Develop a collection culture to ensure customer payment

Getting your clients to pay for service when insurers won't requires a plan

In last month's column, "A new collision blueprint for pricing and payment reform," I suggested that shops, in order to remain profitable, will need to turn to customers for service payments when insurers aren't footing the full bill. Let's now take a look at how you can realistically implement this practice in your shop.

Avoiding collections requires that you get customers to pay their bills in full — at delivery, when possible. That means your staff must be assertive when discussing balances with customers. It must be recognized that adopting and committing to this new policy could be a significant challenge in some collision centers and not be an acceptable practice, if a business chooses to maintain its current DRP insurance contracts.

As another example, a collision center serving a town of 10,000 will inevitably encounter customers in their daily life outside of work. It can be difficult to speak frankly with customers who don't pay and worry about the awkward interactions that might occur later, for example, at the grocery store or at our children's school. Nevertheless, since you have invested time, money and effort into the quality of repair you provide, it's only reasonable to expect your customers to recognize and meet their financial obligations to you.

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Making this concept part of your office's "collection culture" is crucial. Consider tasking a dedicated employee — a customer billing rep — as the designated informant on such matters. Customers appreciate having someone on their side and knowing ahead of time what they'll owe at delivery. Being proactive and using effective communication may take extra foresight and preparation, but they are changes that will reap improvements quickly.

Receiving proper payment for repairs at the time of delivery requires that your staff know the actual amount of any differences owed, including knowing that your labor rates are based on your actual costs, correct material charges and sublet markups. This helps them communicate information effectively. Again, these differences should be communicated to your customers as early as possible in the process, not at vehicle delivery. After doing a proper analysis of all your business costs, you decide what you should charge for all labor and work performed at your collision center, not the insurance company. Follow the steps outlined below to communicate ahead of time exactly what the customer will owe on their vehicle delivery date.

At the end of the estimate appointment and again at vehicle drop-off, assertively inform your customer of the necessary payment required at delivery. Be sure to inform your customers of your office financial policy. Explain to them that it is their responsibility to pay for what their insurance company will not cover. Train your staff to answer appropriately any customer responses they may encounter. Check out the sample customer collection scripts on page 26 for suggestions on how to handle customers and common refusals of payment.

If a customer cannot pay at your shop at delivery, you might want to consider establishing your own internal collections policy and have them sign a promissory note. Collections should involve more than just sending the customer one or two statements per month. If a customer fails to pay their balance in a reasonable and pre-agreed amount of time — for example, three months — begin your follow-up with a mailing. This should be a statement and a call from your staff. Scripts should be used on these calls. Be firm but to the point: request payment and even consider offering to set the customer up on a new longer and lower amount payment plan. In the event that this doesn't work after two more months have passed, follow up for the next few months with both phone calls and warning letters, which outline the fact and notify the customer if their account is going to a collections agency.

At that point, you have the option to write off small balances as losses, which can be an advisable choice in some cases. Medical billing offices report that they have to request their fees while patients are still at the office because bills sent later typically recover only about half of what a practice is owed.

According to Reed Melis, an accounting and tax business

SAMPLE SCRIPTS

Customer: "I didn't know I owed this."
Response: "We call all customers with balances and inform them of their obligation. We called you on _______. The collision center has performed a service and should be paid for it."
Customer: "I don't have any money with me."
Response: "We accept all major credit and debit cards. We require customers to pay for the services the day we deliver the finished vehicle, and did inform you of our company financial policy. Would you like to make the payment or would you like us to reset your payment plan to a lower monthly payment?"

specialist at Paar, Melis & Associates, "By recording sales at full retail, it shows what the true opportunity cost the work order has. Writing off the uncollected portion as an expense that can be measured gives the business owner the true lost opportunity. The gross revenue of the business reflects the total of what should have come in the door. This may be favorable to both a buyer of the business as well as the bank, since they may see the potential."

Rodney Vance, a long-time industry veteran with a degree in accounting, states, "There is a tax benefit to writing off your uncollected accounts receivables. First you make an expense line item and secondly, you deduct that amount from your taxable income. Any portion of money not collected can be written off, as well as the money spent collecting any debt." If you decide to move into debt recovery with an outside company, make sure to use a trusted, vetted agency. Before signing any contract, ensure during sign-up that they know exactly how you'd like your accounts to be handled. It may never be possible for your shop to collect 100 percent of what you're owed from customers — but implementing firm payment policies could be the best way to avoid marginal profit issues in your business.

Insurance industry "short pays" are going to increase in the future. Simply put, without long-term reforms that improve revenues, collision centers will increasingly be forced to choose between reducing the quality of repair or shifting costs to consumers. Tighten up your processes for the benefit of your cash flow.

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