

Why Collections Scorecards Don't Work

_by Murray Bailey

Of course scorecards work. However, the benefits can be harder to achieve than collections would hope and the scorecard developer believes. Success is all about being specific in your scorecard and strategy design.

Specific scorecards

Companies with established collections strategies can make the biggest improvement in performance by building scorecards targeted at a specific action. The simplest models can provide big business benefits. An example is a scorecard developed at Citibank called "the cheques in the post" scorecard.

The scorecard was targeted at customers who may have made a payment. Some 80% of card customers who missed their payment paid before 30 days. The objective was to save the expense of the first dunning letter. The scorecard was developed on people that had not paid by the time the letter was due to be sent.

The performance period was three days. Anyone paying in the 3 days was 'Good' and therefore already had the cheque in the post. If they paid later, then the letter arguably had an impact and so was justified. By building the specific scorecard the business saved half of the first dunning letter.

Another example of a specific scorecard would be to test the effectiveness of an in-house agency letter, say. The sample selected for development would be accounts that would qualify for the letter (based on arrears and, possibly, a general collections score).

The performance period may be 10 days and Good may be defined as a payment received between 4 and 10 days following the posting of the letter. If the objective is to generate contact with the customer, the definition could include an inbound call from the customer followed by a payment within 7 days.

Successful scorecards

Before you implement a scorecard, check the following:

- What is the objective of the scorecard?
- Was the development sample specific to accounts reaching the point of strategic action?
- What is the outcome period: is it reasonable for the goal?
- What are the definitions of Good and Bad: are they consistent with the strategy and goal?

Why scorecards fail

If the scorecard was developed with due care, it can still be viewed as failing if the performance does not improve. This can be due to simple reasons, such as poor implementation or objective setting, but it is often due to bad strategy design.

Implementation is a major element of collections scoring. One company developed a general collections score for early collections and decided the first test was to be as a ranking tool in the power dialler.

The company set up a champion/challenger environment and plotted cash recovered by the strategies (with and without scoring). After six months there was no significant difference between the strategies. Collections scoring was about to be rejected when a consultant spotted that the power dialler did not have scores in the appropriate field. The main collections system was not passing scores to the power dialler!

There was also a fundamental issue with the test. The concept was to rank accounts by score rather than the 'value at risk'. The test should have used the score probability (e.g. of

rolling to cycle-3) and multiplied this by the balance (or arrears) to measure recoverability and exposure.

Bad strategies

Bad strategies usually equate to poorly designed ones. Using decision trees can lead to over complication. I have witnessed letters tested with a day's delay between the champion and challenger and only a handful of accounts reaching the strategy per month.

To be valid, the strategy must be different enough from the champion to provide benefits and have sufficient accounts to produce statistically significant results.

Strategies are not 'operational tactics'. A 'December action' where customers were all contacted earlier in the month due to the Christmas holidays is not a strategy unless it is controlled with a group collected in the normal way.

Other bad strategies may be down to poor design, such as queues that don't match resources or strategies that don't fit with power dialling.

Successful strategies

Before you implement a strategy, check the following:

- Is the strategy consistent with the overall objective?
- Is the strategy consistent with the purpose of the scorecard?
- Can the strategy be tracked?
- What performance is expected - for comparison with the results?
- Can you calculate loss (or recovery) impact and cost of collection impact?
- Is the strategy too complicated?
- How long should the test be run for – are there sufficient accounts?
- Could there be an impact on later stages and strategies?
- Do the resources match the strategies?
- Does the test overlap with any other test that might muddy the results?

The best strategies are a framework

Inflexible and too slow: this is the criticism often levied at strategies by collections management. They should not be. Collections scoring is about compromise.

The scorecard purist will want to run the strategy test for at least the scorecard performance period. However, if it is clearly working (and the collectors will know) then roll it out. The compromise is to maintain a control group so that you can still track the performance against the original strategy.

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