How to Talk to Customers in Default the Right Way



Yes, you can collect debt, protect your brand, get ahead — and still get paid.

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Business owners and CEOs live and die by top-line growth. Acquiring customers, hitting scale and paying attention to unit economics are all actions that lead to positive cash flow and sustainable business growth. On the other hand, focusing obsessively on your top line and acquisition, while often correct, can leave a lot to be desired on the back end.

Related: What to Do With Bad Debts On Your Books

The reference, of course, is to missed payments, chargebacks,

default and churned customers. In short, a “leaky bucket” can be as damaging to your business as slow growth, and must be handled correctly so you won’t lose all those hard-earned customers, not to mention losing that payment you need for your product or service.

Collecting debt while retaining a customer relationship is both an art and a science, but most business leaders approach this mission in one of two extreme ways: One way is to pretend the problem doesn’t exist because either the company owner is in denial, fears adverse interactions with the customer involved or hopes to make up the default with more growth.

The other extreme involves business owners who take an aggressive, all-out approach to collecting debt and end up threatening the customer with real or made-up legal action and destroying any good will, as well as the brand itself, in the process. Often these owners will use aggressive collection agencies. In turn, that action causes 25 percent of consumers with debt in collections to feel threatened, according to a Consumer Financial Protection Bureau (CFPB) report.

My own brush with debt collection

I’ll never forget the first collections call I received, myself. A $120 credit card balance was late, and email alerts hadn’t reached me. That’s why, even though I could afford that bill, I was unaware of it. Accordingly, I never expected the calls that started to arrive, like clockwork, from unrecognized numbers at 8 a.m. every day. When I finally picked up, a pushy collections agent demanded payment.

I was willing. But when I offered to pay with a card, she demanded a $15 “convenience fee.” I was appalled: What would have happened if I hadn’t simply forgotten? What if I couldn’t afford the bill and was treated this way?

That single interaction made me stop using that card. This merchant obviously didn't care about me. Simply talking to me and learning more about my situation wasn't on the merchant's agenda, either, though such action could have uncovered a serious billing issue. Why was I even allowed to go so late? Why didn't the company's interface remind me of a bill? These questions went unanswered.

Related: 6 Hacks for Getting Clients to Pay You Faster

What you can learn.

Don't be the same kind of merchant as that long-ago credit card company. As an entrepreneur myself who's now on the front lines, I often hear about people's experiences with debt collectors. One that comes to mind is of a young man who, one day, decided to stop hiding.

He told me he remembers sitting on a brick wall in a parking lot when, for some reason, he felt brave enough to call the debt collection agency about a missed payment. That conversation essentially became a grown woman screaming at him over the phone. "You set this up, you didn't pay for it, and you need to figure out how to pay it *right now,"* she said.

Her goal was to scare the young caller into settling the debt that day. But he literally had no money in his account to offer, other than his food money. He told her he wanted to pay the debt and asked if he could wait until his next payday. *"No, you already committed to a debt repayment program and you missed it, that's unacceptable,"* was the response.

The conversation got worse and worse. She wanted something *that day* and at the end, wound up screaming: "You have no idea! What the f*** is wrong with you?! You need to pay this debt! If you can't work with us, we'll take you to court!" Then she hung up.

Needless to say, you shouldn’t talk to customers in default this way. There is a process, and talking to your customers properly is beneficial for the following two reasons:

1. A customer in default might expose issues with your product or service.

The problem could be a problematic credit policy that led to the wrong customers getting credit, or billing issues that prevented the customer from paying, or service issues that made the customer leave with no intent to pay.

Recent research from the Urban Institute reminded us how Americans are drowning in debt and how that fact impacts their payment behavior. Talking to these customers will teach you much more about your own blind spots than will talking to happy ones.

Indeed, such conversations represent both an opportunity and a risk to your brand. Customers who default can be strong detractors, if you avoid or antagonize them. They can also be strong promoters if you work with them and get them back on track.

Working to mend the relationship and payment flow will not only reduce your churn, but create a swell of good will that will earn you positive word of mouth.

2. Dealing with legal issues can become a PR nightmare.

Remember Netflix’s cease-and-desist request to a *Stranger Things*-themed bar? Upset by the intrusion on its intellectual property, Netflix sent a creative “adorably nerdy-yet firm” letter to the folks behind the pop-up.

You should emulate that example. Being thoughtful when you're dealing with a sensitive issue will get you results – and maybe even some positive coverage!

So, here's how to handle a customer in default.

Ready to pick up the phone? Debt collection industry experts like author and recognized debt expert Michelle Dunn and Stephanie Eidelman from the collections newsletter *InsideARM* are great sources for ideas on "how to handle" this scenario. Just remember: The stakes are as high as are the potential gains, so take this task seriously, allocate time and follow these best practices:

Make a plan. Engaging with defaulted customers isn't easy. It's a time-consuming, long process that's focused on regaining and rebuilding trust while your business looks for a solution that works for both parties. So, design a process that involves reaching out to your customers via multiple channels (e.g. phone, email, text) over several weeks, in a way that is both persistent and not overly invasive. Stay away from aggressive, automated dialing campaigns or multiple contact attempts per day. While such actions may get you paid a little bit more often (though most times they won't), the risk to your brand is just too high.

Stick to the plan. Customers will not respond perfectly to your attempts to get in touch. While some may appreciate your kinder, gentler approach and try to work with you, others will be evasive, scared, angry, even abusive. When the latter happens, especially on a call, the temptation to "get back" at the customer will be strong – and utterly wrong. Sticking to a pre-designed, pre-written process is key to success and improvement.

Optimize, optimize, optimize. Finding any human connection is

an art, but optimizing a collection process is a science. Write the best messages possible, set up a process that makes sense, then collect data on what works and what doesn’t and constantly optimize. You can change the time, frequency, channel and content of your outreach attempts, as well as the payment arrangements you offer. Finding what works for your business and customers is data-intensive and requires work.

Seek professional help. Sometimes customers just aren’t willing to talk, or your internal team members are at their wits’ end on optimizing the process. While “old school” collection tactics are more harmful than helpful, a new wave of digital-first, data-driven services are available to augment, and often take over, the process once you’re no longer interested in running it in house. Services to consider include Collectly for healthcare collections and Interactions, a provider of conversational interfaces. Find a provider that can understand and support your brand while ensuring you get paid, and providing you rich data feedback.

Related: 9 Things to Look for in a Payment Gateway

Depending on your market, getting paid is sometimes as difficult as acquiring new customers. But it’s a fact of life for business owners. Talking to your customers in default can be beneficial, but also risky if done incorrectly. So, prepare: Plan, optimize and use the tools at your disposal. You’ll discover a potential growth engine that too many businesses simply ignore.

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