



What do you owe your customers? A customer relationship approach to debt management

By Neville Fell

AS THE ECONOMIC ENVIRONMENT CONTINUES TO deteriorate, releasing valuable cash from the collections cycle is crucial to drive revenues without driving up costs. Naturally, organisations are taking the opportunity to review their debt management strategy. This is no surprise in light of the current economic downturn and resultant cashflow pressures. You are certainly not on your own if you are concerned about the increasingly indebted nature of your customers.

Debt management is an issue that affects organisations across the whole business spectrum. All creditors, especially the big banks, have begun investing in their

“Despite their rhetoric most organisations have not made a significant and sustained commitment to customer satisfaction.”

JD Power III Satisfaction

capabilities to improve debt recovery. Recent years have seen collection departments being revolutionised from a low-paid entry point to a separate function with highly skilled collectors and analysts receiving rewarding incentive schemes. The most advanced companies are now able to review their debt, segment it for optimal values and in the process maximise their own revenues and minimise

churn. Most have built highly sophisticated capabilities, and overall industry standards have risen to new heights.

Even with this in mind, the current economic climate is impacting debt management significantly. *Credit Today* reports that collections are down by 20 per cent as debtors settle later so it's crucial to free valuable cash from your collections cycle.

Now is the time when being good at collections really counts. If cash isn't coming in, the outlook may be bleak. Tightening the purse strings comes as a natural reaction in such times. Cutting costs through streamlining your workforce seems like the most obvious and natural solution. This, surely, is the sensible option. But what about the customer? What if through due care and attention, your existing customers can improve your bottom line so drastically that cutting back on much-needed headcount is suddenly no longer necessary?

With pressures to the top line, debt recovery is vital to the economy. Improving customer loyalty and satisfaction is one of the most effective ways of achieving this. The key challenge for 2009 is making your customers happy.

Customer dissatisfaction is one of the root causes of outstanding debt for many organisations. Analysis by the Customer-Value Group of financial data from Europe's top 1,000 publicly quoted companies revealed they collectively have more than €274bn of overdue debt outstanding due to disjointed customer service and poor collection practices.

- Customer disputes due to poor service related to products, pricing, invoicing, delivery or documentation results in €103.3bn in unpaid invoices.
- €82.6bn of accounts receivable goes uncollected because of customer queries and service issues having not yet been identified by suppliers because of poor account administration.
- Failure to tackle this hidden problem results in €37.6m lost profits every day, equating to a staggering €14bn a year.

Imagine the benefits that a satisfied customer could reap – a cash injection straight to your bottom line giving your business that much-needed boost.

- Collectively, the 245 UK companies in the top European 1,000 analysed were found to be leaking €59.5bn per year in uncollected cash.
- As a consequence, these businesses lost a combined profit opportunity of €2.6bn.

Suddenly gaining new customers seems far less important than being able to please your existing ones. Returning money to your bottom line by putting the customer at the heart of your organisation will drive revenues and significantly increase your return on investment.

Can't pay, won't pay

Solid portfolio management will increase cash released from the collections cycle. It's especially worth being aware of the difference between 'can't pay, won't pay' and

'can pay, won't pay' – basically those with real financial difficulties versus those playing the system. It's important to treat each segment differently and remember the principles of treating customers fairly (TCF).

With redundancies and pay freezes 10 a penny, your customers have less cash around. People who are saving instead of spending may keep their cash in case they lose their jobs. But the recession will not last forever and when the upswing happens it will happen for your customers too. It's important to remember that a good customer may be suffering now but once they are back on track they will be good again. So while getting money in at the moment is proving difficult, your loyal customers will eventually help you reap the benefits. Keeping those customer relationships going through tough times will no doubt stand you in good stead for the upturn because, let's face it, a good customer relationship will only increase returns to your bottom line.

Today's economy requires a rehabilitation approach to debt collection, one designed to support the customer; get them back on their feet and make them good consumers again.

Structures for many call centre collections operations will have to evolve to reflect the changing collections environment. Negotiation tactics may need altering where demanding full payment is likely to alienate your customers. Outsourcing your collections department is an option that can provide you with the highly skilled and experienced agents needed for this delicate climate.

The value of customer data

Incorporating customer data into your everyday processes throughout your organisation can transform your bottom line. Truly understanding your customers can translate into revenue-generating action. Quantitative reporting associated with customer data creates an understanding of desired customer outcomes in order to increase your bottom line, generate revenue or improve repayment of debts. You can also really get to grips with the correlation between customer satisfaction and debt repayment. Once this is clear, the customer's voice can be integrated into management and operations resulting in direct action through alignment of people and processes.

Of course customer data is also crucial in assessing which customers are able to pay and how much they can manage. Utilising selected data partners will provide early warning signals and total indebtedness information. Data analysis signals all recently missed payments on the customer's credit file, allowing early intervention before a payment falls into arrears, keeping them out of the debt cycle. This proves significantly effective in reducing debt before reaching expensive debt collection agencies (DCAs) or debt sale. Roll rates and provision are also reduced through early intervention.

Early intervention is the key to maximising returns. Segmenting your existing customers, analysing their behaviours and utilising this information to devise an effective contact strategy according to their level of risk has a proven success rate.