

BARNES ON CREDIT
AND COLLECTION

E. H. Barnes, Ph. D.

BARNES ON CREDIT AND COLLECTION

by

E. H. Barnes, Ph.D.

*Vice President,
National Accounts System, Inc.*

PRENTICE-HALL, INC.
Englewood Cliffs, N. J.

© 1961, BY
PRENTICE-HALL, INC.

ENGLEWOOD CLIFFS, N. J.

ALL RIGHTS RESERVED. NO PART OF THIS BOOK
MAY BE REPRODUCED IN ANY FORM, BY MIMEO-
GRAPH OR ANY OTHER MEANS, WITHOUT PER-
MISSION IN WRITING FROM THE PUBLISHER.

LIBRARY OF CONGRESS
CATALOG CARD NUMBER: 61-14578

Eighth PrintingSeptember, 1969

BARNES ON CREDIT
AND COLLECTION

E. H. Barnes, Ph. D.

BARNES ON CREDIT AND COLLECTION

by

E. H. Barnes, Ph.D.

*Vice President,
National Accounts System, Inc.*

PRENTICE-HALL, INC.
Englewood Cliffs, N. J.

© 1961, BY
PRENTICE-HALL, INC.

ENGLEWOOD CLIFFS, N. J.

ALL RIGHTS RESERVED. NO PART OF THIS BOOK
MAY BE REPRODUCED IN ANY FORM, BY MIMEO-
GRAPH OR ANY OTHER MEANS, WITHOUT PER-
MISSION IN WRITING FROM THE PUBLISHER.

LIBRARY OF CONGRESS
CATALOG CARD NUMBER: 61-14578

Eighth PrintingSeptember, 1969

BARNES ON CREDIT AND COLLECTION

*Every man who knows how to read
has it in his power to magnify
himself, to multiply the ways in
which he exists, to make his life
full, significant and interesting.*

—ALDOUS HUXLEY

PREFACE

This book deals exclusively with consumer credit. It is intended to help those who grant credit to individuals for goods and for services and who have difficulty in collecting. The focus throughout is on collection, and credit is discussed only to the extent that such discussion is necessary to make clear the material on collection. It makes no pretense at being encyclopedic in its coverage of the topic, nor does it claim complete originality.

What is novel in the treatment is primarily the viewpoint, that of a psychologist who has embraced collection as his field. Sociological and psychological concepts are used to explain some of the phenomena of credit and collection in the hope that these concepts will provide new insights for the reader.

It was the need of the smaller credit granter for help in collection which originally prompted the writing of this book. Although it is hoped that the larger credit granter will also find ideas and suggestions of value, it is the smaller business and professional man to whom my remarks are primarily addressed. The larger credit granter can afford to employ credit experts and to maintain specialized departments to protect his rights and to promote the payment of his accounts. The smaller one must either do it himself or train others to do it for him.

Also, since the smaller credit granter is less likely to be concerned with installment credit, revolving credit, and the other complex forms, most of the text deals with the ordinary open account. The principles of collection, I feel, are basically similar for all accounts. They should, therefore, be applicable to the more highly developed plans as well. However, I have seldom made the attempt to illustrate these more complex applications specifically.

I do not expect everyone to agree with the viewpoints I have expressed. Indeed, I rather anticipate that some of the positions I have taken will be controversial if not downright unpopular. They are, however, my opinions at the present. Although I am indebted to many persons, I must take the responsibility for the views expressed.

Among those to whom I am indebted, I must first name my wife, Dr. Katharine Barnes, not only for intellectual stimulation and criticism, but also for her long

PREFACE

hours of clerical assistance. Gordon Fletcher, president of National Accounts System, first interested me in the field of collection and has since been the source of a number of my ideas. Thanks certainly are due James Koller, Roland Gem-bala, Arnold Agnos, Joseph Savard, Gil Hamblet, Avis Fletcher, and Carl Hob-bett for their help in such matters as reading the manuscript and offering valu-able criticism and advice. Elsie Katterjohn and Katharine Fay have earned my gratitude through editorial help and proof reading.

THE CREDIT DILEMMA

TABLE OF CONTENTS

I. THE CREDIT DILEMMA	15
Rise of Consumer Credit. Loss of Capital or Loss of Profit? Responsibility of Credit Granters. Reciprocal Relationship of Risks. Factors Influencing Credit Policy.	
II. OBTAINING CREDIT INFORMATION	23
Uses of Credit Information. The Three "E's." Four Classes of Credit Information. The Application for Credit. Importance of Credit Bureaus. Kinds of Credit Bureau Reports.	
III. INTERVIEWING CREDIT APPLICANTS	37
Securing Information. Make Known Terms and Policies. Selling Your Company.	
IV. EVALUATING CREDIT RISK	45
The Three "C's" of Credit—Character, Capacity and Capital. Two Approaches to Estimating Risk. Check List of Danger Signals for Credit Granters.	
V. ROUTINE COLLECTIONS	61
Habits and Paying Bills. Do People Pay Because They Are Honest? Growing Up and Paying Bills. Some Human Behavior Is Predictable. Why People Do Not Pay. Use Their Habits to Collect.	
VI. KINDS OF COLLECTION PROBLEMS	71
Slow Payment. Who Gets Paid First. Teach Prompt Payment. Let Them Know the Rules. When They Want to Pay, But Can't.	
VII. COLLECTION STRATEGY	81
Keep Track of the Age of Your Accounts. Why Account Age Is Important. Account Age Analysis for Three Goals.	
VIII. COLLECTION BY MAIL	91
Six Characteristics of Collection by Mail. Why Mail Is Best for the First Effort. The Most Important Collection Tool—the Statement. Make It Easy to Pay. After the Statement, What? Develop Urgency. Urgency Demands Timing. The Crucial Stage. Help the Customer Preserve His Pride. Why Use Form Letters? Form Letters for Frequent Situations.	

TABLE OF CONTENTS

IX. CONSTRUCTION OF LETTERS AND NOTICES	107
Eight Characteristics of Effective Letter Construction. Five Standard Appeals. A Different Classification of Appeals: Avoidance and the Sense of "Ought." How to Capture Your Customer's Attention.	
X. GENERAL PRINCIPLES OF COLLECTION BY TELEPHONE	123
Telephone Calls Detect Grievances. Six Distinctive Features of Telephone Communication. Words for Control. Evoking Effective Emotions. Recognize the Customer's Feelings. Talking the Customer's Language. Recognize the Customer as an Individual. Learn to Listen. Get Customer Facts. Four Chief Customer Defenses. Let Your Brain Control the Conversation. How to Cultivate a Collection Personality.	
XI. SOME SPECIFICS OF TELEPHONE COLLECTION	143
Thirteen Telephone Collection Musts.	
XII. COLLECTION BY A THIRD PARTY	155
Basic Elements of Profitable Collection. Determining How Much Your Accounts Are Worth. When to Abandon Your Collection Effort. Public Relations and the Third Party. The Disadvantage of Write-Off. Why to Place With a Collection Agency. How to Select an Agency. How Agencies Charge. Other Services of Agencies. Other Agency Practices.	
XIII. COLLECTION BY AGENCY	171
Appeals and Techniques of Agencies. The Outside Collector. Advantages of the Agency.	
XIV. SKIP TRACING	179
General Sequence for Tracing. Kinds of Skips. The Two Basic Approaches. Tracing With Subterfuge. How to Use Gags and Gimmicks. The Dangers of Subterfuge. Where to Look for the Skip. Tracing by Mail. The Value of Using Registered and Certified Mail. Developing Your Own Sources. Skip Tracing Check List.	
XV. LOOK FORWARD	197