

Setting An Effective Timeline to Maximize Collections

Tips & Strategies for Success in Maximizing your Collections
NACM Connect Credit Tour 2025 - Pittsburgh

THE FIVE C'S OF CREDIT

The Basics of Collections Success

The Five C's of Credit

Character

Moral qualities, reputation, and actions of a credit applicant which compel the applicant to pay. Integrity, trustworthiness, ethics.

Capacity

The ability to pay when debt is due. What is their cash flow/income? Addresses short term debt.

Capital

The financial strength of a risk, measured by the equity or net worth of an applicant. How strong are their assets?

The Five C's of Credit

Conditions

The current and expected general economic and political situations as they might affect the applicant. Weather, natural disasters, government regulations, etc.

Collateral

Possessions or equities from which payment might be expected should the debtor fail to pay. What protection can you gain? Has collateral already been claimed?

Reasons for Non- Payment

The customer misunderstood the terms of the sale

A disputed account or invoice amount

Careless or inefficient customer

Small outstanding amount on account that customer simply ignores

Slow paying by habit and nature

Reasons for Non- Payment

Poor financial manager

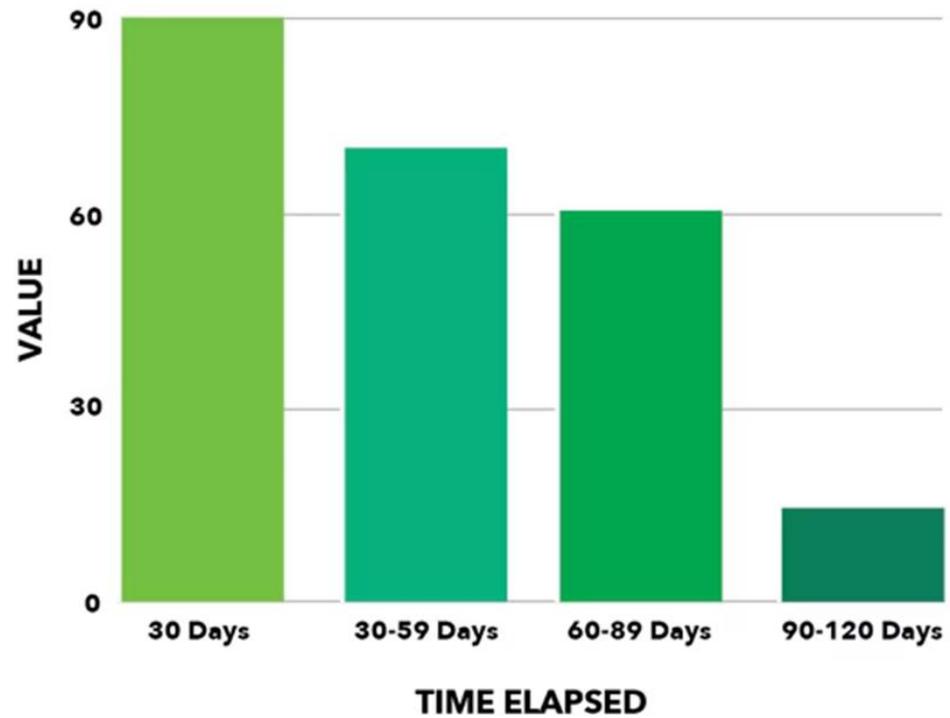
Temporarily out of funds but a good customer

Has ability to pay but must be forced

A skip

A fraud

Value Lost on Past Due Payments



Source: TSI

Additional Sales Needed to Offset Bad Debt Write Off

Your Net Profit Is

2%

3%

4%

5%

6%

Your Bad Debt

You Need This Much in Sales to Offset Your Bad Debt Loss

| | | | | | |
|--------------------|---------------|--------------|--------------|--------------|--------------|
| \$100,000 | \$5,000,000 | \$3,333,333 | \$2,500,000 | \$2,000,000 | \$1,666,667 |
| \$250,000 | \$12,500,000 | \$8,333,333 | \$6,250,000 | \$5,000,000 | \$4,166,667 |
| \$500,000 | \$25,000,000 | \$16,666,667 | \$12,500,000 | \$10,000,000 | \$8,333,333 |
| \$750,000 | \$37,500,000 | \$25,000,000 | \$18,750,000 | \$15,000,000 | \$12,500,000 |
| \$1,000,000 | \$50,000,000 | \$33,333,333 | \$25,000,000 | \$20,000,000 | \$16,666,667 |
| \$1,500,000 | \$75,000,000 | \$50,000,000 | \$37,500,000 | \$30,000,000 | \$25,000,000 |
| \$2,000,000 | \$100,000,000 | \$66,666,667 | \$50,000,000 | \$40,000,000 | \$33,333,333 |

Source: Commercial Collection Agencies of America

What's Happening to my Customer?!?

While it would be impossible to always know if your customer is headed in a downward trend, there are warning signs that might help you detect a slowing or deteriorating account.



Early Warning Signs

Orders are
slowing

Unusually
large orders

Payments
begin to slow
down

Inconsistent
Information

Customer is
“not available”
when you call

Customer is
not returning
your calls

MORE! Early Warning Signs

You begin to experience invoice “disputes”

Other suppliers in your industry or your area are experiencing the same trends.

Liens
and
Judgments

“Three Strikes
and
You’re Out”

Employment
Trends

Your Intuition
(that gut feeling!)

My Customer's Condition

Non-Liquid

Customer is having temporary cash flow issues that may be remedied in a short amount of time.

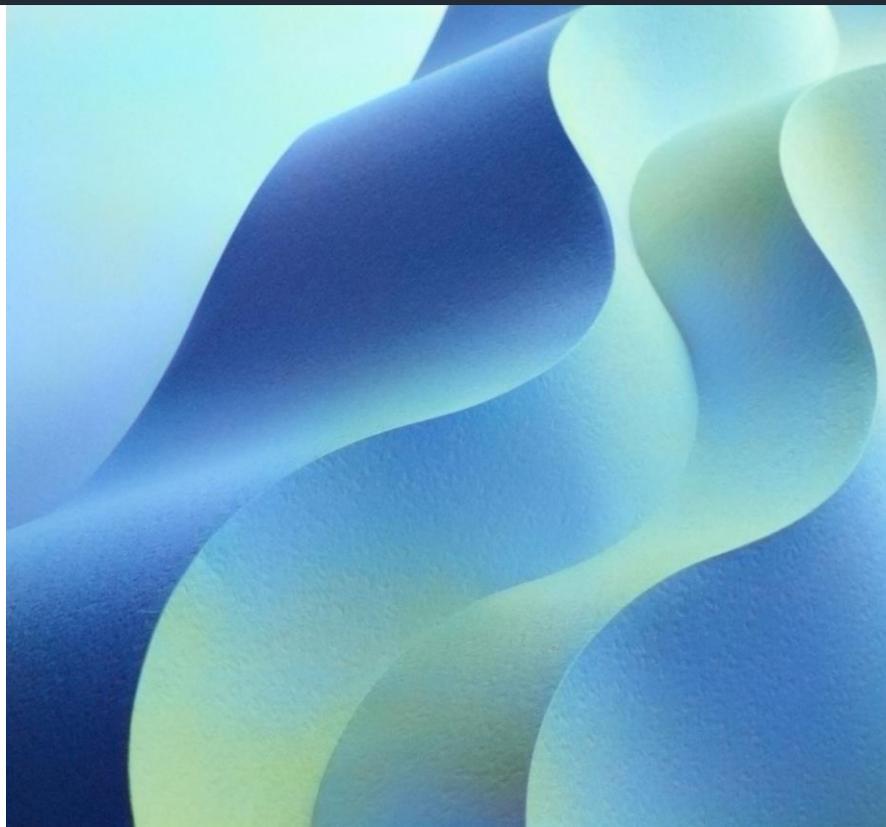
Insolvent

Your customer is experiencing serious financial difficulties that may not be resolved.

Liabilities > Assets

Partnering with Third Party Collections

**What to expect from your
third-party agency**



**Experienced, qualified, ethical
collectors to act on your behalf.**

**Bonded and Insured – Including
attorney referrals**

Contingent collection fee basis

**Reasonable turnaround in remitting
recovery payments to you.**

**An easy to access portal for you to
review activity on all placed accounts.**

Partnering with Third Party Collections

**Questions to ask your
third-party agency**



- **How many years have you been in business?**
- **Are you bonded and insured, and if so for what amount?**
- **Do you require a certified audit?**
- **Are you certified by an independent agency?**
- **Do you use bonded Commercial Law League of America attorneys for referral?**
- **Do you require clients to sign a contract?**

Legal Aspect of Collections

The **Fair Debt Collection Practices Act** was created to make fair laws for the benefit of debtors when a creditor attempts to collect debts.

It applies to consumer credit but also extends to those who contract Third Party Collectors for collection of a commercial debt.

Utilizing My Third-Party Collections Partner

When to turn over my customer to a third-party collector?

When to send a demand letter?

When to consider using an attorney to collect

The new customer vs. the established customer

STORY TIME

