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When should Creditors place Accounts with Collection Agencies?

From time-to-time we get asked this question. There really is no right or wrong answer but a sound internal collection policy will help you increase your cash flow and decrease the number of trouble accounts you will have to spend your time on.

The following are some scenarios to help you decide when it is time to send an account for collection in order to free up your time for more valuable business:

- Two or more broken promises of payment. Payments were promised, but no checks have been received and the customer will not send immediate payment.
- The customer's telephone is disconnected. Double check with the information operator and if no new listing can be obtained, place the account immediately.
- The customer repeatedly requests documentation even though they have been supplied the documentation previously. This common practice is used to delay payment of an account.
- Your customer indicates that they do not adhere to your terms of sale. For example, they may indicate that they pay bills in 60 or 90 days and not according to the agreed upon terms of sale. If you did not have an agreement with the customer before delivery for extended terms, this is just a delaying tactic. Explain to your customer your terms of sale and request immediate payment. If they refuse or fail to send a check as promised, place the account for collection immediately.
- Your customer indicates an inability to pay and refuses to provide a specific date for payment or to initiate a realistic payment schedule. This is a sure indication of serious cash flow problems and immediate steps should be taken to protect your interests.
- Your customer states they will "take care of the account," but refuses to make a realistic commitment for payment or to work out a payment schedule. This is another indication of a serious cash flow problem.
- Your customer suddenly indicates, in response to your requests for payment, a dispute regarding the merchandise delivered or your terms of sale. Such a dispute was not raised previously. If your investigation shows the dispute groundless and the customer will not take steps to make payment or resolve the matter, the account should be placed for collections.

The most important thing you can do to protect your accounts receivable is to have a definite plan/strategy for internal collections and then adhere to your plan. Remember, the sooner the account is placed for collection the easier it will be for the Agency to collect. The older and staler the information is when the Agency receives it, the more difficult it will be to collect it.

-Courtesy of the ACA, American Collectors Association.