

# The impact of the effective use of

A Decision Analytics briefing paper from Experian

## Introduction

The way in which you communicate with your debtors really does impact the effectiveness of your collections operation. At the heart of any collections operation is the quality of the correspondence and, in particular, the tone of voice adopted with the debtor. In short, what you say is important, but how you say it has a critical impact on its effectiveness. To help guide best practice in this area – and provide areas for consideration when designing and implementing customer letters within a collections strategy – Experian commissioned a programme of qualitative research to explore how consumers react to the words used to communicate with them about their debt.

## The Research

The research employed two focus groups of varying demographic backgrounds in order to obtain a broad perspective. This aided evaluation of the aspects that produce a positive response without causing inappropriate anxiety.

The focus groups were shown collections letters from different stages of the collections process. These were a mixture of actual letters currently in use and letters drafted by a specialist communications consultant to reflect alternative “softer” and “harder” approaches as a means of eliciting opinion and reaction from the groups.

Two focus groups were involved in reviewing the tone of voice used in letters throughout the collection and debt management lifecycle. The variance in tone was considered by the groups to help identify the aspects deemed to be most appropriate and effective. The discussion process is outlined in the diagram below.

The principal aim was to identify the most effective communication approach whilst balancing appropriateness and clarity of message. The letters reference a mixture of products from bank loans to retail credit. Length, message – and, most importantly, tone of voice – varied across the letters, and all of these aspects were discussed by the two

working groups. The demographics of the two groups are shown in Table 1.

Attitudes to debt varied amongst all respondents and their views made for some interesting feedback. Some had been in significant financial difficulty and were fairly resilient to debt; whilst others attempted to manage their finances effectively and pay on time wherever possible. The scope of letters used to conduct the research is outlined in table 2.

## Managing Household Budgets

There were a range of experiences witnessed across the groups in terms of how household budgets are managed:

- Most respondents in the younger group lived in rented, often shared accommodation
- Some used joint accounts to pay bills; others nominated a housemate to be in charge of paying bills
- In both younger and family groups, direct debits were commonplace and used to pay the majority of bills
- A small number of respondents in the family group stated that in some months money is so tight that they are forced to make decisions about which bills to prioritise and many felt that Christmas is an especially difficult time

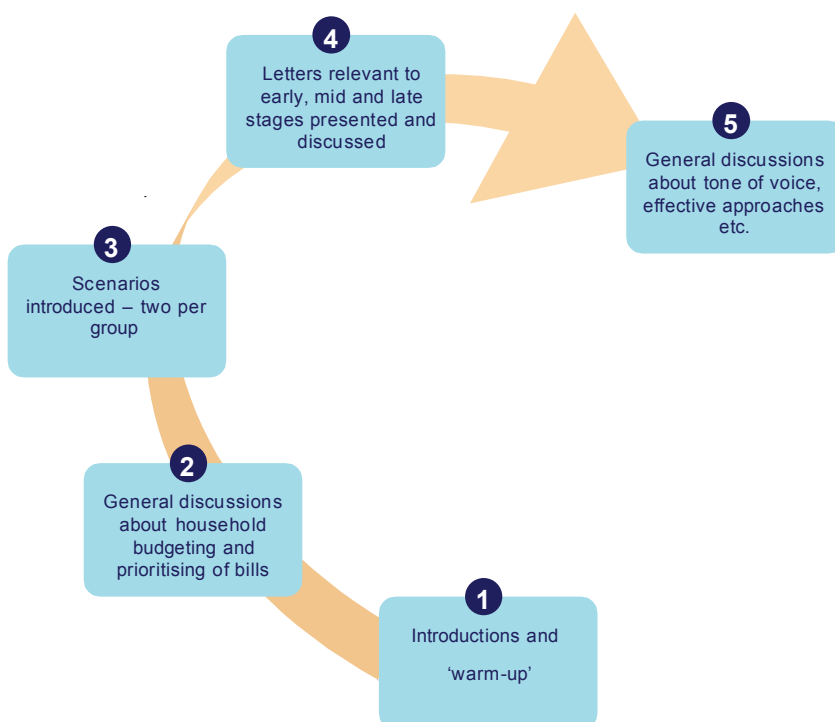
## Prioritising household budgets

The general view was that Council Tax, rent and mortgage payments are the highest priority. This was followed by credit cards, utilities and personal bank loans. Pension, telecommunications and grocery payments were cited as being of less importance.

## Detailed Findings

*Respondents consider the most effective approach to be one that includes a combination of clear consequences and the offer of help and support*

It was evident that the sample responded well to the principals of clear, concise communications. Equally the sample



# tone of voice in collection letters

responded well to very specific references to the consequences of non-payment – although brevity was key. Lengthy letters were not seen as effective and often the message was lost on the recipient.

***Customers need to be threatened with the consequences of not paying.***

The most compelling consequences depend on a customer's background but can include: additional financial penalties; CCJs; impact on credit rating and the embarrassment of a visit from debt recovery agents. However, without the offer of help and support, customers can be frightened to address the issue, even if the consequences of not paying are serious.

***Scare-tactics without the possibility of working out a solution are likely to result in a 'head in the sand mentality'***

Debt is a frightening thing. For some, the threat of legal action or additional costs is enough to prompt them to settle the debt. However, many respondents suggested they might be reluctant to pick up the phone if they believed that a hostile reception awaited them, eg, the only expected or indeed acceptable outcome being settlement of the debt in full. (Phrases such as 'please have your credit card ready when you phone' could potentially be discouraging to customers)

TABLE 1

Group	Life stage	Notes
1	Pre-family (aged 18-30)	Mix of students, graduates and young people in full-time employment
2	Family (aged 25-45)	Range of occupations represented but group broadly C1,C2,D in profile

TABLE 2

Product type	Early stage	Mid stage	Late stage
Specialist loan	1. Sample: proposed best practice 2. Real example	1. Sample: proposed best practice 2. Real example	1. Sample: proposed best practice 2. Real example
Bank loan	1. Sample: proposed best practice 2. Sample: soft tone 3. Real example	1. Sample: proposed best practice 2. Real example	1. Sample: proposed best practice
Retail Credit	1. Sample: proposed best practice 2. Real example	1. Sample: proposed best practice 2. Real example	1. Sample: proposed best practice 2. Real example

***Respondents expect a different approach and tone of voice depending on (a) the amount owed; (b) how overdue the debt is and (c) the type of company communicating to them***

In the scenarios used for this exercise, respondents tended to view the debt associated with retail as less serious, especially at the early stages (the amount was small and respondents expected

overdue amounts plus interest to be added to the next month's statement). They also felt that catalogue companies are reluctant to 'get heavy' since they wish to retain the customer's business. There were even suggestions that they encourage debt – and the type of customer attracted to buying goods in this way cannot often afford cash purchases. All this makes the 'heavy' approach pretty pointless... ➤

## *Long letters don't get read*

Both groups agreed that the attention span of customers, especially in relation to letters about money, is very limited. Certainly, a letter that runs to a second page is too long; in fact, one full page of A4 is considered daunting by many. Respondents preferred text to be broken up into 'manageable chunks', using bullet points, headlines and boxes. Respondents claimed that they might not read what appears to be a very long letter (e.g. at late term) if it 'looks boring/serious'.

## *A letter needs a clear, unambiguous title or headline*

The younger group favoured headlines in bold and red (since they were accustomed to waiting for 'red letters'). Older respondents were less influenced by red text. Respondents also suggested that using red to highlight more than one area of a letter is ineffective.

## *Informal language is ineffective*

It was found inappropriate to use overly informal language in a letter that might also, for example, threaten legal action. On a similar theme, overly personal language can seem patronising. This point was made on many occasions and in relation to numerous examples contained in the sample letters. A tone of voice which is friendly and suggests that the company is approachable is fine, but respondents felt that words and phrases which are 'too chatty' in their tone should be avoided. The effect, especially if coupled with stronger, potentially threatening language, sends mixed messages and confuses the reader. Younger groups were especially sensitive to this possibility and often suggested that phrases used in the sample letters reminded them of being told off by their parents! They resented a tone that failed to acknowledge their intelligence.

## *The threat of administration charges for subsequent letters can be effective – but an unexpected charge relating to the current letter is considered unfair and will merely anger customers*

Both groups expressed some anger at this tactic. The younger group in particular indicated that it may result in them getting in contact to express their anger. Both groups claimed that financial penalties might prompt them into settling

a debt – provided it is made clear exactly how much will be charged. Amounts of £20 to £25 associated with future correspondence were believed by many to be an effective deterrent to further delaying payment.

## *Serious threats (Credit rating, legal action) tend to concern younger audience far more*

Younger respondents (particularly students) were much keener to protect their credit rating, and the threat of legal action was viewed as very real and potentially disastrous. The more experienced demographic tended to take a far more cynical approach to both legal threats and the prospect of a poor credit rating. Both groups agreed on one thing: That communication on this matter needs to be clear and realistic about the impact and how long they may be affected.

## *The prospect of home visits works for late payers*

The threat of being visited by a debt recovery agent – and the embarrassment this might cause – was considered to be a powerful incentive to pay, but only appropriate for late term debts.

## *In the example scenarios we provided, three months of non-payment represented the point at which respondents felt it was reasonable and appropriate for the provider to 'get heavy'*

Most respondents felt it was easy to miss a payment and, as such, companies should give customers the benefit of the doubt. However, three consecutive missed payments is unlikely to be the result of forgetfulness, (or being on holiday, in hospital etc), and at this point, therefore, it is reasonable – and expected – that a company should take a fairly hard-line approach in recovering its money.

## *Passing the debt to a third party debt recovery agency is a big motivator in repayment*

Both groups shared the view that a third party's involvement is indication that the situation has seriously escalated, because:

- The agency will only get paid if it recovers the debt
- An additional collection fee is a possibility
- A third party agency will not care

about the long-term customer relationship: they have no need to tread carefully

## **Summary**

This paper is based on some very specific qualitative research. The findings are specific to the focus groups that attended the two sessions, however, the level of debate and opinions raised in the sessions has generated some interesting points.

## **Key findings:**

- An appropriate tone, clear detail of the consequences and a conciliatory approach are effective in the early phases of collection
- Fees and charges and negative impacts on credit ratings were key motivators to pay
- Charges applied to an account for issuing a letter is disliked and likely to encourage many to contact the organisation to express their frustration
- After 3 months a strong emphasis on serious action is appropriate, including reference to legal action or debt collection agency involvement
- Support should be offered, wherever possible, to aid those in difficulty
- Letters should avoid an informal and patronising tone
- Lengthy letters have a low impact and are often not fully read, resulting in important messages being missed
- Use of red to highlight and focus on a specific point is effective
- Use of red to highlight more than one point is counter-effective

In summary, short and concise letters stating what is owed; what the debt relates to; and what the consequences of non-payment are were found to be highly effective in the collections process.

In order to truly evaluate the impact of changes made to collections letters the implementation of champion challenger testing should be used to provide an accurate measurement in a controlled environment. To read more on this subject please refer to the briefing paper *Identifying the Optimum Collections Strategy Using Champion Challenger Tools*. ■

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