SEND IT TO INDIA?

YOU CAN OUTSOURCE CREDIT CONTROL TO IMPROVE CASHFLOW WITHOUT LOSING CLIENTS, SAYS CLIVE PACEY

'Send it to India' was the suggestion. The constant irritation of collections would then be out of sight and very possibly out of mind. Yes, this was a financial controller's solution to perhaps the most crucial element of his group's working capital, but for all his bluntness, was he correct to suggest outsourcing his debtors? And with a little more thought, what should he have considered? Well, let's look at the crucial factors.

BUILDING RELATIONSHIPS

Firstly, you have to consider the impact of the outsourcing upon your client relationships. This will depend on the very nature of the service offered and the nature of your debtors. Why? Well if you have a widespread and relatively low-value client base (stationery supplies would be a good example), then a fairly automated method of collection with simple procedural reminder letters would possibly suffice. But if you are dealing with low-volume, high-value transactions, say the sale of Jumbo Jets, I would strongly suggest a personal and communicative approach. Three chase letters and one blank phone call will not suffice for that £250,000 bill. Of course, most debtors' ledgers are a mix of the above but the priority must be the impact on the *significant* clients.

So what will that impact be? I believe that a relationship with a client has to be maintained at all levels and right through the process. By passing a collection of the debt to an obvious outside provider a small break in that process is engineered. Clients want to be loved and they want to be cultivated. Yet they are often frustrating, unreliable and hopelessly precious. The demand letter from Credit Crunchers Collections, followed by a barely audible call from a distant time zone, might just have all the touchy feely impact of a statutory demand.

Of course it will be argued by some that there is nothing 'touchy feely' about credit control. It is purely about minimising risk and getting paid quickly. True, maybe, and taken to its logical conclusion, immediate legal proceedings could be issued within 24 hours of any debt becoming overdue. You could do this in the secure knowledge that you would not have to repeat the exercise too often. The lack of clients would soon be an issue and you could also expect certain debtors' responses to be little more than two strongly expressed words.

I am sure that you are aware that good credit control is about building relationships. It is human nature to respond to someone you can relate to. No one will rush to carry out a favour for someone they frankly do not care for and the skill of persuasion is a vital element of the function. You have to be aware of who is managing your credit control and the nature of their approach. In maintaining a strong relationship there are significant benefits in employing a *virtual* credit control function. While outsourced, the credit control function should feel and appear to be part of your organisation. It is vital that they understand your requirements and culture.

And then there is the administration. It is crucial that the provider has the resources, knowledge and experience to understand your industry and the nature of your accounting. Transactions that will appear perfectly straightforward to your department could be something of a puzzle to others. I recently encountered a perfect example of the catastrophic nature of a 'bad fit', whereby the outsourced provider was unable to chase or reconcile nearly 60% of a client's £2m in seriously overdue debt because they simply could not handle the accounting required to reconcile numerous deposits and unallocated payments.

EXPERTISE

Bad debts are an increasing fact of life. The third factor to consider is the experience and professionalism of the collectors. To a certain extent they are taking ownership of your company's risk and in doing so, they are taking responsibility for ensuring that the exposure is strongly and intelligently managed. It is crucial that the credit controller is alert to any signs of client difficulties. While there are a number of clear factors that will indicate the dreaded cashflow problem, ranging from the unusually curt response to the alarming disconnected telephone line, it is often a combination of small indicators that form the bigger picture and will trigger the urge to