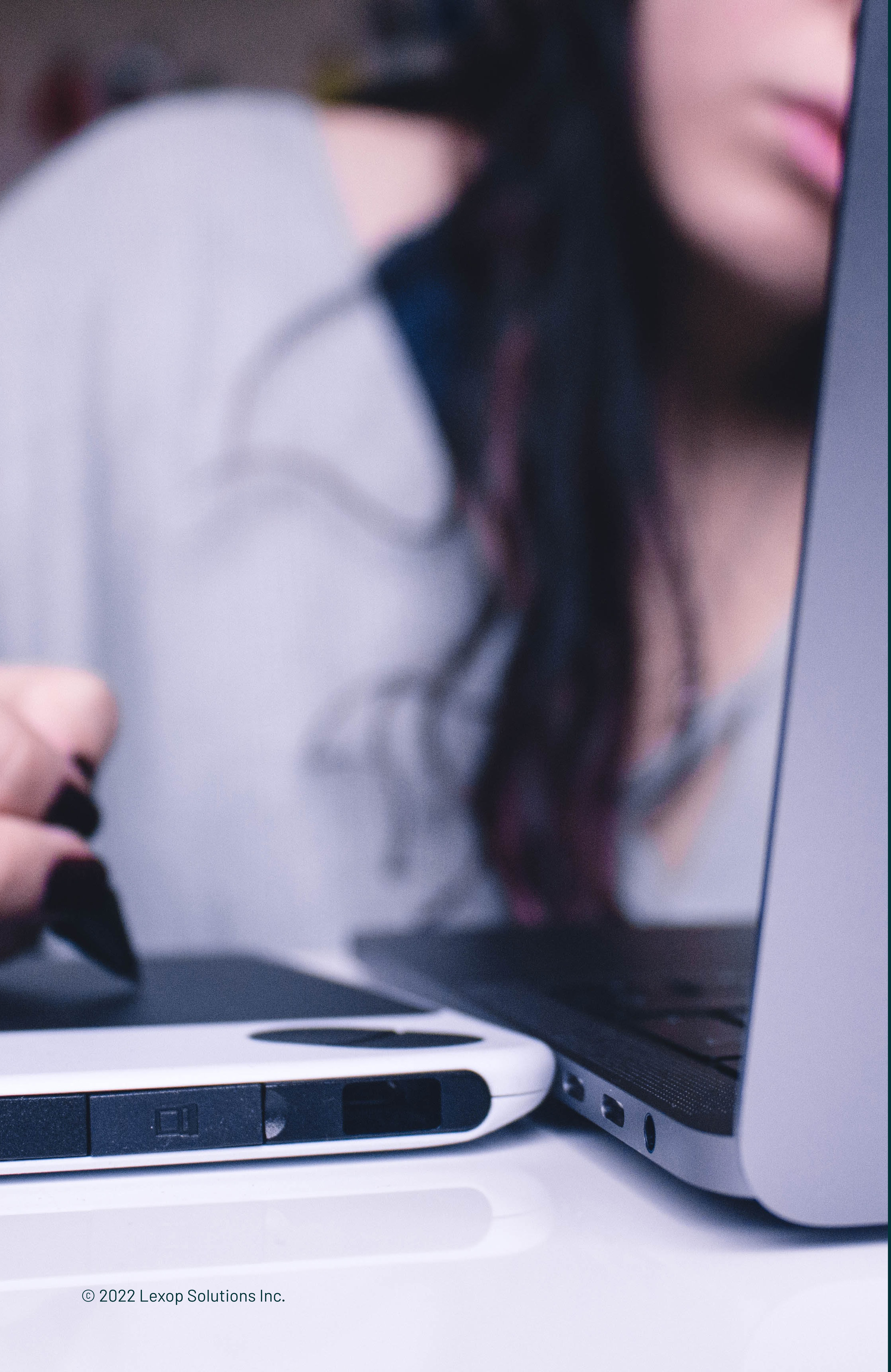

5 steps to effectively collect past-due accounts as financial strain grows on consumers

This ebook explores how organizations can use digital debt collection tools to maintain positive cash flow as consumer debt levels soar.

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Introduction

With the global economy entering a prolonged period of economic uncertainty and elevated inflation, we've seen delinquency rates rise higher than pre-pandemic levels and extended cash collection cycles. Although modestly, banks have already boosted their reserves for future credit losses as a cautionary move.

In the United States, the Federal Reserve has hiked interest rates multiples times in 2022, resulting in higher borrowing costs for consumers, significantly higher market interest rates, a slowdown in the economy, and a souring financial strain for less affluent consumers. **(USN, 2022.)** Unsurprisingly, consumers across North America are setting stricter priorities and reducing discretionary spending due to the climbing gas and food prices and withdrawn fiscal and monetary policy accommodations provided during the pandemic. All while struggling to pay their bills on time.

In a **2022 study**, we asked 4,541 consumers across Canada and the United States what late bill they would pay first. More than half (48%) said they would pay their late utility bill before other options.

The state of California launched a **$500-million program** to assist low-income households with their past-due water energy bills. In Texas, a **$50 million program** aimed to assist residents with relief for past-due bills was shut down after overwhelming demand.

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Both of those programs make sense considering the **National Consumer Law Center's (NCLC)** number-one rule for managing your bills lists utility bills as a high priority. Not paying it may have sudden and severe consequences for households, such as the utility company cutting off supply.

This time of financial uncertainty leaves Finance and Operations teams with the extra challenge of recovering past-due accounts while navigating in these murky waters. They must proceed cautiously, careful to balance the needs of the business with those of their past-due customers.

It's the perfect timing to track crucial Key Performance Indicators (KPIs), implement a preventive approach to collections, and track the impact this current spike in past-due accounts will have on businesses.

Benefiting from the opportunity to invest in automation and optimizing costs shouldn't be a dilemma.

A robust business strategy is crucial to steering companies through a market downturn. Here we look at some options you can take to improve your credit and collections processes and emerge out of the 2022-23 recession financially stronger.

At Lexop, we recommend the following five steps to prepare your collections team for a growing number of past-due accounts as consumer debt levels continue to increase.

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Step 01: Minimize cash flow impact

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38%

of consumers attributed being late on a payment to cash flow issues.

We're facing a time of cash flow uncertainty. In a **2022 study**, 38% of consumers attributed being late on a payment to cash flow issues. And when consumers cannot pay a late bill in full, 48% prefer having the option to make payment arrangements and 38% to make a minimum payment to show good faith.

By the same token, **LendingTree (2022)** found that 43% of 1,000 US consumers expect to take on new debt in the next six months, fueled by credit cards (22%) and auto loans (10%). And over 61% of them are dealing with debt, with credit cards being the primary driver at 70%.

The impact on businesses during this looming 2022 recession is two-fold: on the one hand, there are crucial opportunities for digitization as consumer debt rises. On the other hand, the company's financial health is at risk and should be handled strategically to not fall behind its business objectives.

For example, higher **Days Sales Outstanding (DSO)** indicates delayed payments and could signal a cash flow problem. And inadequate cash flow can hamper the company's ability to recover.

To improve DSO with digital collections software, a company can integrate its collection software into its accounts receivable system. They can then calculate their DSO for the last month to identify the top 10% of past-due accounts and treat them proactively.

Companies can acquire the latest collection software to run automated outbound campaigns via email or SMS. This communications plan should complement their current workflow and align with their **digital collections strategy**.

Companies can keep evolving in this economic cycle by periodically referring to the KPIs discussed in Step 03. The insights on past-due customer behavior can modify their outreach efforts accordingly.

In the next chapter, we examine how investing in automation can help make the business more profitable during growing economic uncertainty.

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Step 02:
Be proactive, not reactive

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Today's approach to collections transcends the call and collect process. Shifting from a reactive to proactive course of action allows companies to better serve its customer base throughout the past-due customer experience.

A more tailored and sophisticated collection procedure can be adopted if a company first understands how customers end up in a debt situation.

Perhaps the customer has no intention of paying the owed amount either out of principle — i.e., not agreeing that the debt is legitimate — or because they are trying to 'game the system.'

Maybe the customer would like to pay the debt, but they don't have enough funds and are too embarrassed to discuss it.

It's also possible that the customer is unaware of the debt. For example, either this person never received the notice due to incorrect or out-of-date contact details in the system, or they genuinely believe in having already paid.

In each scenario, the company will likely assume that the past-due customer has no intention of paying — even though it might not be the case.

To avoid falling into a defensive state, companies can actively prevent past-due incidents by using **predictive analytics** to anticipate which customers will likely be past-due soon.

Predictive analytics is a crucial technology to managing the ever-increasing number of past-due accounts. These tools can predict when a customer is likely to enter into debt based on patterns in data, such as:

- the rapid accumulation of high spending on a credit card
- a series of missed bill payments
- consistently making only the minimum repayment required

Data becomes particularly important at times of crisis when sudden changes in customer behavior occur. The increasing availability of customer data allows companies to build predictive analytics and design proactive interventions.

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55%

would feel more inclined to pay a late bill if they received personalized emails or SMS reminders showing empathy and a desire to collaborate.

The ongoing innovation in outbound customer communication technologies pivots phone or mail notifications onto contactless digital-first interactions to set a repayment plan without unnecessary steps, thus removing any embarrassment and increasing the chances of customers efficiently meeting their obligations.

The latest **digital collection** toolkits include online payments, login-free self-service portals, and communication-based on customer preferences — whether short message service (SMS) texting, or email. Doing so would simplify the payment process and incentivise past-due customers to settle their accounts. As observed in a **2022 study**, 55% of consumers would feel more inclined to pay a late bill if they received personalized emails or SMS reminders showing empathy and a desire to collaborate.

By personalization, we don't mean addressing customers by their name but creating more targeted experiences. For example, companies can use customer segmentation and prioritization techniques to identify the at-risk accounts, craft messages that show empathy, build-out escalation campaigns, and send friendly confirmation emails.

Innovative technology applications deliver more than financial insights. Companies can gain visibility into the likelihood of customers becoming past-due and proactively reach out to prevent it.

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Step 03:
Track crucial KPIs

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Tracking Key Performance Indicators (KPIs) is imperative to making strategic and operational improvements. It involves data capture and conversion to valuable metrics that can create an analytical foundation for decision-making and identify where to direct focus.

As Peter Drucker, the famous management expert, said, "What gets measured, gets done." Operating with KPIs includes setting targets (the desired level of performance) and tracking progress against that **target**.

Utilizing KPIs also implies improving **leading indicators** (precursors of future accomplishments) that will drive **lagging benefits** (indicators of past successes at achieving results).

In general, good KPIs

- Feed objective evidence of progress towards reaching the desired derivative
- Evaluate the intended measurement to inform better decision making
- Present a comparison that estimates the degree of performance change over time
- Can track efficiency, effectiveness, quality, timeliness, governance, compliance, behaviors, economics, project performance, personnel performance, or resource utilization
- Are balanced between leading and lagging indicators

As inputs and customer behavior change in the face of higher prices and interest rates, companies must ensure checkpoints are in place to quickly respond to any red flags. When it comes to collections, some important key metrics to consider in that regard include:

Productivity levels. Tracking these metrics helps to evaluate inefficient processes for higher value activity and to re-align, upskill, and optimize the available resources to survive the 2022 recession and thrive when the markets recover. However, measuring productivity isn't just meant to identify areas for improvement — it's also a way of prioritizing them.

Automation levels. Checking the levels of automation facilitates pinpointing error rate improvements, efficient invoicing, and average time to pay.

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Anticipating late payments and disputes. Comprehending how many conceivable late or disputed payments are coming in is critical to optimizing cash flow and making more informed decisions.

Net promoter score (NPS) analysis. This key metric facilitates benchmarking how successfully a company has delivered its customer experience efforts by measuring the overall customer loyalty.

Net retention rate (NRR). Calculating the percentage of recurring revenue kept from existing customers in a defined time frame is helpful information to direct strategy to increase future business value.

Days sales outstanding (DSO). Figuring the average number of days a company takes to collect its account receivables can be used at the individual customer level to indicate when a customer has cash flow problems as they will try to extend the time before paying a bill. Overall, DSO is an excellent metric to monitor the approximate amount of cash invested in receivables.

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Step 04:
Optimize costs

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Optimizing expenses is a typical response to a market downturn in which every dollar must be monitored for its return on investment (ROI). Limited resources bring opportunities to redefine collection processes and make them lean and cost-effective without compromising customer experience expenditures.

For example, companies can drive late payers to less expensive digital self-service tools and optimize the cost per dollar collected. The right software can profoundly impact a company's bottom line, such as SaaS.

Cloud-based software incurs lower costs because it usually resides in a shared (or multi-tenant) environment. Thus the software license cost is low compared with the traditional model.

Besides, **there is no need to develop this system in-house.** With so many out-of-the-box solutions from third-party vendors, companies can save on ongoing costs of maintaining infrastructure and data centers.

Vikas Srivastava, chief revenue officer at FX cloud solution provider Integral, estimates that using external solutions (as opposed to in-house alternatives) can reduce a company's tech spend by **up to 80%**.

SaaS is also incredibly flexible since only the core functions of what the vendor offers will likely be a compulsory part of the purchase. Anything else can be developed or removed as needed without being locked into a costly, long-term project with no end.

Other ways to optimize expenditures include discussing with other decision makers from other departments to recognize more opportunities that could reduce costs without hurting business interests.

Regardless, checking for processes where a better ROI can be achieved and aiming to streamline them is a very productive starting point.

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Step 05:
Build to scale

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Automation is a cost-effective instrument to improve collection performance and productivity without sacrificing the customer experience, especially in the possibility of a 2022 recession.

Although some cases will still require human judgment and contact — such as negotiations and situational analysis — notably on decreasing quality receivables, automation helps scale without adding more operational costs.

For example, when the volume of past-due accounts is high, some managers will have agents working longer shifts or over the weekend, and others might hire more agents. Nonetheless, these over-the-counter solutions are both ineffective and insufficient in a market downturn that requires optimizing expenses.

Automating specific processes can help reduce the time put into otherwise repetitive tasks. **Sequences**, for instance, is a great tool to automate and optimize dunning emails — but not at the cost of personalization, which makes all the difference.

With sequences, different customer segments are reached individually using custom 1-to-1 email templates to send sequentially. The timing of the emails is also custom to each segment, based on their payment cycle.

Typically, **segmentation** is the grouping of accounts that are one to 30 days, 30 to 60 days, and 60 to 90 days past-due. A proactive approach would also include a group at risk of becoming past-due.

In doing so, agent time can go towards more complex accounts that demand human interaction. The goal is not to replace the entire team with innovative technology applications.

Investing in automation is an upgrade.

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Conclusion

We're all caught up in such difficult times. Finance leaders should be able to envisage how their investments today can help their businesses in the next five or 10 years.

The CFO plays a key role in shaping the business's growth journey and successfully navigating unpredictable seas. The time is ripe to become a strategic leader.

Companies that invest in automation are at a competitive advantage. And there's no need to neglect business innovation goals.

By improving their debt collection processes, focus on consumers will increase. When preparing for a growing number of past-due accounts, digital collections software can help companies collect more and faster, with the end goal of reducing Days Sales Outstanding.

Lexop gives you everything you need to reach, incentivize, and collect from your past-due customers. **Talk with an expert** to learn how to level up your past-due customer journey.

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Lexop helps companies retain past-due customers by facilitating payment and empowering them to self-serve.

Its SaaS solution offers the benefits of personalized outreach at scale while affording consumers the flexibility to choose the payment scheme that best fits their situation.

Lexop gives you everything you need to reach, incentivize, and collect from your past-due customers.

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Learn more at lexop.com