

When Your Customer Won't Pay You

Coface wants to be an extension of your credit and collections team, offering solutions that start before you ever make a sale.

BY JOANNE COSTIN



It's a lot of hard work getting business, so when customers don't pay, frustration sets in. Where do you turn? What are your options? Coface Collections North America, a commercial collections agency, wants you to turn to them.

"We want to be an extension of our client's credit department," said Tom Brennan, president of Coface Collections. That means moving beyond just being a third party collections agency, and becoming a value



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added partner, helping dealerships better assess credit risks to begin with and educating them on industry best practices.

Choosing a Collection Agency

Although the market is very competitive, Brennan advises clients to choose their partners wisely. "Chasing a competitive rate is likely to get you both poor service and poor results," he said. Instead, Brennan recommends dealers do their due diligence. Make sure an agency is licensed, bonded and insured. Licensing is now required in 21 states. "If you don't use a licensed agency, you are giving your debtor a free pass," said Brennan. "They don't have to pay, because the agency is not licensed to collect."

Of some 3,000 collection agencies nationwide, Brennan says only a select few are members of two associations that enforce standards. The International Association of Commercial Collectors (IACC), which has 202 collection

agency members, requires that members carry a minimum of a \$10,000 statutory or blanket client bond and maintain a separate account for all client money, among other standards.

Commercial Law League of America (CLLA) has approximately 100 commercial collection agency members with strict certification requirements. Members must be in business for more than four years, post a \$300,000 surety bond, maintain a separate trust account for client funds, complete continuing education requirements and uphold the organization's ethical standards.

Making sure you are comfortable working with the rep is the next step in the selection process. Tim Kline, credit manager for Kirby-Smith Machinery, and a Coface customer, said this is one of the positives of working with Coface. "Coface does not go after you aggressively," said Kline. "They are very professional and let their work speak for itself." Kline is also impressed by the regular updates he gets via e-mail and phone as to the status of the delinquent accounts.

"We're very sensitive to our clients' goals and objectives," said Brennan. Kline concurs that this has been his experience. "They have been responsive to my request for a specific tone with customers," said Kline. "If I ask them to go after it in a hard and fast way, they do."

To express it another way, Brennan adds, "We can go in with kid gloves or boxing gloves." The choice is the customer's.

Being a large collection agency (Coface has more than 6,000 clients) has its advantages, especially for dealers working in multiple states and internationally. Once the decision is made to pursue a debtor, Coface immediately begins an investigation. With a network of more than 210,000 private investigators in all 50 states and 66 countries, the process gets started quickly, usually within 24 hours. And if the agency is unable to collect, there is a seamless route to pursue litigation through Coface's worldwide network of credit attorneys. Coface partnerships extend its network to more than 100 countries with



the ability to collect in the local language under local law.

To ensure you get the most out of your collection agency, Brenan advises that you provide the agency with as much documentation as possible. Coface agents do an extensive investigation of the debtor before they make the first call. The goal is to separate fact from fiction and find out the real reason for the delinquency. They will check Dun & Bradstreet; they will find out whom the debtor is doing business with; whom they are paying; they will find out if there are liens or judgments against them. "Local pressure really gets their attention quickly," said Brenan.

Coface believes it is important to separate the debtors from the customers early on in the process. Brenan defines a customer as one that is willing to pay, but has incurred a financial catastrophe of some sort. He has good shot at eventually paying. On the other hand, a debtor has no willingness to pay.

Assignments at Coface are sorted into large balance (\$3,500+), medium balance (\$1000-\$3,500) and small balance amounts (<\$1000), with the most experienced collection agents getting the large balance accounts.

According to Brenan, there is little turnover among agents working large and medium-size collection accounts. The average tenure is more than 13 years.

Training is focused on new hires, and the company hires individuals with at least two years working in retail or commercial collections. They go through a five- to seven-day training period and then are placed on the

phone, monitored and mentored. All calls are recorded. Within three months, all Coface collections agents must pass an IACC certification test.

Defining Success

Kline is pleased with the results Coface has turned in for Kirby-Smith Machinery, reporting that they have performed better than the previous vendor. Coface is currently serving about 20 AED member companies. The liquidation rate is a measure used by the collection agency to assess their success. According to Brenan, the construction industry has one of the worst rates. Currently, Coface is obtaining about a 20 percent liquidity rate among AED dealer clients. Comparisons are difficult because many factors can impact the success rate, especially the date at which the unpaid invoices are turned over to a collection agency. "One thing is for certain," said Brenan, "the longer the you wait, the harder it will be to collect."

CARE Gets a Jump on Collections

To avoid this situation, Coface created a program to encourage its customers to respond earlier to unpaid receivables. The CARE system helps manage receivables while they are still very collectible – 60, 90 and 120 days delinquent. It provides a low-cost, Internet-based solution that uses skilled professional collectors and predictive dialers to conduct multiple debtor call campaigns. Coface fees average less than five cents on the dollar collected, compared to approximately 5 to 7 percent using traditional collection methods.

Credit Reports, Background Checks and Accounts Receivable Insurance

Even prior to a customer making a purchase, Coface clients can take advantage of the company's access to financial data to determine the credit worthiness of dealer customers. Coface can perform both domestic and international background checks on principals and executives, identifying issues of potential liability. The Coface database includes information on more than 50 million companies and, in addition, they have access to the databases of Dun & Bradstreet, Experian Business Profile Reports, and others.

Coface also offers accounts receivable insurance as added protection. Exact coverage will depend on the specific terms of the policy. In general, credit insurance covers the unpaid credit balance from sales made to your customers located in the U.S., Canada and throughout the world.

To learn more about Coface commercial collection services or accounts receivable insurance, call Cliff Sanders, national sales manager, at 800-318-6494. ■

Top 3 Collection Tips from Coface

1. Start with a Courtesy Call

Set up a courtesy call before accounts come past due. If the customer was invoiced with payment due in 30 days and no customer service issues occurred, call on Day 15 to verify they have received the invoice.

2. Know the Early Warning Signs

Broken promises, unreturned phone calls, an increase in reference requests and a change in payment patterns are a sure sign that a customer may be experiencing cash flow problems. This is the time to act.

3. Establish a Collections Policy

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 collecting.