

## Profit Solutions for Heating Oil Distributors

# How to get paid in good times and bad...

By Justin Berg, Partner,  
American Profit Recovery,  
Marlborough, MA

## When should you turn to a debt collection agency?



As business owners, we all have to make tough and important decisions from time to time. They come in all shapes and sizes, from hiring and firing, to internal procedures, to a litany of decisions based solely on financial reasons. The list, as they say, goes on and on.

In order to keep business growing and to stay competitive, companies must pay close attention to the treatment of customers in both good and bad times. However, when faced with economic woes, it is easy for homeowners to jump from one oil dealer to another to meet their needs. This leaves dealers in a precarious position where they are forced to make tough choic-

es. Many are hesitant to go after unpaid bills from customers or refuse deliveries and service because they fear a permanently damaged relationship with the customer.

As the winter season begins transitioning into warmer weather, many dealers see their accounts receivables take a sharp hit when families in a challenging economy are faced with the inability to pay all of their monthly bills, including the bills for oil, which helped heat their homes over the winter.

### What causes customers to leave bills unpaid?

Unpaid oil bills cause a myriad of issues for distributors, one of which being the harsh reality of why customers fail to pay their bills on time. While there are certainly homeowners who have legitimate trouble paying their bills, others simply choose not to pay, even though they are capable. Regardless of a customer's circumstances, past due debt leaves dealers facing the question of when to step up the pressure to collect on unpaid bills. There is one simple answer to this difficult question: start early.

Many small business owners allow unpaid debt to go far too long. By putting this dilemma in perspective with a few examples, it becomes clear that stepping up collection efforts improves accounts receivables and is a large factor in the success of a business. I give you the examples of some very basic bills that most of us pay each and every month: our mortgage, our car payment and our insurance of any type. Fail to pay any of these bills for more than 60 days and you'll see collection procedures kick in pretty dramatically.

### Why do oil dealers face issues with overdue debt?

Many oil dealers do not have the time or man-





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power to chase down past due debt in less than 60 days, making it easy for customers to walk away from overdue debt by finding another distributor to meet their needs. The heating oil season is spent making deliveries, handling service calls and taking care of customers. Many companies leave the bill when the oil delivery is made and when it is not paid, their accounts receivable system takes a back seat until business slows down.

This method typically proves ineffective as the time lapse keeps customers from paying oil dealers their overdue debt. Quick action in the collection process is vital in collecting outstanding debt and also helps maintain healthy customer relations.

### Is it possible to collect debt and retain customers?

In order to increase accounts receivable by improving debt collections, it is necessary to act as early as 30 days past due to resolve debt. However, early intervention is not feasible for many small businesses, as it requires an around the clock workforce focused primarily on a company's bottom line. Since many small businesses are unable to provide this service in-house, they turn to an outside source for help.

Debt collectors who act early in conjunction with a respectful mail-based system have greater success in collecting past due fees. A written demand in the mail, sent early, gives customers a tangible and concrete request to resolve past due accounts. This kinder, less threatening approach leaves customers feeling like they are working with an ethical company treating them with respect and are more likely to respond.

### How can a debt collection agency make your company successful?

Oil distributors looking to hire a debt collector must immediately consider if they can even afford to get help. In the collection industry, a standard 33 percent is paid to the agency for each account. Debt collectors who offer a flat-fee system have proven to be more affordable for those in the oil industry. A flat-fee agency, in most cases, has a customer pay a much lower fee per ac-

count, regardless of the dollar amount being collected.

A good debt collection company will also offer full disclosure and enable clients to manage their accounts through a web based system. Customer-driven technology allows clients to log into their account and gives the client complete control of the process and full access into account activity 24-hours a day. A web based system also speeds the debt recovery process and strengthens the early intervention approach.

### Is there proof that early intervention is effective?

Businesses will often stay with old and ineffective ways to avoid risk and have worse results than current practices. Successful results from fellow companies encourage distributors to seek help. The two companies below found success when they joined forces with a reputable collection agency.

In January 2006, amid the busy delivery season, Medway Oil, based in Medway, Massachusetts discovered their process of waiting to collect on overdue debt was leaving them empty handed. Medway turned to a third party collection agency for assistance. "By pursuing overdue accounts earlier than 60-days past due, Medway has improved profitability and will continue these practices in the future," said Wanda Neidbala, of Medway Oil.

Before beginning a busy winter season, City Fuel Corporation, also in Massachusetts, realized in September 2006 they needed



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to step up collection efforts. City Fuel's practices of forgiving customers' overdue debts for long periods of time made it impossible to collect fees. "After we got over the hurdle of submitting customers with outstanding debt to an agency, we noticed a dramatic improvement of nearly 40% in our bottom line," said Nick Tenaglina, of City Fuel Corporation.

### Are there next steps when a 'gentle' approach is ignored?

When a customer with outstanding debt ignores written requests for payment, it is time to step up measures. Turning a client over to collections of any type is not an easy decision, but is vital to staying in business. After 90 days, an agency should call to ensure customers are aware of the urgent need to pay their bill. Successful results occur when calls are made by an educated team adhering to core values. When treated with diplomacy and respect, customers are more likely to respond.

### Should my business look for help from a debt collection agency?

Even reputable companies and consumers run into financial difficulties and it is important to get help as soon as possible. If your business is having difficulty collecting outstanding debt from customers and also struggling with finding the manpower to chase down monies necessary to stay afloat, it is time to find help. Keep the following, successful methods in mind when looking for a collection agency:

- Early intervention
- A mail-based campaign
- A flat-fee system
- Customer-driven
- A more aggressive second stage when requests for payments are ignored
  - Find an agency that will ultimately assist you with legal action if necessary and provide credit bureau reporting on those who absolutely refuse to pay.

An effective agency will follow a business model that looks to retain customers and have your company's best interests in mind. This enables your business to stay focused on deliveries, knowing there is a strong team behind you helping to dramatically improve profitability.

*The author is a partner in an accounts receivable management firm that specializes in the collection of third-party debt in industries such as heating oil delivery, medical/dental, banking, trades, lawn care and other professional services. He can be reached at [justin.berg@americanprofit.net](mailto:justin.berg@americanprofit.net) or 877-634-8900. The firm's web address is [www.americanprofit.net](http://www.americanprofit.net)*