

WORK BOOK THREE



**CREDIT
CONTROL**

LEARN THE 6 FUNDAMENTAL

COLLECTION PRINCIPLES

COACHING ACADEMY SPECIALIST

Where Small Businesses Grow



MEAGHER

Credit Control And Debt Collection

“Are you waiting for success or are you going out to make it happen?”

We are all born to succeed, but it will not be forced upon us. You must understand, what is your success and how it will manifest itself and more importantly, what is your purpose, once you discover your ‘WHY’ the rest is much easier.

Be prepared for success, be vigilant and alert to changes in your business or profession. Follow and get to know the experts in your field. When you see a half a chance grab it with both hands or it will pass you by, never to return”.

Tim Meagher - Business Coach

Credit Control

How do you control the level of credit you give?

You must first of all decide how much credit, if any you plan to give.

Small and start-up business owners frequently fall into the trap of thinking that in order to give the impression that they are a solid and successful business that they must give credit.

They don't want to look desperate, so they give credit in order to look like it is not that important to them, when in reality it is extremely important.

It is a shame but frequently I find that the company that gives the impression that they are very comfortable with giving credit, that the customer is convinced that the product or service has been over-priced to accommodate these credit terms.

Some of the most successful business's on the planet refuse to give any credit whatsoever.

Credit Control And Debt Collection

/Continued...

A very prudent decision may well be not to give any credit whatsoever.

When presenting your product or service, you would do well to say that in order to keep your prices totally competitive, you must demand payment on delivery.

You must be very careful with the customer who wants to use your credit facilities, because his bank won't lend him any more cash.

If his bank won't lend it, then how can you justify it?

You must be careful not to make a decision on personal grounds, i.e. I trust him. You should be making a commercial decision, he can either pay for your product or service or no deal.

If however you decide to give credit and it goes wrong, in that he is late with payment, you should follow the following collection principles.

6 Fundamental Collection Principles

In this section we will discuss the six major fundamental collection principles, which, if followed consistently, almost assure your success as a collector.

1: Do not judge the morality of the debtor's actions.

This means, if the debtor does something you consider bad, you should resist the urge to classify that debtor as a bad person in your mind.

There are many things a debtor might do which you consider bad. For example, the debtor might give you promises of payment that they have no intention of keeping. The debtor may use profanity in their dealings with you. Or they may move, leaving no address, with the apparent intention of avoiding further payment to your firm.

Even though such actions are objectionable, you should resist the urge to classify your debtor as “bad” in your mind.

Here is why....

If you have judged the debtor to be morally bad, you will find your effectiveness in dealing with that debtor seriously reduced.

When the debtor gives you a promise for payment, you may find yourself thinking, “Ok, I’ll bet that’s another lie” instead of thinking “Now what can I say to this debtor to persuade them to keep his promise this time? “

So, our advice is avoid wasting your mental energy judging the debtor and spend energy finding ways to persuade the debtor to behave as you would like.

6 Fundamental Collection Principles/ Continued...

2: Do not express a negative opinion about the debtor's character.

If a debtor fails to pay as promised, you should never call them and demand, "Why did you lie to me like that?" Or, if the debtor says they did not intend to pay, don't reply with a statement such as "well that is just what I expected from a company such as yours."

This is not to suggest that you cannot express dissatisfaction with the way the debtor has acted.

When they break promises, you can say you are disappointed in their action, or that you expected better of their company.

If they use profanity, you can remind them that they are not acting in an adult, business like way, and that you are unwilling to accept abuse from them. The important thing is to always keep cool.

Avoid resorting to emotional statements, which call the debtors character into question?

The rule is vitally important for this reason. When you accuse a debtor of lying, or make other statements which express your negative opinion about their character, you virtually destroy your ability to communicate with the debtor.

The usual reaction is for both collector and debtor to become angry, exchange harsh words and hang up on each other.

After such an exchange, you may find yourself reluctant to call the debtor back.

Furthermore, when you do call you are likely to find you are still angry and unwilling to discuss the account. Worse yet, the debtor may direct their anger towards you as an excuse to justify not talking to anyone else from your firm.

So, why not make yourself a firm promise not to ever make statements which question the debtor's character or integrity?

This rule will not be easy to follow but it's worth the effort.

6 Fundamental Collection Principles/ Continued...

3. Assume the debtor is going to pay.

What we are saying here is that you should adopt an attitude of optimism.

You should be optimistic that you will find a way to persuade your delinquent debtors to pay.

You should look at a debtor's inability to pay or refusal to pay as just a temporary road block.

You know, of course, that in spite of every collection effort, some debtors will never pay. But as an optimist you never assume that the debtor to whom you are now talking is one of those who ultimately do not pay. On the contrary you assume the debtor you are dealing with, will definitely pay.

The key to applying this rule is to exert control over the way you think.

You must literally talk yourself into an optimistic frame of mind.

Many successful collectors have said that they spend the first minute or two of each working day "psyching" themselves up for the job ahead.

You can do the same thing by sitting down, relaxing and saying to yourself that, of course, there will be roadblocks and frustrations, but you resolve to enjoy the challenges and to carefully utilise every skill and talent you possess to maximise your success.

You also resolve to fully appreciate your successes and minimise the importance of temporary failures.

You will find that by talking to yourself in this manner, your voice and actions will express your increasing confidence and optimism. And, like a snowball rolling down hill, once set in motion your optimism will tend to grow larger and larger.

One word of caution is in order.

On those days, do yourself a favour and make a special effort to talk to yourself optimistically. You will usually be rewarded by having the down mood disappear and be replaced by the far more satisfying mood of optimism.

6 Fundamental Collection Principles/ Continued...

The benefits you will reap from an attitude of optimism are substantial.

As an optimistic person you will be far less tempted to express a negative opinion about a debtor's character. This is because you have conditioned your mind to think positive thoughts. As a consequence, you will find yourself in fewer fights and arguments. As a consequence, you will find yourself dealing more effectively with debtor characteristics which used to antagonise you.

Optimism, you will find, is highly contagious to others.

If you project a feeling of confidence in your ability to persuade others to pay, you will simply encounter less resistance to your efforts.

Belligerent debtors will feel less inclined to fight. Similarly, the deceitful debtor will feel less inclined to evade. Finally the pessimistic debtor will be encouraged by your optimism and will try harder to co-operate with you.

The really successful collector has to be a creative person.

Time after time they are called upon to help a delinquent debtor to take the necessary steps to get the account paid. In addition, they often have to come up with ways to persuade the debtor to take the necessary steps to get the account paid

Optimism is the key to unlocking creative ideas.

The negative thinker seldom has creative ideas, because a little voice inside usually says "why bother trying that idea – it probably won't work".

This way of thinking causes the negative person to suppress creative ideas, but the same little voice in the optimistic collector's mind will say "that's a great idea! Try it out – it will probably work".

So, be optimistic and unlock creative ideas.

6 Fundamental Collection Principles/ Continued...

4. Solve problems standing in the way of collection.

The problems referred to in this rule usually involve debtor complaints about something the creditor has done or failed to do.

As you are aware, some debtors who have a complaint will simply withhold payment on their account as a means of getting your attention.

Very often the complaint or misunderstanding originated in another department of the company, but you must get involved because withholding of payment hurts your performance.

To give you an idea of the kinds of problems which can stand in the way of collection, here is a small sample.

1. The merchandise actually delivered was not the same as the debtor ordered.
2. The creditor failed to perform a job to the debtor's satisfaction. TV. repair men, doctors, photographers and contractors are examples of people who are vulnerable to this complaint because of the nature of their work.
3. The debtor does not understand the invoice. Sometime they do not understand what they are being charged for, especially if abbreviations are used, if a balance is brought forward from a previous month, they may not understand why.
4. Assumption by the debtor that they have not been given credit for a previous payment or return.
5. Assumption by the debtor that they are being incorrectly billed for someone else's charges.

6 Fundamental Collection Principles/ Continued...

Suppose you hear a debtor complaint which you happen to know is groundless. Should you simply tell the debtor that they are wrong and let it go at that? Or, should you patiently get together the necessary papers or other data which will prove to the debtor they are wrong.

The rule to follow in most cases is this:

If you believe the debtor has made their complaint in good faith (not as a frivolous stall), then, you should immediately investigate to satisfy yourself whether the debtor is right or wrong.

Then, you should carefully explain to the debtor what you have determined and how you reached your conclusion. If the debtor is still unconvinced, you should send them any documentary proof you can offer.

Remember the most important thing is that you should be convinced the account is just and proper. It is vitally important that the debtor be so satisfied, because ultimately it is they who must pay.

Some collectors have a strong reluctance to go out of their way to prove to a debtor the validity of an account.

These collectors would rather try to force that debtor to pay through increased pressure. You'll win more friends for your company and make your own job easier by taking the time to solve problems standing in the way of collection.

6 Fundamental Collection Principles/ Continued...

5: Keep communication channels open.

Experience has shown that the more ways a collector has to communicate with his customer, the more likely he is to collect. The converse is also true. You are far more likely to fail to collect from a debtor with whom you have difficulty communicating.

For this reason, the maintenance of communication channels must be classified as a fundamental collection principle.

When an account is first opened, certain communication channels are established. Perhaps the debtor gives a home address, telephone number, husband's employment and wife's employment. They may also give the name of a relative, friend or neighbour who could also serve as a communication channel.

It is entirely possible that your debtor will pay on time for, say two years and your communication has been strictly by mail.

But suppose one day your statement is returned marked "moved left no address", you call the home work number on the application and learn that neither husband or wife are still employed. In desperation you call the relative and leave your name and telephone number in the hope it will be delivered to your debtor.

Now, imagine your debtor is calling back a couple of days later with an apology for being late with their payment. They promise faithfully to send the money today, and gives you a new address. You write down the address, thank them for calling and the conversation ends. As you put down the receiver, you think to yourself, oh golly, I forgot to ask for their home telephone number and telephone number at work".

This kind of oversight occurs with amazing frequency in collection conversations. Therefore, whenever you talk to a delinquent debtor, always assume you are going to have to talk to them again. You should make it a firm habit to verify the accuracy of your present communication channels and you should open up as many new ones as possible.

Nobody can claim to be a really skilled collector who does not keep communication channels open.

6 Fundamental Collection Principles/ Continued...

6: Use self-interest psychology to obtain the co-operation of delinquent debtors.

Co-operation as used in this rule means giving you a firm promise of payment, keeping a promise, and being willing to discuss payment terms objectively without use of objection or defence.

Co-operation means providing you with facts or documents needed to properly handle the account. The thrust of this rule is that, if you are not presently receiving debtor co-operation, you should use self-interest psychology to achieve it.

“All right”, you say “what is self-interest psychology”?

Essentially, it is explaining to the debtor why it is in the debtors own interest to pay. It means showing the debtor what can be gained from paying (i.e. an even stronger credit record), or what unpleasantness can be avoided by paying (i.e. collection agency involvement). It means telling the debtor what action you might take and asking for co-operation to avoid such action.

This collection principle is based on the principle that human beings are essentially selfish creatures and their action is designed to net a benefit for themselves.

Therefore, the surest way to persuade another human being to do what you want is to convince them that the action you want will be good for them.

Later in this text, we will discuss how to apply this self-interest psychology.

The thing you should be thinking about now is the importance of adopting a “you” attitude when trying to influence your debtors. Every effort should be made to talk about things that are important to the debtor, things like keeping their charge privilege with your firm, keeping their credit rating good, avoiding placement with a collection agency, etc.

Naturally, you should avoid asking the debtor to pay because you need the money, or because their delinquency makes you look bad. As tough as it may sound, the delinquent debtor doesn't care what you need. They only care about their needs, so motivate accordingly.

The 6 Major Steps To A Successful Debt Collection Call

- 1. Cultivate the right personality**
- 2. Sound Confident, Firm and Fair**
- 3. Get to the point**
- 4. Avoid argument**
- 5. Get specific promises**
- 6. Control the call**

The 7 Golden Rules or Handling Objections

- 1. Listen attentively**
- 2. Make notes**
- 3. Restate the objection to let the debtor know you have understood.**
- 4. Display empathy**
- 5. Judge the debtors sincerity**
- 6. Decide your course of action**
- 7. Negotiate**

Success Story And Positive Mental Attitude

Over the door of a Kabul museum today is a Persian quotation which reads “A nation stays alive when it’s culture and history are kept alive”.

Also within the museum is an Afghanistan gold artefact made with the inscription by Clearchos, a student of Aristotle, which states with fourth century wisdom “As a child, learn good manners, as a young man, learn to control your passions, in middle age, be just; in old age, give good advice, then die without regret.

DON'T FORGET TO WATCH THE “CREDIT CONTROL” VIDEO