishes from all of us at Szabo for a safe and happy holiday season!

Happy New Year, everyone!



Pete Szabo, President
Szabo Associates, Inc.

Anyone whose job description includes collecting money from overdue accounts may at times encounter unexplored territory, where "out-of-the-box" thinking is necessary for any chance of success. These cases, however, are by far in the minority and more frequently occur within the arena of third-party collections. What is required—and what works—on a day-to-day basis within media organizations is skilled application of basic "nuts and bolts" collection principles. Here are a few tips to help you transform your knowledge of those principles into the art of collecting money.

Principle #1: Be systematic.

This principle should have at its basis established company policies and procedures, including payment terms and conditions that are included on each sales contract, to help you determine the nature and timing of your collection activities. All parties to any business agreement should have been clearly informed of its credit terms and conditions at the time the agreement was made. It is extremely difficult to systematically approach collections when underlying "systems" do not exist.

The art: If you are truly systematic in your approach to collecting the account, the debtor will know it. Being systematic carries

with it the implication that you expect to get paid. And people who expect to be paid usually do get paid.

The artful collector is without exception a disciplined collector. Discipline is simply engaging in the collections activities made available to you by your company's policies and procedures in a timely and consistent manner.

Make sure you are armed with accurate and up-to-date account activity information before making each contact with the debtor. Doing so will not only help you counter any unsubstantiated claims but will also send a clear message that you've invested time and effort to accomplish your goal.

Above all, always do what you say you will do when you say you will do it! Your follow-up system should be whatever works best to insure you never miss a date with your debtor. Many people work best with a somewhat formal "tickler file," like a computer-generated "daily action list," although a simple desk calendar pad may be a better choice for you.

Here is a recommended timetable of collection activities:

1. Start the collection process when the account falls 15 days past due. (Our informal study of the effectiveness of early intervention tells us that a

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debtor's degree of receptiveness is inversely proportional to the length of time the account is overdue.)

2. If money is promised outside of 10 days, immediately confirm in writing to the debtor the exact date agreed upon for the check to arrive.
3. Revoke credit privileges on 60-day accounts or as otherwise outlined in your company's policies and procedures.
4. Take immediate action at the earliest sign of problems with an account. (See principle #4.)
5. Enlist third-party help at 90 days past due. (See principle #6.)

Principle #2:

Cultivate the "attitude."

Attitude is harder than discipline to define, and even harder to develop and master. This is because it involves both an intention that resides in the heart of every successful collector ("I am owed the money, therefore, I will get the money") and the ability to communicate that intention clearly without alienating the debtor (no matter what the debtor says or does). It is positive, it is effective, and it is an art.

The art: The truly artful collector will simultaneously convey understanding and determination, never letting the debtor get the "upper hand." If your voice rises in agitation or your tone conveys the slightest hint of uncertainty about what your intentions are (even for a moment), then you've relinquished control to the debtor.

It is sometimes a good idea, even if you have been collecting for awhile, to tape record what you intend to say to a difficult debtor before you make the call. Play back the tape and listen carefully to the words and tone of your voice. In face-to-face communication, our words and tone are supplemented by body language and facial expressions, and we become accustomed to having people respond to the whole package. With the visible elements removed, how will you sound to the debtor on the other end of the line? If you are not sure, play the tape for a colleague and ask for a candid appraisal.

Base your persuasion on appeals to the customer's sense of fairness, pride, and desire to maintain a good credit reputation. Additionally, always communicate a genuine interest in resolving the customer's problem.

Be prepared to rebut your customer's response, if unacceptable. The majority of customer responses can be categorized as "frequently occurring." In other words, one of them will occur on almost every telephone collection call. Over the years, we have discovered that the "Telephone Collection Guide" is still one of the most effective tools, even among relatively seasoned collection personnel, for dealing with frequently occurring customer responses. To create a guide that is unique to your organization, first conduct a meeting of your collection personnel. Ask the question, "What are the frequently recurring excuses debtors make when they are asked to pay?" Compile a list of these responses. Conduct a follow-up meeting and ask the question, "When debtors use a 'frequently occurring' response, what do you say to rebut the

response and collect the money?" Finally, turn the information you have compiled from both meetings into your "guide." Type each response (excuse) in all caps onto the bottom of a 4" x 6" card. On the body of each card, type the corresponding rebuttal. Insert the cards into 10-1/2" x 6-1/2" flip trays so that each response is clearly visible for immediate referral.

Finally, recognize when stalemate has occurred, because of what the debtor says and/or how he says it. When stalemate occurs, never fail to escalate to the next step as outlined in your company's policies and procedures. Above all, follow through in a timely manner on any action you have told the debtor you will take, whether it is turning over the account to a third party for collection or pursuing legal remedies.

Principle #3: Be clear.

It is difficult to collect money from a debtor who doesn't want to pay. It is nearly impossible to collect money from a debtor who doesn't understand what you're asking for (or what you're willing to settle for). Clarity and conciseness are key to effective communication and artful collecting.

The art: Make sure your collection statement (what you say to the debtor in order to arrange payment) is simple and direct. Avoid using complex or nonspecific words that can be interpreted in more than one way. If the debtor's response includes vague language ("I'll send a check out the first part of next week"), then your rebuttal should make it specific ("So you will mail the check to us for the entire amount of \$10,000 Monday morning?").

Once you have agreed to an arrangement, have the debtor recap the arrangement, including the name and address to which the check should be sent. If the debtor says the check was already sent, ask when the check was mailed, the check number, the amount, and to whom it was mailed.

**Principle #4:
Be aware of change.**

As we all know, untended receivables can get out of hand very quickly. Proper tending of receivables involves more than being aware of changes in your particular business relationship with the debtor (slow payments, change in payment habits, broken promises of payment, postdated or NSF checks, requests for a hiatus or cancellation of a contract in mid-stream).

The art: The artful collector pays attention to the debtor's business behavior in general. Is merchandise selling at

unusually low prices? Is the company growing too rapidly? Has the perception of the company altered within the community? Has the debtor company refinanced or changed banks? By discovering changes early on, you have the advantage not only of early intervention on your company's behalf but also of better determining if payment problems are likely to be temporary or ongoing. Why lose a good long-term customer if a payment plan can help the debtor through a brief period of trouble and preserve the relationship?

**Principle #5:
Seek inside cooperation.**

Often the best collection effort is a team effort between the credit and sales department.

The art: The artful collector helps to keep the lines of communication open between credit and sales departments. Frequent meetings between sales and credit personnel foster understanding

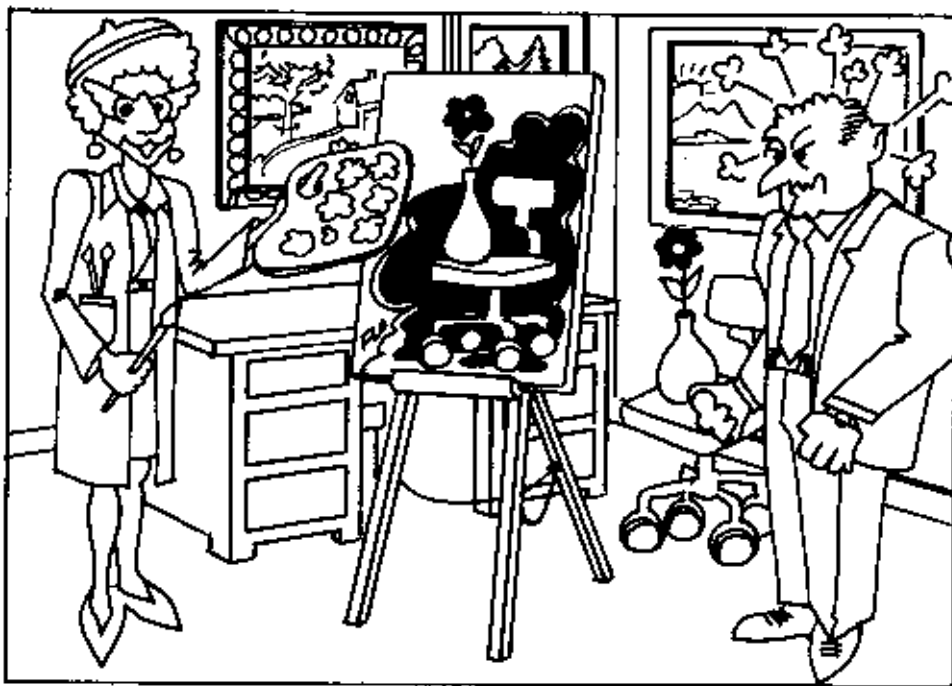
and cooperation in helping each other be successful. Salespeople, because they have the most direct and frequent contact with customers, are often privy to information that could be useful in collecting the account. They might also be called upon to make personal contact with the debtor if credit's initial attempts are unsuccessful.

**Principle #6:
Know your limitations.**

Enlisting the assistance of a third-party collection service offers the best chance for recovery on some accounts. The timely use of a third party can substantially reduce your company's aging losses, resulting in fewer write-offs and higher profits.

The art: Artful collectors are those who know how to identify potential bad debt and turn over the accounts to a third party early in the collection game. After 90 days, your chances of collecting an account rapidly deteriorate, and it is time to turn it over. Additionally, debtors who have "skipped," broken promises, claimed disputes that are unfounded, or shown offense at being asked for the money are candidates for immediate transfer to a professional collection service.

No one likes to be asked for money. The successful collector recognizes that fact, working to preserve the debtor's pride while solving the problem and getting the money. Successful collecting certainly is not rocket science, or any other kind of science for that matter; however, few would argue that when practiced with skill, it truly is an "art." ♦



"YOU TOLD ME TO WORK ON BEING AN ARTFUL COLLECTOR!
DON'T YOU LIKE MY STILL LIFE?"

The Szabo Difference: We're Part of Your Team

You may be surprised to see that this newsletter gives you ideas that—for some past-due accounts—could help you get along without us.

No, we're not crazy. This is the way we work.

First of all, we believe that the more you know about collecting, the more likely you are to choose Szabo Associates as your collection service.

Secondly, as a part of your team, we want the collection jobs that are inefficient for you to do yourself. When your people can be used better doing other work. Or when there are too many hard feelings building up. Or when it's just plain more comfortable for a third party to do the collecting.

This is where we fit in as part of your collection and risk management team.

We can give you information that helps your credit department in evaluating risks. We have an unmatched database derived from our work with more than 250,000 ad agencies and advertisers.

In addition, we can keep you updated on the latest laws and court decisions that may have an impact on your collections.

We can help you take early steps to see that a past-due account doesn't get out of control.

We can help you in negotiations that require our unique knowledge of media customs and procedures.

When you assign us accounts to collect, we keep you informed through monthly reports on our progress, phone call by phone call. Our reports can fit comfortably into your own in-house credit operation.

And because we're specialists in your business as well as ours, we can help you keep up on the latest industry trends.

All of these "extras" don't cost you a dime. Because 27 years as media collection professionals have taught us something important—looking out for your best interests is the best way to look out for ours. ♦



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