

# SOD





# Past Due Accounts What To Do About Them

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**T**HE collection of delinquent accounts, generally speaking, originates from the extension of poor credit granting. The history of credit, its origin, and uses actually dates back to the era of the cave dwellers.

Those of you who enjoy getting to the bottom of things would be interested to know that according to prehistoric drawings discovered thousands of years ago on the walls of caves, it could be reasoned that one caveman had "sold" a stone ax to a second caveman who was going to pay for it with the skin of the first animal he killed with that ax.

Now this is stretching things a bit. However, it does indicate that credit transactions are as old as the world itself. Much later in the 16th Century, the beginning of the making of loans and the taking of interest for money was made legal in England with a fixed rate of 10%.

As soon as the interest rate was set by law, another law had to be passed to make it possible to collect the interest. As a result of this law, debtors prisons were created in England and not abolished until 1869.

In the period thereafter with the migration to America came the conducting of business on a buy now—

pay later basis, which has been going on since the beginning of time. The by-product of such credit transactions has resulted in past-due accounts and collection problems. The collection problems represent only a small percentage of the total credit volume in our country, and the advantages have been made possible through credit purchasing in this country far outweighs any disadvantages.

It is my understanding that sod producers are confronted occasionally with the situation that the sod cutter or installer will pay in advance for a series of sod cuttings, then dwindle to just a few days in advance on cuttings, and finally to a daily basis. The aftermath of this so-called build-up is the beginning of credit extension which in many cases is on a strictly verbal basis.

The nature of the sod business conducts itself to some individuals that are rather insecure as in every other trade. This particular group can operate with a rented or borrowed truck, a few shovels and a minimum of capital outlay. This fact in itself makes it imperative that the screening of your accounts becomes of greater importance. To avoid the creation of uncontrollable collections it is necessary to classify

debtors according to the risks involved.

The risks that we must consider are good, fair, and poor.

The good risk debtor has a high credit limit, and is entirely reliable, therefore, of little consequence as a potential collection problem.

The fair risk debtor is probably good, but a little slow. He has a medium rating in regard to his ability to pay and is entirely willing to meet his bills, but through carelessness or through happenings of the unforeseen contingencies beyond his control, he postpones payment of his obligations. This type of risk must be given careful and special consideration, necessitating a study of conditions responsible for the delinquency before pushing the claim to a serious collection situation.

The poor risk debtor is the one who has just enough ability to pay and just enough reputation of meeting his obligations with fair promptness to deserve the privilege of opening an account. In this class are included those debtors who can pay, but do not intend to do so until forced, as well as debtors without a conscience or financial respon-

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## Examples of Letters Used for Past Due Accounts

January 11, 1973	February 12, 1973	March 12, 1973	May 12, 1973
<p>John E. Doe 700 N. Water Street Denver, New York 10735</p> <p>Dear Mr. Doe,</p> <p>I was just looking over my list of past due accounts and was surprised to find your account on the list. Sometimes invoices get misplaced or misdirected -- maybe this could happen in your case!</p> <p>Would you please investigate why we haven't been paid? If there is some problem maybe I can help get it straightened out.</p> <p>Sincerely,</p> <p>James H. Wright Wright Sod, Inc.</p> <p>JHW/ff</p>	<p>John E. Doe 700 N. Water Street Denver, New York 10735</p> <p>Dear Mr. Doe,</p> <p>On January 11, we sent you a letter and reminded you that the amount, \$750.00, covered billing for sod and installation.</p> <p>As of this date we have not received word from you relative to the account. We believe we are justified in requesting this matter be given your prompt attention.</p> <p>Sincerely,</p> <p>James H. Wright Wright Sod, Inc.</p> <p>JHW/ff</p>	<p>John E. Doe 700 N. Water Street Denver, New York 10735</p> <p>Dear Mr. Doe,</p> <p>Thank you for your check for \$150.00, which pays in part for sod installed on your property at the above address.</p> <p>Upon crediting the check to your account, we note a balance of \$350.00.</p> <p>A check to balance your account will be appreciated.</p> <p>Sincerely,</p> <p>James H. Wright Wright Sod, Inc.</p> <p>JHW/ff</p>	<p>John E. Doe 700 N. Water Street Denver, New York 10735</p> <p>Dear Mr. Doe,</p> <p>We feel sure the letters we have written you about payment for sod and installation have been delivered to you. As such they have not been returned to us. However, we have had no response to our reminders.</p> <p>In the event your check for \$200.00 is not received by May 12, we will place your account with a collection agency.</p> <p>Sincerely,</p> <p>James H. Wright Wright Sod, Inc.</p> <p>JHW/ff</p>



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sibility, commonly known as professional "deadbeats."

Among these delinquents are persons who are absolutely indifferent to unfavorable credit opinions and upon whom "duns" ranging from pleading, to threatening, to taking drastic action have no effect. In dealing with this type of account the collection system must operate rapidly, as it is reasonable to assume that the debtor has other credit problems elsewhere.

It must be remembered that 70% of all people pay their bills, 20% are inclined to be a bit slow in paying, 5% are migrants, the here today, gone tomorrow types, 3% are indigents who would pay if they could, but are usually unable to pay while only 2% are true credit criminals.

Records indicate that the rate of repayment in rural areas is far superior to that in the urban communities, this fact primarily established due to the availability of credit and the nature of rural residents operating on a pay as you go basis.

Credit as you know, is the power or ability to obtain goods or services in exchange for a promise to pay

at a later date. Therefore, one must analyze the capacity or ability of the individual to pay in the future. I feel that in the extension of credit, the use of the four "C's" of credit can be a truly valuable asset.

The four "C's" as we know it are **character, capacity, capital and condition.**

The character of the individual can best be determined by the want or intent of the potential debtor, the capacity, the ability to pay, the capital, the financial strength of the party, and the condition, the soundness of the situation.

Due to the nature of the sod business, it is of extreme importance that a complete credit application be filled with you on any and all potential sod installations. In this respect a very sound credit application constitutes the obtaining of full names of husband and wife, address, former addresses, name and location of business, telephone numbers, banking references, property ownership, and any other pertinent information such as personal references and relatives.

It is ever so important to establish a good collection program, in any business. You must be aware

of the aging of accounts on a regular basis; if not, trouble is inevitable. It is advisable to age accounts on a twice a year basis or better still, on a month to month basis. It is all important to realize and take into consideration that the worth per dollar at 90 days is 90¢, at 6 months, 50¢, and at 1 year, 30¢.

Generally speaking, the type of business and the type of debtor dictates the promptness in collections. The importance of promptness cannot be over-emphasized. Much business success depends on this factor and it must be regularly maintained.

Credit selling has been good for the country, and good for the individual credit grantors and consumers. However, there is risk involved for both consumer and creditor . . . primarily for the creditor himself.

Controlled debt is a good thing—uncontrolled it is like a grass fire in a high wind. It is a well-known fact of business that, when people can buy on time, they buy more. Left to his own devices, the debtor will get further and further behind with his creditors—until somebody stops him. The credit grantor, therefore, must keep control of the credit situation, set a limit and see that

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it is maintained.

If a credit situation appears to be getting out of focus, then is the time to find out if there is income—other than the obvious salary. If an individual cannot handle additional obligations, give him the opportunity to tell you how he intends to fulfill his responsibility. This sometimes brings out unusual sources of income. **The ability to pay should be equally as strong as the individuals willingness to pay.**

The place to correct your credit losses is in credit extension. Watch your credit granting and you will have few collection headaches. Unfortunately, some people in the field of business sell to anyone who comes along. These are the sellers who are causing three-fourths of the problems among the people of limited means, people who nevertheless have desires for the better things of life, but do not always have the ability to appraise their true financial position and buy accordingly.

However, even with wise and fair extension of credit, there will be some delinquencies.

Today, over half of the sales made by manufacturing, wholesale, and commercial companies, and almost a third of all retail sales, are made on credit basis.

The popularity of installment buying has resulted in a sizable demand for effective collectors. Currently there are more than 25,000 men and women in the United States employed as bill and account collectors. These individuals work for retail stores, manufacturing firms, or collection agencies.

No one has yet come up with an ideal solution which will completely eliminate slow paying accounts. However, the following method has been employed with top results:

1. Grant credit with the idea that every single account could become a collection problem.
2. Establish a regular billing and collection schedule procedure. Decide that you're going to send out one plain statement within 30 days, a second statement 30 days later with a reminder note on it, a collection letter 15 days later, a phone call 15 days after that, and then refer to a collection agency 15 days later. **The important thing is to have a regular, systematic procedure which is followed on every single account up to the place where personal**

contact with the customer indicates that some alternative course is desirable.

3. Recognize that time is the safest refuge of any debtor. The more he gets of it, the less likely he is to pay. Delinquent accounts rapidly decrease in value with the passing of time.

When you have exhausted the possibility of collection yourself, don't give up the account. Turn it over to a professional collector. If the past due accounts are referred to a professional collector as soon as you recognize that your efforts can be spent more profitably in other phases of your business, the trail will still be fresh enough so that the collector has a reasonable chance of collecting. Give him all of the information that you have, the results will be productive.

At one time, the collection agency was considered a tough and unethical kind of business. Collectors sometimes received instructions to collect the money regardless of what methods they used. The majority of modern collection agencies, however, operate honorable businesses with professional standards and ethical methods of doing its job. Collectors feel responsible not only to the one to whom is owed, but to the one who owes as well.

In the assignment of accounts the client guarantees the amount and name of the debtor to be correct and legally owing, thereby, giving the collection company authorization to collect, settle, adjust and forward accounts. An effective collection agency will understand the client's credit and public relations problems and will convey such information to the individual collector.

The average client can always obtain information and answers from a general manager or supervisor. The collection agency through specialization and close contact with the client, is actually an extension of the client's credit function.

The organization of a good collection house provides for the following functions: skip tracing, telephone and mail collecting, legal collections, client reporting, general administration and sales and service. An established collection company will have a "Set-up Section" which receives new accounts and proves them as to addresses, proper name and amount owed.

A good collection company uses psychologically tested and approved letters or notices in series that are



mailed progressively, they will also have special situation letters. A staff of good telephone collectors is most important and insures recovery which can make the difference between a good or brilliant record. A good collector is almost always trained in credit and collections in an agency or finance company.

The professional collectors approach is to always ask for payment in full, (PIF). This in itself is a psychological jolt to the debtor. Failure at this effort requires favorable arrangement based on ability to pay. Once the arrangements are made, accounts are followed on a day to day basis with the follow up coming immediately on failure to comply; this fact being the secret to all good collection practice.

Collectors must be efficiently supervised to insure competent production of payments and to maintain the internal discipline of a well run collection agency. With the advent of much consumer legislation it is of utmost importance that all collectors be thoroughly familiar with regulations in effect with respect to debt collection practice guidelines, both state and Federal.

Reliable agencies of long standing are completely bonded and insured to protect their clients from many contingencies, such as error and omission, slander and the invasion of privacy.

The final stage of the agency operation is the suing of the debtor, at which time, the agency will seek the authority of the client to summon the debtor to court. The suing by the agency of the debtor is used only after all other attempts to collect have been exhausted. From this point on the agency is required to pursue collections through its attorney representation.

As a member of the American Collectors Association, our firm receives the ACA Directory and membership roster, published each year, listing the members and the more than 8,000 communities they personally serve, which enables a member to call on any other member for personal attention to a debtor who has skipped.

While collection agencies are primarily in business to collect overdue bills, they also work to maintain good will between the creditor and the debtor, sometimes they actually assist the creditor in setting up a wise and effective system of granting credit.

The development of the techniques for granting credit and the techniques for following up to collect

have advanced rapidly in recent years. The fact that creditors list with ACA members some \$900 million in collection business each year is more than a test of the role the collector is playing in today's credit economy.

Everyone who grants credit is going to have collection problems. It is inevitable. They go hand in glove.

However, these problems can be reduced to a bare minimum by recognizing the position in which most creditors find themselves and taking the steps necessary to meet these conditions. These steps are:

1. Grant credit in a thorough and intelligent manner.
2. Establish and follow a written billing and collection time schedule procedure.
3. Recognize when your efforts will be more productive when applied to other phases of your business.
4. Select and work with a professional collector to help hold your credit losses to a bare minimum.

If you do, you can use this tremendously valuable tool of credit, and not let it use you.

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