

**BILLING AND COLLECTIONS**  
**BEST PRACTICES**  
**Steven Bragg**

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**Appendix Summary of Best Practices**

**Chapter 2 Credit Policies, Procedures, and Systems**

- 2.1 Create a credit policy
- 2.2 Modify the credit policy based on product margins
- 2.3 Modify the credit policy based on changing economic conditions
- 2.4 Modify the credit policy based on potential product obsolescence
- 2.5 Train the credit staff about credit procedures
- 2.6 Create a credit scoring model
- 2.7 Use a third-party credit scoring model
- 2.8 Create a credit decision table
- 2.9 Arrange for automatic notification of credit rating changes
- 2.10 Create a customer credit file
- 2.11 Include a requirement for multiple contacts in the credit application
- 2.12 Modify the terms of the credit application in the company's favor
- 2.13 Do not accept any order unless a credit application is completed
- 2.14 Require a new credit application if customers have not ordered in some time
- 2.15 Require a new credit application if credit limits are exceeded
- 2.16 Set a short time limit for the duration of credit reviews
- 2.17 Enter the last credit review date in the computer system
- 2.18 Call new customers and explain credit terms
- 2.19 Issue a payment procedure to customers
- 2.20 Create and periodically review a report showing credit levels exceeded
- 2.21 Uniformly administer late fees
- 2.22 Install an automated credit reference system

**Chapter 3 Credit Granting Techniques**

- 3.1 Automatically grant minor credit lines to new customers
- 3.2 Assign new account processing to one person
- 3.3 Preapprove customer credit
- 3.4 Verify the existence of a prospective customer
- 3.5 Investigate unanswered questions on the credit application
- 3.6 Obtain credit reports on customers
- 3.7 Obtain additional credit application information through a customer visit
- 3.8 Join an industry credit group
- 3.9 Access the SEC filings of public customers
- 3.10 Refer a potential customer to a distributor
- 3.11 Require salesperson collection assistance in advance

- 3.12 Require partial cash-in. advance payments
- 3.13 Use COD terms sparingly
- 3.14 Combine COD terms with a surcharge
- 3.15 Offer a lease-purchase option to customers
- 3.16 Install a financing program for marginal customers
- 3.17 Perfect a security interest in personal property sold to a customer
- 3.18 Obtain a purchase money security interest in goods shipped
- 3.19 Enter into a consignment arrangement with a customer
- 3.20 Require senior lien holders to subordinate their liens below the company's lien
- 3.21 Require personal guarantees
- 3.22 Require intercorporate guarantees
- 3.23 Obtain a letter of credit
- 3.24 Obtain credit insurance
- 3.25 Obtain an export credit guarantee
- 3.26 Obtain a surety bond
- 3.27 Shorten the terms of sale
- 3.28 Review the credit levels of the top 20% of customers each year
- 3.29 Review the credit levels of all customers issuing multiple NSF checks
- 3.30 Review the credit levels of all customers who skip payments
- 3.31 Review the credit levels of all customers who stop taking cash discounts

#### **Chapter 4 Invoice Creation**

- 4.1 Add contact information to the invoice
- 4.2 Add credit card contact information to the invoice
- 4.3 Clearly state the payment due date on the invoice
- 4.4 Clearly state the discount amount on the invoice
- 4.5 Remove unnecessary information from invoices
- 4.6 Add a receipt signature to the invoice
- 4.7 Add carrier route codes to billing addresses
- 4.8 Train the billing staff in the invoicing process
- 4.9 Mark all envelopes as "address correction requested"
- 4.10 Immediately update the customer file with address changes
- 4.11 Have the sales staff review contact information for recurring invoices
- 4.12 Automatically check errors during invoice data entry
- 4.13 Computerize the shipping log
- 4.14 Track exceptions between the shipping log and invoice register
- 4.15 Proofread the invoices
- 4.16 Reduce the number of parts in multipart invoices
- 4.17 Eliminate month-end statements
- 4.18 Replace intercompany invoicing with operating transactions
- 4.19 Use automated bank account deductions
- 4.20 Use fingerprint verification for credit card and check payments

#### **Chapter 5 Invoice Delivery**

- 5.1 Submit early billing of recurring invoices
- 5.2 Print invoices every day

- 5.3 Print separate invoices for each line item
- 5.4 Issue single, summarized invoices each period
- 5.5 Issue invoices to coincide with customer payment dates
- 5.6 Have delivery person create the invoice
- 5.7 Have delivery person deliver the invoice
- 5.8 E-mail invoices in Acrobat format
- 5.9 Issue electronic invoices through the Internet
- 5.10 Transmit transactions via electronic data interchange

### **Chapter 6 Cash Collection and Application**

- 6.1 Have a salesperson pick up the check in person
- 6.2 Send a messenger to pick up the check
- 6.3 Institute lockbox collections
- 6.4 Install a lockbox truncation system
- 6.5 Periodically review lockbox locations
- 6.6 Access online check images from a lockbox
- 6.7 Issue the corporate overnight delivery account number to customers
- 6.8 Accept credit card payments
- 6.9 Offer customers secure Internet payment options
- 6.10 Conduct immediate review of unapplied cash
- 6.11 Review restrictive endorsements before cashing checks

### **Chapter 7 Managing the Collection Department**

- 7.1 Create an integrated customer service department
- 7.2 Hire a credit and collection manager
- 7.3 Create collection specialists
- 7.4 Train the collections staff in collection techniques
- 7.5 Assign new collectors to payment confirmation tasks
- 7.6 Assign the best collector to the worst customers
- 7.7 Clearly define account ownership
- 7.8 Utilize collection call stratification
- 7.9 Periodically assign collectors to different territories
- 7.10 Structure the collections work day around prime calling hours
- 7.11 Join the sales staff on customer visits
- 7.12 Maintain an ongoing relationship with customers' payables managers
- 7.13 Schedule a regular accounts review with key managers
- 7.14 Meet with the sales staff regularly
- 7.15 E-mail the accounts receivable aging to the sales staff
- 7.16 Write off small balances with no approval
- 7.17 Access customer payment information over the internet
- 7.18 Simplify the pricing structure
- 7.19 Grant percentage discounts for early payment
- 7.20 Periodically reevaluate the discount percentage offered
- 7.21 Only pay commissions from cash received
- 7.22 Route cash-in-advance orders straight to the collections staff
- 7.23 Conduct bad debt postmortems

- 7.24 Review confirming purchase orders
- 7.25 Offer bonuses to the collections staff
- 7.26 Offer bonuses to the sales staff
- 7.27 Report on bad debts by salesperson
- 7.28 Post collection results by collector

## **Chapter 8 Collection Systems**

- 8.1 Create a collection policies and procedures manual
- 8.2 Train the sales staff in credit policies and procedures
- 8.3 Use a collection call database
- 8.4 Link to a comprehensive collections software package
- 8.5 Create an on-line document management system for credit information
- 8.6 Maintain a database of customer emergency contacts
- 8.7 Maintain a database of personal information about contacts
- 8.8 Maintain a customer orders database
- 8.9 Compile a customer assets database
- 8.10 Install a payment deduction investigation system
- 8.11 Implement a customer order exception tracking system
- 8.12 Set up automatic fax of overdue invoices
- 8.13 Issue dunning letters automatically
- 8.14 Trace individuals through an online tracking service
- 8.15 Lock access to the credit hold flag
- 8.16 Flag slow-paying customers for early contact
- 8.17 Periodically alter the mode of communication with customers
- 8.18 Periodically alter dunning letters and issuance intervals
- 8.19 Issue a notification letter before the due date for large invoices ,
- 8.20 Do everything required by customers' pay abies systems

## **Chapter 9 Collection Techniques**

- 9.1 Thank customers who pay on time
- 9.2 Set up customers with EFT agreements
- 9.3 Require a signed purchase agreement for all major sales
- 9.4 Eliminate grace periods
- 9.5 Use dunning letters only for small overdue balances
- 9.6 Issue dunning letters bye-mail
- 9.7 Issue dunning letters to management positions outside accounts payable
- 9.8 Issue attorney letters
- 9.9 Stamp a reminder notice on late invoices
- 9.10 Send invoices by certified mail to customers who repeatedly lose their invoices
- 9.11 Insist on payment of undisputed balances
- 9.12 Insist on a wire transfer when payments are repeatedly reported to be "in the mail"
- 9.13 Offset an overdue receivable against a payable to a customer
- 9.14 Send a letter confirming payment commitments
- 9.15 Set up a periodic payment schedule
- 9.16 Convert a receivable into a promissory note

- 9.17 Accept a merchandise return
- 9.18 Accept payment in kind
- 9.19 Add the overdue customer balance to cash-on-delivery shipments for crucial items
- 9.20 Notify the customer and salesperson of credit holds
- 9.21 Inform the sales staff when accounts are sent to a collection agency
- 9.22 Have both parties to a settlement sign a mutual release agreement
- 9.23 Send the customer a completed small claims court complaint form
- 9.24 Sue customers in small claims court
- 9.25 Prescreen customers before initiating legal action
- 9.26 Have a court issue a restraining notice
- 9.27 Retain lawyers who are experienced in money judgment collection
- 9.28 Reclaim goods from insolvent customers
- 9.29 File an involuntary bankruptcy petition for a customer
- 9.30 Report a customer to the Internal Revenue Service
- 9.31 Use the collections department to collect loans to former employees
- 9.32 Contact customers regarding credit balances
- 9.33 Negotiate with the customer

### **Chapter 10 Deduction Management**

- 10.1 Centrally manage the deduction resolution process
- 10.2 Enforce a standard procedure for handling unauthorized deductions
- 10.3 Confirm and document customer insurance requirements
- 10.4 Summarize and resolve underlying issues causing deductions
- 10.5 Resolve deductions by declining order of dollar volume
- 10.6 Resolve pricing issues before approving orders
- 10.7 Resolve significant deduction issues in person
- 10.8 Place deduction resolution responsibility on the salesperson
- 10.9 Allow the customer service staff limited authority to resolve deductions
- 10.10 Discuss open deductions with the repairs department
- 10.11 Obtain better access to trade promotion information .
- 10.12 Cut off customers based on the size of unauthorized deductions

### **Chapter 11 Outsourcing Collections**

- 11.1 Outsource collections
- 11.2 Outsource credit checking
- 11.3 Outsource dunning letters to a credit reporting agency
- 11.4 Outsource NSF collections
- 11.5 Sell accounts receivable to a factoring organization
- 11.6 Sell uncollectible invoices to a debt\_buyer
- 11.7 Select agencies based on performance rather than fees
- 11.8 Select agencies based on references
- 11.9 Select agencies based on prior experience with specific customers
- 11.10 Use only collection agencies that have integrated legal services
- 11.11 Use an attorney first to obtain repayment of "reasonable attorney's fees"
- 11.12 Use several collection agencies at once

- 11.13 Create an in-house collection agency
- 11.14 Shift smaller accounts to collection agencies immediately
- 11.15 Refer accounts to collection agencies sooner
- 11.16 Do not shift fraudulent accounts to a collection agency
- 11.17 Periodically verify that the collection agency is bonded
- 11.18 Track the regularity of collection agency remittances

## **Chapter 12 Billing and Collections Measurements**

- 12.1 Average time to issue invoices
- 12.2 Percentage of cash applied on day of receipt
- 12.3 Number of cash transactions processed per person
- 12.4 Number of active customers per credit/collection staff
- 12.5 Collections cost percentage
- 12.6 Percentage collected of dollar volume assigned
- 12.7 Days sales outstanding
- 12.8 Sales-weighted days sales outstanding
- 12.9 Days delinquent sales outstanding
- 12.10 Percentage of receivables over XX days old
- 12.11 Baddebt percentage
- 12.12 Altman's Z-score bankruptcy prediction formula
- 12.13 Sales-to-working capital ratio
- 12.14 Debt-to-equity ratio
- 12.15 Quick ratio
- 12.16 Accounts receivable turnover
- 12.17 Inventory turnover