



ARTICLE

Overcoming Outdated Collections Systems

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Is your process working? Or is it outdated?

One of the biggest struggles for busy professionals is checking their ego when it comes to redefining processes. Each person has put in the research and leveraged their experience to develop a process that improves on what “has always been done that way.”

Once the new process is operationalized and becomes the standard, it provides a sense of accomplishment. It also provides a false sense of completion. Whatever changes were put in place may have been the best option at that time, but with the speed at which technology and the business world is changing, it also becomes obsolete just as quickly. In the world of credit and collections, this is a real challenge to overcome.

Collections in an ERP System

There is a constant power struggle between operations and IT departments in virtually every company. If IT has the ultimate decision-making authority over what technology will be used by credit and collections teams, the result is working with inferior ERP solution functionality.

ERP systems are not designed to provide specialized functionality. They are generic by nature and focus on providing minimal capabilities across the full spectrum of business operations. The argument surrounding using an ERP system is based on sunk cost and IT resources that are in place to support the never-ending tickets and requests.

If you were to sit two collectors next to each other, one using the ERP system and one using a specialized collection solution, and ask them to perform a simple task of pulling up the customer with the most overdue invoices, which one would be faster? The collector using the ERP system will have to navigate multiple screens, wait for the data to be generated and sort it to find the correct result. The collector with a specialized solution can simply look at their dashboard that is always available and up to date. Even if the collector using the ERP system has all the right transaction codes memorized, they still must navigate filters and screens to get to any data.

The fact of the matter is that ERP systems have no intelligence built into them. Even if they were able to provide a quicker way to access data, they don't provide any analysis. Now, extrapolate the time spent on navigating the ERP system across all your customers and tell me if the investment in a better process/system is worth it. If you're working out of multiple ERP systems, trying to create a consolidated view of your entire portfolio becomes a painstaking task.

Contacting customers

At what point do you begin contacting customers about their outstanding invoices? Some clients I have worked with are adamant they don't contact customers until their invoice is overdue. Their thought process stems from the belief that a customer will become upset if they are contacted before an invoice is due and customer relationships are the most important factor.

A best practice is to establish contact early with customers. You can determine what “early” means for your business, but generally at least 10-15 days before an invoice is due is optimal. This allows you to find out if there is a problem with an invoice with enough time to correct the problem and still receive payment on time. It may not happen in all cases, but certainly is a better process than waiting until an invoice is overdue.

The first contact with a customer can and should be automated with a very gentle tone. A simple courtesy email making sure they received the invoice, asking if there is any assistance needed to remit payment by the due date, and of course providing a summary of additional invoices coming due within X number of weeks (also known as collecting the whole account). If your process is to wait for invoices to be overdue and/or not collecting the whole account, perhaps your process needs a refresh.

Prioritizing accounts

Prioritizing accounts is a necessary part of every collection process. Without it, your collectors are left to apply their own interpretation of who they should contact first. Not to say they're not good at it, but valuable time is wasted just preparing for the day. Printing aged trial balance reports, handwriting notes on them and searching for phone numbers and email addresses can take up an entire morning.

Why not update your processes to take advantage of technology that does the prioritization for you and assigns the work automatically for each collector, making them more efficient and effective at changing customer behavior? Using a risk-based approach to collections which leverages your own internal data to predict future delinquency is a very powerful tool in improving cash flow.

There are three main components of how artificial intelligence works in the collections process. First, is identification. AI can accurately identify trends in your data that indicate if a customer is heading towards delinquency. Second, is prioritization. To truly be AI, action must be taken by the system based on identifying the risk. AI can automatically prioritize the accounts based on risk and can apply/adjust the appropriate collection strategy to reduce the risk of an account going delinquent. Third, is coverage. Utilizing AI to assign risk categories allows you to leverage automated contacts across more of your portfolio, allowing your collectors to focus on higher risk accounts.

With this automation, you can effectively contact all your customers within a given month. If you're still printing reports, using Excel or working out of your ERP system, it might be time to review your processes because they may be outdated.



Embrace change

If we can take a step back from our day-to-day work, which admittedly can be overwhelming and a complete time drain, we just might find a lot of wasted time and effort. Just because it was the best option available when we defined the process, it doesn't mean it continues to be the best option.

As the world evolves around us, we too must champion change. If we can check our ego and let go of what "has been done," even if it was an accomplishment to be proud of, we can take advantage of some incredible capabilities and opportunities. Your team will thank you. Your boss will thank you. And your cash will thank you.



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