Leveraging Technology: Automated Collections

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Today's uncertain economic environment is presenting businesses with new challenges to reduce costs and improve cash flow. In the 2007 annual report *Working Capital Survey* by REL Consultancy and CitiGroup, it was reported that the Fortune 1000 has $580 billion tied up in excess working capital. As a collections manager, how do you make sure you are deriving the most value out of your receivable portfolio?

Remember the 80-20 rule? Well it applies to collections too. Here's a picture of what most companies face in their collection challenges: 80 percent of the money is in 20 percent (the short tail) of the receivables. Common sense tells us that the collection team should focus on these "big" receivables, but what about the rest of the money that is held up in a hefty 80 percent (the long tail) of the receivable portfolio?

For example, if you had a $10 million receivable portfolio, you would be missing out on $2 million if you neglect these "small" accounts. But these small accounts really are not so small since they comprise one-fifth of your business.

Everyone would like a 100 percent payment rate for the entire receivable portfolio, but let's be realistic, some accounts will not pay. You can minimize that default risk by contacting every account on a continuous basis and escalating those accounts that don't respond. The question is do you have the resources to contact every single account in your portfolio? Hiring more staff and putting in more man-hours will surely help, but it is not exactly the most cost-efficient option. So what other options are available?

I recently provided a credit and collection solution for a leading hosting company. With over $300 million in annual revenue, their team of 15 collectors faced the challenge of managing over 7,000 accounts using spreadsheets. The team spent a disproportionate amount of time performing administrative tasks such as searching and organizing account information and minimal time contacting accounts. Also, any sort of strategy or prioritization of

accounts was non-existent. In this case, 85% of their receivables were held in 15% of their accounts and the team had no idea who to contact first. Without a roadmap and discipline to contact 100% of the company's accounts, their collection efforts were basically guided by human bias: contact the accounts that are familiar and deemed to be easily collected.

Reaching 100% with Technology

The collection team went live with an automated technology solution and achieved phenomenal results in less than six months. Customized collection strategies and workflows coupled with an automated collection engine helped the collection team effectively manage large receivables while also contacting the neglected smaller accounts via e-mails and faxes.

By automating the contact process for its smaller accounts, the team covered the long tail of its account base (which made up 85% of the accounts) and quickly collected cash that was otherwise left on the table. Now collectors could focus their direct efforts on the 15% of the accounts that accounted for 85% of the money. Collection strategies helped the team systematically work through a list of 1,000 large accounts until all of them were covered by the process.

In just 5 months, the outstanding balance over 30 days past due went from 53% to just 27% of the receivable portfolio, providing $4 million of readily available operating cash that had been sitting idle.

Invoices were paid quicker, providing a substantially larger amount of cash in a much shorter amount of time. Additional benefits included 100% collection coverage of the receivable portfolio and a more satisfied, productive collection team. The collectors now devote their efforts to contacting the account with all the required information at their fingertips, rather than wasting time looking for contact information or invoice documents. With complete visibility, collectors can quickly track down the information that they need to carry out their tasks. This powerful credit and collection solution enables collectors to contact more accounts and resolve more delinquencies in less time, resulting in a marked improvement to the company's cash flow.

And it's not just the collectors who benefit. Senior management receives daily, weekly, and monthly cash collection and outstanding receivable reports. These reports provide clear visibility into the collection team's efforts, and snapshots of the portfolio's strength. And, the web-based technology lets sales personnel remotely access their accounts away from the office, before placing future orders.

Of course, these benefits do not come without costs. But the benefits far

outweigh the cost of an automated collection solution.

An automation project involves the purchase of a software application, an effort to interface and implement the application, and time to train the collection team. These are costs that are incurred in the short-term, but perhaps it's better to look at the long-term situation. Technology is driving the development of many business processes in an organization today. If collectors are given the proper training, having a credit and collection solution will definitely make their efforts more productive. Most companies which have taken a step in investing in a credit and collection solution typically realize a ROI within 6 – 9 months.

This is just one example of how automated collection technology can help a business increase its receivable coverage and realize tangibles such as increased cash flow and a significantly lower DSO. You should review your receivable portfolio; if the money from your business isn't showing, it's time you consider collection automation.

George Sprenkle is CEO of ezBackOffice, Inc., an application software and services company offering web-based solutions that enable enterprises to realize significant improvements in their backoffice operations, including credit and collections. George has more than 20 years of financial experience and a strong international finance background that includes asset management and systems implementations.

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