

10 Steps to Effective Collections

An effective collections policy requires some kind of formal system that ensures overdue accounts get paid. Letting late payments languish can disrupt cash flow and harm your company's chances of success.

To keep receivables flowing smoothly, many businesses use a series of letters and phone calls to encourage customers to pay. These communications start out friendly and progressively become more serious and insistent as payments become overdue. How you structure your collections system is an individual matter – you may be more comfortable calling up clients than sending letters, for instance. The important thing is to have a system, and you can use the steps outlined below to create yours.

Step 1: Customer satisfaction phone call

Dissatisfied customers are more likely to pay late. These friendly calls let you inquire about your performance to ensure you met your customers' needs. End these calls by mentioning that a bill will be arriving shortly, and reinforce its due date.

Timing: three days after delivery of your product or service, but before payment is due.

Step 2: First overdue notice

This is a friendly reminder that the due date has passed. You are assuming that the client has forgotten, neglected, or lost the bill and will pay with a gentle prodding. One common method is to send a duplicate invoice with "past due" stamped on it.

Timing: ten days after the invoice due date.

Step 3: Second overdue notice

Another mild nudge reminds the customer that the account needs attention. This can be a short form letter with a duplicate invoice attached. Keep it friendly and non-threatening. For example:

[Date]

[Name/address of debtor]

Re: Invoice # _____

Amount due: _____

Date due: _____

Dear _____:

We recently mailed you a statement showing that your account is past due. Perhaps it has been overlooked. Here is another copy. Please send payment today, so that we can keep your account current. Thank you.

Timing: 10-15 days after first overdue notice was sent/20+ days after the invoice due date

Step 4: First collection phone call

Follow the overdue notices with a phone call to find out if there is a reason for non-payment. For example, the customer may be dissatisfied with your product or service, or may be experiencing cash flow

problems. Be courteous, but also get a commitment to pay. Be prepared to handle excuses. For example, if the debtor says the check was sent, ask when it was mailed and where it was sent so you can determine the day it should arrive.

Timing: 7-10 days after second overdue notice is sent out/27 + days after the invoice due date

Step 5: First collection letter

Keep the tone of this letter consistent with the first phone call – courteous, but direct. Confirm in writing what was said in the call, and remind the debtor of his or her promise to pay. For example:

[Date]
[Name/address of debtor]
Re: Invoice # _____
Amount due: _____
Date due: _____

Dear _____:

This confirms of our conversation on [Date]. As we discussed, payment in full is due. To settle this matter now please mail in a check today.

Thank you.

Timing: immediately after the first collection phone call/28+ days after the invoice due date

Step 6: Second collection phone call

The account is now 30-40 days past due. Be polite yet firm, and ask for full immediate payment. Work to resolve payment problems. If the debtor cannot pay immediately, get him or her to commit to a payment date.

Timing: ten days after the first collection letter has been sent/38+ days after the invoice due date

Step 7: Second collection letter

Now is the time to communicate the seriousness of the delinquency. This letter should demand immediate payment, and discuss the short-term consequences of failure to pay. Send this letter – and any correspondence that follows – via certified mail or overnight mail to give you a record that it was received. For example:

[Date]
[Name/address of debtor]
Re: Invoice # _____
Amount due: _____
Date due: _____

Dear _____:

Your account is now seriously past due. If payment is not received within 7 days, we will be forced to suspend your credit privileges with our company. We value you as a customer. Help us continue to serve you by bringing your account up to date immediately. Please mail us a check today. Thank you.

Timing: ten days after payment is expected from previous collection phone call/50+ days after the invoice due date

Step 8: Third collection phone call

While remaining polite and calm, stress the seriousness of the situation. Use this phone call to explain that this is the last opportunity for the customer to pay before you turn the matter over to a collection agency and possibly take further legal action. Be sure to communicate the benefits of resolving the issue – maintaining good relations or good credit. As with the previous phone call, get the debtor to promise to pay by a certain date.

Timing: 15 days after second collection letter is sent out/65+ days after the invoice due date

Step 9: Final collection letter

The tone is now stern and demanding. Use this letter to confirm what was agreed upon in the last call and demand payment. State that if payment is not received by the agreed-upon date, you will turn the account over to a collection agency. For example:

[Date]

[Name/address of debtor]

Re: Invoice # _____

Amount due: _____

Date due: _____

Dear _____:

This letter confirms our conversation on [Date]. You must take immediate action to make your account current. If we do not receive payment within ten days, we will be forced to turn the matter over to a collection agency, which may adversely affect your credit rating. Please mail a check to us immediately.

Timing: seven days after third collection phone call/72+ days after the invoice due date

Step 10: Turn over to collection agency

The account is now 90+ days in arrears and may require professional assistance. Receiving a letter from a collection agency often motivates a debtor to pay, but these services can be costly – agencies typically take from a quarter to a half of what they collect. Instead of immediately turning the account over to a collection agency, you might want to enlist your attorney to make a quick phone call to the debtor – this can often motivate payment.

Timing: If payment has not been received by 10-15 days after the final collection letter is sent/90+ days after the invoice due date