Tenacious Collector Can Be Distressed Company's Unsung Hero

By: Devin Hollands, CTP

A seemingly obvious but often overlooked tool that can help a distressed company generate cash is a systematic program to collect money it is owed by customers. A straightforward, somewhat aggressive system is required to ensure that invoices are paid to the company when they are due. Management's recognition of its inadequate attempts in this area and its ability to craft a new strategy for implementing new collection policies may determine a company's future success or ultimate failure.

Account collection activities often play a minor role in most healthy companies that have a solid asset-based lending (ABL) facility. Even distressed firms with a revolving credit line in place often do not place collections high on their list of priorities. But when a situation upsets an ABL relationship, a company often experiences great difficulty in sustaining its cash flow because of its lack of established account collection disciplines.

A company in a typical ABL relationship places a high priority on shipping product to generate invoices and limited efforts in collecting from customers because it can earn 85 percent of invoice value upon shipment and is given 90 days to collect its debt. Most accounts pay within the 90-day window, and under normal conditions that is all that matters to a company's management

However, tactics must change quickly when events take away or limit the ABL relationship. When a company is forced to rely on cash collections to fund its operations, these activities suddenly rocket up the priority list. Management's recognition of this new reality and its implementation of a new strategy and policies may determine whether a company can be turned around.

Problems with an ABL line can develop because of Chapter 11 scenarios, and for a variety of reasons, a company can find itself with a frozen, expired, terminated, or maxed-out line of credit. Regardless of the cause, being forced to collect a dollar before spending a dollar is not the normal focus of priorities, and the situation can lead to a cash shortage that quickly creates many other problems.

Compounding such a company's woes is that many vendors normally expect cash payments for material shipped to a business that is in the early stages of a Chapter 11 or to a distressed firm whose vendors are well stretched. While the company must continue to offer credit terms to its customers, it must pay cash for the raw materials it uses.

A business in this predicament must take quick, decisive actions to maintain operations. Figuring very importantly is the need to collect existing accounts receivable (A/R). The driving force and unsung hero behind many successful turnarounds is "the tenacious collector."

The tenacious collector doesn't shy away from making inquiries that many would consider to be too direct or confrontational. The individual often has an alpha personality, is confident in making demands, and accepts no excuses. Tenacious collectors are loyal to their companies, see situations as black or white, and can become stubborn when situations demand it. They show a distinct lack of compassion when making repeat phone calls, asking why a check did not arrive as promised, and requesting proof that payment was sent.

To tenacious collectors, these are just routine questions. They don't consider these techniques as over-aggressive, nor do they hesitate to call the next day and repeat the exercise if a check does not arrive. Tenacious collectors simply ask for "their" money, as it is due. Once such a tenacious collector system is implemented, customers learn that if they don't get a check in the mail, they will be having an uncomfortable chat with the tenacious collector. To avoid that, many respond by paying the invoices as they become due.

Simple System

In many small to mid-size companies, the tenacious collector wears more than one hat. The individual usually may serve as the shipping clerk or warehouse assistant, or in another role that is not full-time. Someone at such a level of responsibility is a good candidate to be a tenacious collector because the individual typically is on the same level as the person on the other end of the phone arranging for the check.

If there are collections issues, the tenacious collector can kick it up to the next level, which could be an A/R manager, controller, or sales manager. This higher authority then can take up the payment issues with the stubborn company. Finally the chief financial officer (CFO) or president can intervene if the issue isn't resolved.

If a company's current practice calls for the CFO or president to make the initial collections calls, chances are that they are not as effective as a tenacious collector would be. Executives tend to be too understanding and "feel the pain" of the other party, traits lacking in an ideal tenacious collector. This person simply wants the money sent and is not swayed by a customer's story. Executives tend to want to give their counterparts a break rather than jeopardize future business. At the executive level, a person receiving a collection call typically has influence on awarding future work, while employees at the lower clerk or finance level typically do not have the authority to change vendors if a tenacious collector upsets them.

A simple system can improve collections and keep the cash flowing. For a typical customer with 30-day terms, the tenacious collector places a call on day 20 or 25 to ensure that the customer's payment clerk has the invoice in the system and is ready to pay on day 30. This is not a collections call, nor is it designed to pester anyone. Its purpose is to ensure that the customer has all the paperwork in order, is happy with the product, and is ready to pay. This system short-circuits most typical excuses, such as:

- "We never received your invoice."
- "I have not received delivery or shipping confirmation."
- "The wrong item came in."
- "We did not get you on the check run."

A series of simple calls — "Hi, Marge. Are we on next week's check run?" — can go a long way in ensuring that a company has a future. If a contact raises an issue or problem, the collector has time to address it before the invoice is due. The individual can fax all required paperwork, call for shipping confirmation, confirm that the proper item was shipped, and confirm that the requested changes were made before shipping—all the minutia required to ensure that payment is made on time. That way, when the invoice is due the customer cannot offer typical excuses and employ the standard stalling tactics by claiming to need paperwork or confirmation of receipt. The tenacious collector already nailed all that down.

Paperwork for such a system can be simple. The CFO, controller, or collections manager should generate a daily list from the A/R aging report showing customers to contact, contact numbers, balances due, date due, previous contacts, and comments. This simple list provides the collector with a detailed outline of exactly what is expected that day. It drives the collection activity, and because management will review it, the list is clearly recognized as being important.

In the afternoon the completed report on that day's calls should be distributed to proper management. A quick daily meeting to review the results ensures that everyone understands the priorities and allows management to identify cases that require higher-level attention. Executives can read the excuses or promises recorded by the collector and determine how to address any issues raised by a customer. If executives see broken promises or unwarranted delays, they can pick up the phone and call their contacts before the end of the day. Such activity must be recorded on the sheet so that the collector knows about any new promises or demands made by a customer.

All companies can apply tenacious collector methods to their receivables. But to cash-strapped firms with no revolving credit facility, failure to pursue this or some similar methodology can quickly start an irreversible downward spiral.

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