Tact Helps You Collect What’s Past Due

By Kathy Jesperson • On Tap Associate Editor

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Joseph Arkin, certified public accountant

Anytime you sell or service something on credit, you will eventually be faced with the inevitable: collecting past due accounts. No one wants to be the bad guy in this situation. But you need to collect the money that’s owed to you so that your own operating expenses don’t find their way to someone else’s collection department.

However, collection practices don’t have to cause you to resort to strong-arm strategies. The key to collecting past due accounts is to use tact. As the old saying goes: “You can catch more flies with honey than you can with vinegar.”

Tact Works Best

According to Joseph Arkin, certified public accountant, in a December 1996, Water Conditioning and Purification article titled “Collecting Past Due Accounts — Tactfully,” if you have some customers who typically pay on time and then mysteriously become past due on their payments, they may be experiencing “unforeseen and unavoidable” financial problems.

“Their intent to pay on time exists, but their financial ability to pay on time evaporates,” explains Arkin. A sympathetic phone call to these customers to inquire about the problem in a nonconfrontational manner may result in a payment plan that satisfies you both. “The point here is not to assume that the customer is a ‘deadbeat.’ The old adage, ‘Put yourself in their shoes,’ works well in this situation.”

Remember: tact.

Giving a Little Advice

“Give the customer every benefit of the doubt,” says William Richardson, utilities engineer, South Carolina Public Service Commission (SC PSC), adding this advice:

• offer a deferred payment plan, such as giving the customer up to six months by paying one-sixth of the arrears, which may include the late payment charges plus the current bill;
• send the customer at least two notices before disconnection: a 10-day notice followed by a two-day notice;
• give the customer the opportunity to have a third-party notification; and
• before termination, a company could furnish a list of state agencies, churches, and other organizations that offer assistance to those who need it, so they can keep their utility services on.

“We [the SC PSC] believe and agree that rules have to be written, policies have to be followed, and that they have to be applied fairly and evenly,” says Richardson. “But, somewhere in there,
A compassionate and understanding attitude should be reflected in all of your collection procedures, including collection letters. Arkin notes in his article that “a positive approach to collecting past due accounts is imperative and an often used approach is the collection letter.” He does warn that many slow paying customers will pay little or no attention to these letters. Often, these folks view collection letters as something to be ignored. However, the majority of your customers will respond to a well-thought-out and well-written collection letter.

“It is a good idea to have several on hand so that the letters appear ‘fresh’ and not, as some slow paying customers believe, merely a ‘canned’ administrative response,” writes Arkin. A good collection letter should:

- never be confrontational;
- briefly explain the nature of the problem, such as how much the past due amount is and how long the bill has been outstanding;
- politely ask for prompt payment or some form of notification if the customer cannot pay and to let you know why so that some alternative payment plan can be created;
- explain your system’s termination policy; and
- offer resources that help those who need assistance in paying their utility bills.

Remember, “harsh tactics can easily become offensive. They can also make customers more resistant to payment,” writes Arkin.

### Termination, the Last Option

Once all avenues have been exhausted, termination is sometimes the only alternative. But before a utility terminates a customer’s service for non-payment, there are several things it must consider. “Past due accounts can be terminated, but there is a procedure in place that requires a series of notices that must be issued to inform the customer of the utility’s intent and timing,” says Dan Bagnes, analyst, Utah Division of Public Utilities.

“The [public service commission] in Utah requires that water utilities offer a deferred payment arrangement (DPA) before terminating service,” Bagnes explains. “Under a DPA, a customer agrees to pay his current bill plus an agreed upon percentage of his past due bill (plus interest) each billing period until the past due amount is paid off. If a customer fails to make a payment under the DPA, the division cannot prevent the utility from terminating service. The utility can allow the
customer some leeway if payment is missed due to extenuating circumstances.

“In its dealings with utility customers with past due bills, the division often explains that unpaid bills by some customers result in larger bills for all other customers who, in effect, end up paying for the service of these others,” says Bagnes. “Some customers recognize the fairness of this explanation, which applies especially for small water companies; others don’t respond to anything but threat of termination—and tact doesn’t seem to help.

“It should not be forgotten that customers request service and are expected to pay for the service they receive,” he continues. “A delinquent bill is often an indication of a customer’s financial difficulties, and the utility should treat all customers with patience and respect.

“Customer representatives should be as tactful as possible. But just like the customer, the utility needs to pay its bills and can have financial difficulties, as well, if too many customers’ accounts remain delinquent.”

And termination can be a very powerful tool, explains Bagnes. Nothing else can state your case with quite the same effect.

Pay Your Own Bills

Delinquent accounts can sometimes leave a utility in the red. “Small utilities often operate on a shoestring budget and have difficulty paying their bills,” says Richardson. “My advice would be do not go to the regulator for a rate increase until you have used all of the channels afforded you. Look through your state’s service regulations or rules and regulations governing service supplied by the utility. These rules are issued and approved by the regulatory utility commission or board of directors and include such guidance as requiring customer deposits, collecting late payment charges, and reconnect charges.”

Remember to check the legality of your collection practices. “A simple answer to legality is this,” explains Richardson, “if it’s in the state or federal code of laws or the rules and regulations approved by the regulatory agency, then it is legal. It may not be legal to discontinue or deny service for things, such as failure to pay for merchandise purchased from the utility, for non-payment for service by a previous occupant of the premises to be served, etc.”

Stay Positive

According to Arkin—and it’s just common sense—a supplier has a legal right to be paid for consumer credit purchases.” But there’s no clear criteria that govern how to collect past due accounts while still maintaining customer good-will. That part will be up to you. Just remember to follow your state’s guidelines and try to maintain a positive approach.

For more information about your state’s termination and collection guidelines, view the Web site of state public utilities commissions put together by the Consumer Information Center of the U.S. General Services Administration www.pueblo.gsa.gov/crh/utility.htm.

The Public Service Commission of South Carolina has a Web page at www.psc.state.sc.us that contains all of its rules and regulations governing all of the disciplines, a “bill of rights” for customers, and much more useful information.

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William Richardson, utilities engineer, South Carolina Public Service Commission