Debt Recovery: Signals, Actions to Take

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With increased opportunities for Canadian companies to export to the U.S. comes the risk of increased collection problems. Business owners and credit executives are routinely forced to make decisions based on inadequate credit history. In many organizations, credit decisions are made and/or influenced by the sales department, increasing the possibility for losses. The following represents some suggestions that may help you avoid collection problems.

Prevention

The best time to insure an outstanding rate of collection is before you extend credit to a potential customer. A potential conflict exists - you want to make as many sales to as many customers as you can while protecting yourself from credit losses. This leads to conflicting goals between your company's credit and sales departments.

In addition to the standard contracts, agreements, personal guarantees, purchase orders and other documents specific to your industry, to prevent those potential losses, it is important that a credit application be completed and a credit report generated from a reliable credit reporting service before the sale. Many reliable U.S. credit and collection firms will guarantee their reports and will perform collection at no charge on firms that they recommend you extend credit.

Vital Warning Signs

Knowing the warning signs of credit and collection problems can help you protect your business. You can avoid significant losses and keep your customers paying on time and buying more goods and services from you.

Learn these early warning signs (see box) and commit yourself to acting when you see them. Even a few days delay can make the difference between successful collection and no collection.

Don't Gamble With Profits

When an account is "in trouble", you or your collection agency need to determine as soon as possible the exact nature of the problem.

Once determined, you can then proceed with the appropriate action to collect your funds and restore the customer. Debt recovery firms that have a field investigative staff can help get that information through on-site evaluations and discussions with the decision-maker.

Litigation should be considered the restitution tool of last resort. By separating those that are unwilling to pay from those who cannot pay, you will minimize the use of litigation. Your debt recovery service should be able to conduct a comprehensive asset and liability search to help you determine if litigation is worth the effort.

Summary

The business climate in the world today can cause a company to be like a ship in a storm. Knowing the signs of potential disaster and taking corrective action can help get your company back on course without damage.

Restitution/Recovery

The true cost in charge-offs is the loss of future revenues from the customer. Each month that an account is on "Credit Hold" is a month your doors are closed to an established customer. In addition, many repeat buyers are reluctant to reorder because of their past-due balances with your company.

The procedure to recapture that customer must be followed quickly and professionally to allow your sales force the opportunity to resell under credit guidelines you re-establish. Reliance on phone calls and/or dunning letters is likely to prolong the problem and result in the customer buying from the competition.

EARLY WARNINGS	*ACTIONS*
• Client submits marginal credit report • Breaks terms, avoids contact, breaks first promise, finds fault with product/service	• UCC documentation, personal guarantees, cross-corporate guarantees. • 10-day demand letter Asset & liability search
RED FLAG	*ACTIONS*
• Ignores final 10-day demand letter, breaks second promise, ignores third phone call, refuses to sign personal guarantee, refuses to honour C.O.D.	• Place for collection
DISASTER	*ACTIONS*
• Disconnects phones, returns mail, refuses certified mail, bankruptcy, fraud bank liquidation, skip	• Initiate skip trace Consider litigation

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