12 Collection Strategies for Every Aging Bucket

Compilation of strategies used by top-performing collectors across 15 industries.

Introduction

One of the top priorities of CFOs and finance leaders across industries is working capital management. Accounts receivable teams aim to leverage their collection efforts to impact cash flow, mitigate credit risks, and reduce the cost of borrowing by lowering DSO, reducing the number of past due invoices, and eliminating write-offs.

In our experience with over 350+ B2B SME suppliers, a common observation has been that companies usually rely on their basic ERP functionalities and work with the golden rule of 80-20, thus leaving a big slice of their accounts receivable on the table. Therefore, the need of the hour is for organizations to develop collections strategies that increase the process effectiveness and help CFOs achieve their long-term objectives.

Developing the Right Approach

The right approach to developing a collection strategy begins by identifying the right objectives for your collections team. As an A/R manager, you need to ensure that your collections team has the following three goals:

- Collect as much as possible
- Collect as fast as possible
- Collect at the lowest cost possible

While basic collection strategies and ERP functionalities could help you achieve the first two objectives, your AR team will end up wasting time and effort on the “wrong” customers, thereby increasing the cost of every collection effort.

Adding a New Dimension to Collection Strategy

Suppliers need different collection strategies, depending on their customer base. While developing these strategies, it is important to understand that a one-size-fits-all approach can't be applied to buyers across different sizes, industries, and business relationships.

A very important criterion to develop collection strategies is for the company to **KNOW THE CUSTOMER!**

Understanding the customer, in more technical terms, is what organizations refer to as Customer Profiling. In order to collect faster from your customers, you need to be able to predict how they are going to respond to a dunning activity. More often than not, businesses have a lot of customer data at their disposal which they could convert into intelligence and translate into the right collection strategy to achieve their objectives.

Customer Profiling: Key Factors

Aging Buckets

Categorize your accounts receivable according to the length of time an invoice has been outstanding. The different aging buckets to be considered are 0-30 days, 30-60 days, and 60+ days. Aging reports give you an idea of how much a customer owes you, and for how long, depending on which you could develop the most effective dunning approach for each segment.

Payment Behavior

Evaluate if your customer is a fast payer or a slow payer depending on their payment history. One way of doing that is to compare the average days of delinquency with the industry average. If the ADD is less than or equal to the industry average, then the customer is a fast payer, otherwise they are a slow payer.

Risk Category Determination

Based on the customer's credit limit, payment history, amount of debt, reference checks, and related factors, you would be able to segment your customers into high, medium, or low-risk categories. The weightage assigned to each one of these factors varies from one company to another, but the overall result is imperative to determine the right collection strategy that is more likely to produce successful dunning results.

Plan Of Action:
12 Effective Collection Strategies

Aging Bucket	Payment Behaviour	Risk Category	
		Low Risk	High Risk
0-30 Days	FAST PAYERS	Low priority Self-Payers	Focus on key problem accounts (with open disputes)
	SLOW PAYERS	Send automated dunning correspondence	More proactive reminders with multiple payment options
31-60 Days	FAST PAYERS	Self-sustaining accounts/ low priority	Focus on disputes and make them aware of the policy driven consequences
	SLOW PAYERS	Dunning letters followed by collection calls	Policy driven action - credit hold/ credit limit update
> 60 Days	FAST PAYERS	Collection Calls and repeated follow ups	Focus on tier 1 accounts - high revenue, high AR balance
	SLOW PAYERS	Continued follow up and alter new order payment terms	Credit hold outsourced to third party as a last option

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Conclusion

Collections is one of the most strategic processes of the Order-to-Cash cycle. Its impact is visible on long-term business objectives of lowering DSO and improving working capital. In order to achieve these objectives, what organizations need, beyond a proactive collections team, is the right strategy to collect from each account.
Additional Takeaways:

- Studies have shown that leveraging customer data and past collections experiences could increase identification of delinquent accounts by up to 5 times.
- Leverage data to identify payers who would remit without wasting collection effort to reduce the cost of collection operations.
- Track monthly delinquency trends and month-on-month delinquency changes in each aging bucket.
- Track payment mode across top customers, compare with payments made in previous months and adopt push strategies to drive change in relevant customers' payment mode.

Additional Notes

Collections has a direct impact on an organization's finance objectives as well as its relationships with customers. Hence, collection strategy is not just about collecting money faster but also prioritizing relationship management and ensuring that your collection efforts deliver the biggest bang for your buck.

Take a look at some related topics:

- **5 Common Excuses Every Collector Encounters and How to Handle Them**
  https://www.highradius.com/ebook/5-common-excuses-every-collector-encounters-and-how-to-handle-them/
- **11 Collections Email Templates to Double Productivity of Operations**
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