Early Out Collections:
Why You Should C.A.R.E.

coface

Situation

The economic uncertainty of the past two years has significantly impacted the way businesses operate. Many of the companies that managed to survive the downturn did so by cutting back on staff and resources, and by looking for innovative ways to operate more efficiently. Now we are in a new wave of corporate belt-tightening, where companies are cutting back on expenses in anticipation of more economic bad news.

"The likelihood of collecting accounts receivable decreases rapidly with age. At 90 days, companies are likely to collect only $.73 of each dollar owed."

How does this impact the average credit department, or the lone person responsible for managing a company's accounts receivables? For most companies in America, it means that more has to be done with less. Since extending credit is a fact of life for companies, in times of economic uncertainty credit departments are under more pressure to make critical decisions about the creditworthiness of customers, because even one bad debt loss can impact the bottom line.

Credit departments now find that they must work smarter by focusing individual attention on top tier, high margin accounts while keeping the remaining portfolio current.

An Example

Because it is understaffed, ABC Company's credit department does not take serious action on accounts until they are over 90 days past due. The likelihood of collecting accounts receivable decreases rapidly with age. At 90 days, companies are likely to only collect $.73 of each dollar owed according to the Commercial Collection Agency Association of the Commercial Law League of America.

If ABC Company changed its internal procedure to start action at 60 days past due, recovery rates are likely to be $.90 per dollar owed. On $100,000 of receivables, $20,000 more could be coming in the door, sooner, just through faster action.

By concentrating on up-front actions, ABC Company can not only improve its cash flow and decrease its write offs, the credit department staff can also minimize back end recovery efforts.

Pre-Collection – Up-front and Effective

Pre-collections, also known as "early-out" collections, are actions that are initiated after an account becomes past due but before it becomes a serious problem. A typical pre-collection program will consist of a series of reminder letters and follow up calls that take place over a defined period of time. While not all pre-collections solutions are the same, they tend to have several traits in common:

- Pre-collect programs are often automated. This makes the program easier to implement and manage for the credit department. After all, why would the credit department outsource if it were going to be difficult.
- Compared to full-blown third party collections, pre-collection programs are generally offered at a low cost, flat fee rather than a percentage of the balance due.

Besides freeing up time for a credit department to focus on core activities and high value accounts, pre-collections can improve a company's cash flow by bringing checks in the door at a faster rate. More importantly for long term company health, implementing a early collections procedure helps to "train" habitually late paying customers to pay on time. This is accomplished in a neutral way, because pre-collections is not truly "collections."

The Coface C.A.R.E. Solution

Coface Collections North America, Inc. (Coface Collections) developed C.A.R.E., or Coface Accounts Receivable Express, as a low-cost, easy to use online system for early collections. C.A.R.E.

Case Study

This study has been adapted from an actual C.A.R.E. client that previously submitted delinquent accounts to a collections agency in a traditional fashion. The average age when submitted to the agency was 180+ days past due. The average balance of the accounts was $5,000, and the total amount sent to collections was $450,000. The agency charged a contingency fee of 25% of total dollar amount collected, and the liquidation rate was 30%. Total write offs amounted to $348,750.

The following year, the client implemented a pre-collection program as part of a delinquent accounts recovery policy. Rather then sending the 90 accounts straight to collections, they were first filtered out via the C.A.R.E. service earlier in the delinquency stage. The impact was quite significant. Write offs dropped to $119,190 and collections costs fell from $33,750 to $14,190.

	Traditional Collections **(at 180+ days past due)**	**C.A.R.E. + Collections** **(at 90 days past due)**
Total number of accounts	**90**	**90**
Total dollar amount	**$450,000** $5,000 average account balance	**$450,000** $5,000 average account balance
Amount recovered	**$135,000** 30% liquidation rate x $450,000	**$345,000** 60 x $5,000 collected via C.A.R.E. = $300,000 Remaining $150,000 x 30% rate = $45,000
Collection cost	**$33,750** $135,000 recovered x 25% contingency rate	**$14,190** 60 x $49 flat C.A.R.E. fee = $2,940 $45,000 collected third party x 25% rate = $11,250
Net return to Client	**$101,250** $135,000 recovered - $33,750 collection cost	**$330,810** $345,000 recovered - $14,190 collection cost
% recovered by Client	**22.5%** $101,250 returned / $450,000 total amount	**73.5%** $330,810 returned / $450,000 total amount
Total write off	**$348,750** $450,000 total amount - $101,250 net return	**$119,190** $450,000 total amount - $330,810 net return

actions are performed by trained professionals who are specialists in customer service.

How C.A.R.E. Works

For each account, Coface will send out a series of three letters over a 45/60 day time period. The letters will be on Coface letterhead referencing the invoice number, balance owed, and due date. Each letter will be followed up by up to 3 calls to make certain it was received, opened, and presented properly for payment. These calls will be made by Coface customer service personnel, not a collector. The third letter in the series will be a 10 day final demand for payment indicating that, if not paid in full, will be going to collections.

The purpose of C.A.R.E. is to act as a filter which will separate your clients and your debtors. The majority of your clients will respond in a timely manner and make good on their outstanding balances. This increases cash flow and reduces your DSO. Those that do not respond have now identified their organization as one without the ability or intent to pay you. At your discretion, these accounts will then be moved to full scale collections where professional action will be taken to recover monies past due. When this occurs, and accounts are subsequently placed for collections with Coface; that particular unit will be returned to your inventory to be used again in the C.A.R.E. system at no charge.*

Unlike traditional collections where collection costs are based on a percentage of the amount recovered, C.A.R.E. charges one low flat fee per account regardless of the balance.

"The beginning of the collections process is the ending of a business relationship. The C.A.R.E. team approaches every customer with this mentality. When accounts are recovered with C.A.R.E., not only have we saved our client money, we have saved our client's customer."

— Mark Lackey, Director

Accounts may be entered online by your own staff or submitted to Coface in bulk for data entry. To insure the quality of our work and customer satisfaction, all C.A.R.E. activity is completely transparent. Every letter sent and notes from every call may be viewed online at your convenience.

Results

C.A.R.E. can help your company in many ways. Benefits include improved cash flow, lower DSO, higher profits, reduced bad debt, and lower receivables management costs.

You can realize these benefits while still maintaining control over one of your company's most important assets, your customer base. Maintaining the customer base is one of the most important functions of the credit department. If C.A.R.E. can help you improve communication with customers, it is an option worth considering.

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****Free Replacement Program:** Cofface Accounts Receivable Express pledges 100% collection of all submissions up to the quantity purchased. Uncollected submissions transferred to Coface for contingent collection will be replaced at no additional charge until the original quantity purchased is satisfied through collection or settlement.*