

The Process of Reengineering Collections

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Abstract:

Using automation to help reengineer the collection process has resulted in breakthrough performance gains commensurate with traditional measures such as days sales outstanding (DSO). One of the reasons the improvements have been so great is that the challenges are so formidable. Recognizing these challenges is the first step toward formulating a solution. Critical to an effective solution is a comprehensive reengineering and automation strategy. Everything else is tactical, including the pitfalls to avoid. Once the strategy has been set, it is merely a matter of building a system that will get the job done right.

The Inevitable Application of Technology

A recent survey by PricewaterhouseCoopers found a majority of CEOs at fast growing companies claim an information technology advantage over their rivals¹. The survey interviewed 436 CEOs at companies with revenues between \$1 million and \$50 million. These rapidly expanding businesses enjoyed 45 percent higher compound growth over the past five years than their less technology proficient competitors. Not surprisingly, the survey respondents anticipate continued growth in IT deployment and spending.

The top three technologies espoused by the survey's participants were financial management systems (57%), sales information systems (52%), and customer services systems (37%). Interestingly, the credit and collection process greatly impacts all three of these areas. Anecdotal evidence also indicates an increasing interest in computerized credit and collection systems within the commercial credit community. In light of the survey data, this trend toward automation can be expected to continue. Over the long run, as more companies invest in information systems, including credit and collection software, technology can be expected to become a standard business tool and not a key differentiator.

This has already happened to some extent in the sporting goods industry. Dunlop Slazenger, Greenville, SC, was an early adopter of an automated collection process and realized an immediate cash flow windfall. Soon after implementing a collection software solution, it became apparent to other members of their industry credit group that Dunlop was having excellent success collecting from mutual customers, often to the detriment of these other members. As a result Etonic/Tretonic Puma and Mizuno followed suit, automating their own collection processes.

The Promise of Automated Collections

Businesses that install dedicated collection software typically realize DSO improvements of 10 to 20 percent in the first month alone. That translates into an immediate cash windfall. But the benefits do not stop there. Early adopters, such as Dunlop, continue to achieve yearly DSO improvements as they use the intelligence created and stored within their systems to further fine tune their collection processes and more rigorously enforce their credit and collection policies.

Most commercial credit functions under-perform because they rely on a patchwork of manual collection activities coupled with computerized receivables. Accounts receivable software typically includes billing, cash applications, associated reports and customer information

look-up screens, but is usually limited in terms of any additional utilities that are provided for credit and collections. Companies have become accustomed to automated receivables, but are nevertheless fettered to a manual collection process. In order to integrate collections with their receivables software, collectors end up devising a whole battery of clerical tasks that subsequently consume much of their time. Such blended systems have evolved over the last 30 years rather than having been designed for maximum productivity.

In contrast, automated collection systems provide breakthrough performance gains because they are driven by a reengineered collection process that is not hindered by inefficient practices. That task, therefore, is to incorporate a streamlined collection function within a software solution. Any such solution must address the challenges facing collectors and provide a rationale for automating the collection process. The solution must also recognize the pitfalls that can sap a systems productivity and identify the tasks that can then be automated.

Challenges to Conquer

Along with the limitations of current systems, the dynamics of the marketplace as well as the prevailing economic climate have conspired to make commercial collections a challenging prospect. Any systems solution that deigns to significantly elevate collection productivity must address every challenge, no matter the source of the challenge. Of course, not every business faces the same set of circumstances. Industry and company specific challenges must be individually identified and addressed. The following is a list of challenges facing most commercial collection functions no matter what industry or marketplace they serve.

1. High Transaction Volumes - Transaction volumes continue to rise due to sales growth, expansion into new markets, and acquisitions. This puts a constant strain on credit and collection departments to find ways to do more with the resources at hand. Growing transaction volumes also challenge collection systems to manage an every increasing work load.
2. Staffing Constraints - Even without downsizings, acquisitions and sales growth, credit and collection departments are being asked to get the job done with lean staffs. Few companies have the luxury of offsetting inefficient collection systems by hiring more people, and when they can add staff, adequate training becomes an issue. Because of the complexity of current systems, it is not unusual when experienced collectors are added to staff for it to take three months or longer before they are making a significant contribution. Furthermore, there is no coverage for absent collectors.
3. Inflated Past Due Balances - Studies show that DSO rose sharply during the sixties when computerized receivables systems were being introduced into corporate America, and it has not improved since². Coupled with rising transaction volumes and limited staffs, current practices are insufficient to stem the flow of aging receivables. The result is restricted cash flows and higher than necessary bad debt reserves.
4. Too Little Collection Activity - Collectors spend much of their time on clerical and support tasks - retrieving documentation, preparing faxes, processing adjustments, etc. - rather than collecting. A typical collector will often spend less than one fourth of his or her day actually contacting customers. This is directly attributable to the patchwork systems with which they have to contend.

5. Inconsistent Priority Setting - With very few exceptions, collectors are responsible for orchestrating their own work. How well organized and motivated the individual collectors are impacts their daily routine more than management guidelines. Consequently, priority setting varies by collector so that certain preferred activities are given more attention than other less desirable tasks. For example, small accounts and past due balances are easily overlooked until they become old debts, by some collectors, but given too much attention by others.

6. Inconsistent Collector Performance - Without consistent priorities, it is no surprise that collector performance will also vary greatly. Collectors tend to develop their own routines and habits for dealing with the inefficiencies of their patchwork systems, which further exacerbates the situation. As a case in point, many collectors record notes on their aged accounts receivable trial balance printout, while others keep theirs in the credit files or a loose bound call log.

7. High Adjustment Volumes - Studies show that customer payment deductions commonly account for over ten percent of most accounts receivable portfolios³. This is the sure sign of an inefficient process. If things were being done right in the first place, the same types of deductions and other adjustment issues would not keep recurring. In addition, follow-up often gets backlogged because deduction resolution is a low priority, low pay-back, time eating, productivity sapping, labor intensive task.

8. Inadequate Reporting - Most receivables software provides various aging reports and usually includes payment history details. That is not much. Compounding the problem, most management reporting occurs after the end of the month - after the harm has already been done. Current systems cannot monitor the daily activity of collectors, and therefore provide no mechanism for the early identification of trends.

9. Customer Relationships Are Not Being Managed - In most companies, customer payment issues are handled in a vacuum with the possible exception of a company's largest customers. Too often there is little connection between collections and other customer service related issues. Collectors gather a wealth of information from customers, but there is no mechanism for sharing that intelligence with the corporation. As a result, opportunities for increasing customer satisfaction, and consequently sales and profits, are being lost.

Any company facing a majority of these challenges will undoubtedly benefit from reengineering their collection process. From these challenges, performance standards need to be established for the reengineered collection process, and they need to be aggressive. Only then will the changes implemented be transformational and the improvements in collection performance measurements substantial. And it all starts with recognizing the challenges.

The Rationale Driving Reengineering

Reengineering without a rationale will only add to the patchwork of systems that are overburdening collection departments. Your rationale underlies your plan of action for overcoming the challenges you have identified and meeting the performance standards you have set. It is not so much the details or the tactics you will employ, but the major strategy elements that must be met if your reengineering project is going to be successful. Your tactics will flow from your strategies, which should incorporate the following objectives:

1. Shorten the time spent on support activities - As has been already observed, collectors spend too much time looking for invoices, faxing documents, pulling shipping records, looking up information and so forth. This is the crux of the problem in most collection functions. Automating clerical activities and otherwise eliminating unnecessary tasks that have become incorporated in the collection process addresses this issue by freeing up more time for collecting.

2. Increase the time spent contacting delinquent accounts - This is the flip side of the equation. Allocating more time for calling on and corresponding with past due accounts is an important pre-requisite for improving collection results. With more time to collect, more accounts can be contacted. Collectors working in an automated environment spend two to three times as much time contacting customers as do those using manual systems.

3. Increase the number of contacts per hour - The other way to increase the number of contacts is to increase the rate at which contacts are being made. Automation makes it possible for more accounts to be contacted in the time allotted. By increasing both the time allotted to collections and the contact rate, the productivity of your collection process is greatly increased.

4. Increase the effectiveness of each contact - Contacting more delinquent accounts will not improve collections if those contacts are not effective. The use of pre-defined collection strategies, prompts that guide the collector through the call and scripts to help counter customer excuses along with automatic document retrieval and transmission capabilities are some of the ways effective contacts can be assured.

Sample Abbreviated Automated Collection Strategy

Balance < \$5000	Mid-size Distributors	Low Risk
Timing	Form of Communication	Action
End of Grace Period	PC/Fax	We've noticed you're late.
Next Day	Phone	Is there a problem we're not aware of?
8 Days Later	PC/Fax	Problem Resolved? Notify Salesperson.
7 Days Later	Phone	Express Concern. Notify Management.
10 Days Later	Priority Mail	Send Final Demand Notice.

5. Provide immediate follow-up documentation to customers - The most common collection excuses involve missing documents -- invoices, bills of lading, proofs of delivery, etc. Time and efforts are wasted when a delinquent account can shift the burden of proof to the collector. Being able to automatically transmit a missing document keeps the pressure on the delinquent account to come up with a payment. Otherwise, they get a free ride until the collector can retrieve, copy and then fax or mail the necessary information.

6. Rely on a single integrated database - Collectors need to have all relevant customer data at their fingertips. Furthermore, a single interface is easier and faster to use than multiple look-up options. The more data sources, the more complicated things are for the collector. The smart programming solution is a single collection database from which the collectors can work. Moreover, you do not want to affect sales and accounting data in any way.
7. Generate additional customer feedback - Much intelligence is gained during the collection process. Automated systems are capable of retaining more of the underlying raw data in more usable formats than are manual systems. Collectors are therefore much less likely rehash old issues, but can instead probe customers for additional, higher level information, even if somebody else handled the previous collection efforts.
8. Disseminate information gathered during collections throughout the entire organization - With a manual collection process, most customer intelligence gained during the collection process resides in the collectors memory, too little of which is ever disseminated throughout the organization, and too much of which is forgotten over time or when a collector leaves the company. Automation enables this intelligence to be easily collected and distributed.
9. Support improvement in collection staff skills - If individual collectors are to become more effective training is essential . Monitoring collector performance is necessary in order to prescribe appropriate training, but this is difficult if you are relying on a manual collection process. Automated collection systems readily measure performance and can provide help to inexperienced collectors in the form of pre-programmed strategies and scripts which promote proven best practices.

Keeping these objectives in mind as you map out and design your new collection process will ensure that maximum efficiency is built into the system. Inefficiencies need to be removed from the collection process if you are to attain significant performance gains. Any steps or procedures in your redesigned collection process that interfere with these objectives need to be eliminated, or at least re-thought.

Automation Pitfalls to Avoid

Consequently, as you reengineer your collection process, you do not want to devise automated solutions that compound the inefficiencies inherent in the manual collection processes that are linked to computerized receivable systems you have been using. The idea is to simplify and streamline, not complicate things. With this in mind you need to avoid the following pitfalls.

1. Automating inefficient processes - Before automating collections, it is necessary to first map out all collection processes to identify unnecessary tasks. The goal is to automate streamlined processes, not the inefficiencies that have evolved over the years. Dunning letters provide a typical example. Many companies create systems for automatically generating dunning letters, but fail to address their shortcomings. When letters are generated based on invoice age, customers with multiple invoices get multiple letters. Many dunning letter systems have no way for automatically excluding disputed items. In addition, each subsequent letter in a dunning letter series is substantially less effective than the previous letter. Mass produced dunning letters that do not address these issues

are a shotgun approach to collections, not the strategic approach an efficient collection system should provide.

2. Installing a simple notes organizer, tickler system, or contact manager - Often this is one of the first enhancements IS departments try to add onto their A/R systems. Nor does purchasing stand-alone contact management software solve the problem. Most of these off-the-shelf programs were created with a salesperson in mind, and so do not meet the needs of a collector. Furthermore, typing notes into a computer provides little advantage over writing notes in a file by hand. Many times when collectors are given a computerized notepad that is not fully integrated into the collection process, they will continue to jot notes on their aged receivables trial balance or desk calendar before typing them into the system. This is clearly counterproductive.
3. Add partial solutions that add keystrokes - To be effective, computerized systems need to be user friendly. Systems that require collectors to jump back and forth between multiple screens and use complicated sequences of keystrokes to execute any activity reflect poor programming and add inefficiencies to the collection process. There is no reason that generating a fax should require more than one or two mouse clicks. Most activities should be made just that simple.
4. Directly affect the accounts receivable software - Accounting software is transaction based, while the objective of collection software is to provide workflow tools that help collectors manage a dynamic, not static, accounts receivable. Collection software should be a separate module that draws information from the accounts receivable software, but, despite all the customer intelligence it accumulates, does not send any data back. The last thing you want to do is corrupt the transaction data in your accounts receivable database.

By avoiding these pitfalls, it is possible to create a powerful collection process that enables the collectors to focus on collections instead of getting bogged down performing support functions. When collectors are able to double or even triple the time they spend contacting past due customers, it comes as no surprise that their performance skyrockets. Adding more patches to what is essentially a broken system will not generate lasting improvements, and certainly not substantial gains.

Tasks That Can Be Automated

Automation holds the key to cleansing the collectors' day of clerical and repetitive tasks. The goal is for collectors to spend as much time as possible contacting past due accounts and automation is necessary to maximize the number and quality of the contacts made. Collector performance is optimized by first minimizing the distractions and support routines that take time away from collections, and then providing tools to increase collector effectiveness. Because both capacity and productivity are addressed, automating a streamlined collection process precipitates tremendous performance gains. The following list contains nine critical tasks that can be automated.

1. Prioritizing collection activities - An automated system can instantaneously create a work queue that lists broken promises first, followed by largest past due balances. In addition, scheduled tasks can be instantaneously grouped by type (fax, call, deduction, etc.) and time zone to further enhance productivity. In contrast, collectors working with a manual process typically spend up to an hour each day selecting who to contact.

2. Automatically accessing customer account information - An automated system puts all necessary information on the collectors desktop including document look-up and reprint utilities. Reviewing an accounts status only takes seconds. With a manual process, gathering information before making a call or sending a fax or letter takes up at least another hour of each collectors day.

3. Automatically dialing phone numbers - Though this might seem a small thing, even if it takes just 20 seconds to look-up and dial a phone number, and the collector is doing that a modest 40 times a day, the collector will spend over 40 hours each year on this task. Little things like this ultimately provide major contributions to the time that can be allocated for direct collection activities.

4. Creating and transmitting faxes - It can easily take eleven or more distinct steps to manually send a fax. An automated system can do it in just three steps. The time savings here are tremendous, even more so when invoice copies can be faxed by the software. It should be just as easy to create and transmit emails and printed letters.

Manual verses Automated Faxing Processes

To Send a Manual Fax	To Send an Automated Fax
<ol style="list-style-type: none"> 1. Walk to the file room and find the invoice in question. 2. Walk to a copier and make a copy of the invoice 3. Re-file the invoice copy 4. Make a fax cover sheet 5. Look up the customer's fax number 6. Walk to a fax machine, dial the number, and send the documents 7. Wait for the fax to go through and retrieve the confirmation 8. Walk to the credit files and file the invoice copy, cover sheet and confirmation in the customer's credit file 9. Return to you desk 10. Make a note on the customer's call log that the invoice copy was faxed 11. Note a follow-up date on your calendar 	<ol style="list-style-type: none"> 1. Look up the invoice on the customer's outstanding accounts receivable screen 2. Highlight the invoice to be faxed 3. Hit the send fax key

Note taking - Many collection notes are repetitive - payment was sent [date], payment is promised [date], deduction taken for [type], etc. - and can therefore be recorded with a couple of mouse clicks instead everything always having to be typed. Notes need to also be customer or invoice specific as appropriate.

5. Scheduling follow-up activities - An automated tickler system can schedule follow-up activities based on pre-programmed collection strategies. The automated tickler should also be integrated with the note system so that everything gets done at once with a minimum of keystrokes.
6. Report generation - Collection software can report on many things accounts receivable software cannot. For example, collector activities and contacts made, payment deductions and customer disputes totaled by type and age since identified, agings by completed collection strategy step, and cash flow predictions based on recorded promises are just some of the reporting capabilities of an automated system.
7. Notifying internal departments of problems - Communication is essential to effective collections. Collection software can easily generate email and memos, even doing it automatically at pre-designated steps in the collection strategies, to advise coworkers of customer collection issues. Those matters requiring coworker feedback can be tracked similarly to a customer's promise to pay.
8. Updating the contact list as payments are made - Collectors waste a lot of time checking remittance advice to see if their customers have paid as promised. When a customer pays or a credit memos is issued, an automated system will remove scheduled follow-up activities for that account from the work queue.

These tasks have been listed in the sequence in which they occur during the collection process. When integrated with a single collections database - separate from all A/R transactional databases - they provide the backbone for an efficient, automated collection process driven by programmed, customer specific collection strategies. Guesswork and collector preferences are completely removed and replaced by a thoroughly redesigned, comprehensive collection process that will significantly improve cash flow.

Automated and Manual Collection Cycles Compared

Activity	Manual	Automated	Savings (Increase)
Prioritize	_ Hour	0 Hours	_ Hour
Prepare	1 _ Hours	_ Hours	1 Hour
Contact	2 _ Hours	6 _ Hours	(4 _ Hours)
Follow-up	3 Hours	_ Hour	2 _ Hours
Reporting	_ Hour	_ Hour	0

Conclusion

For collection performance to dramatically improve, it is necessary that both the issues of capacity and productivity be addressed. Redesigning the collectors' workday so that more time can be spent on direct collection activities addresses the capacity issue. The only other alternative in this regard would be to add staff, which usually is not a viable solution and which does not address the productivity issue. All you have is more people working with inefficient systems. Productivity is enhanced by creating a system and providing tools that enable a collector to contact more accounts, more effectively, in less time. Automating a reengineered collection process can accomplish these objectives

Adapted from "Power Collecting: Automation for Effective Asset Management," by Frederick A. Piumelli and David A. Schmidt (John Wiley & Sons, 1998). Fred Piumelli is CEO of GETPAID Software, Parsippany, NJ, and can be reached at 800-395-9996 or fred_piumelli@getpaid.com. Dave Schmidt is principal of A² Resources a consulting firm located in Yardley, PA, editor of The Credit Manager newsletter published by Warren Gorham & Lamont and a contributing editor with Business Finance magazine. He can be reached at 215-321-5444 or 75564.3253@compuserve.com.

¹ Eileen Colkin, "IT Drives Fast-Growth Companies, Study Says," *InformationWeek Online* (www.informationweek.com), November 19, 1998

² Martin H. Seiden, *The Quality of Trade Credit*, (New York: National Bureau of Economic Research, Inc., 1964, 46-49 and *National Summary of Domestic Trade Receivables* (Columbia, MD: Credit Research Foundation)

³ John Metzger, "Customer Deductions: Hidden Profit Leaks," *Corporate CashFlow*, March 1995.

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