

TaiRox™ Memo

Collections Science and AI Risks

Summary:

Successful collections management is more of a science (based on measured results) than an art. To be meaningful, the measurements must be based on **consistent** timing and messaging. Using AI for collections involves obvious and not-so-obvious risks outlined here.

Improving collections management means lowering collection costs, reducing bad debt, and improving cash flow. **Consistency** is the key to achieving these goals, whether for small or large collections departments. Standardized timing and messaging should replace ad-hoc negotiation. Communications should arrive on schedule with expectations clearly stated.

Reducing Collection Costs:

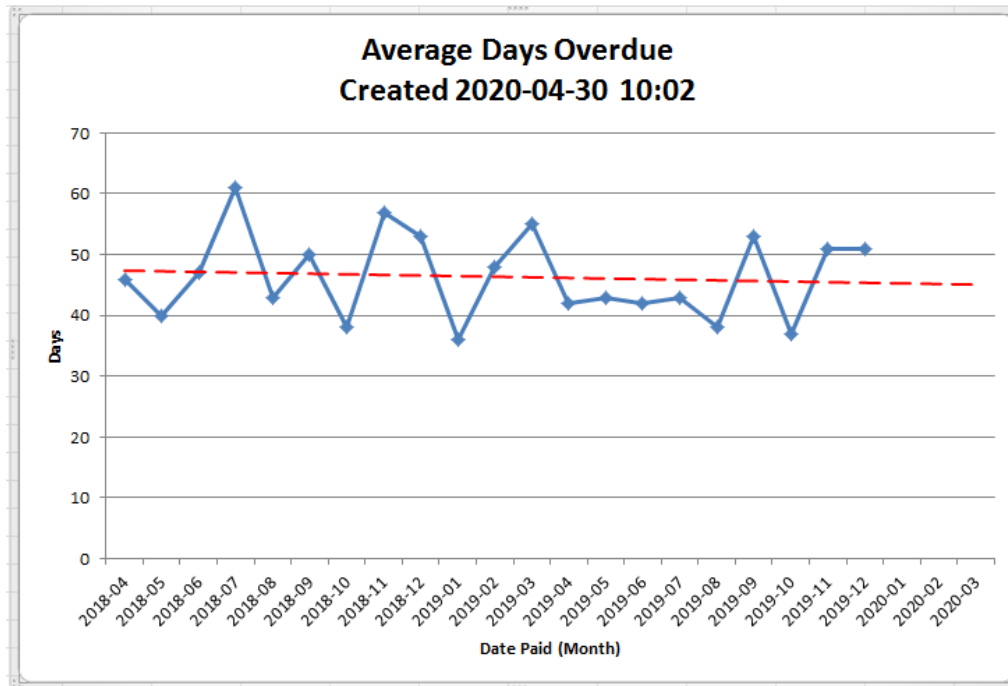
A small Sage 300 installation might have a single person who spends 1 day per week on collections. Collections software saves time by facilitating "picking up where you left off". Standardized messaging simplifies tasks (you don't have to think about what to say) and reduces the temptation to defer to another day.

A larger Sage 300 installation might have 5 full-time people who do nothing but collections. Collections software is set up to run every evening, sending invoices, statements, overdue payment reminders and other communications that meet daily criteria. This frees up staff to do other jobs. Communications are in one place, accessible by any user. A larger installation will have enough data to see KPI trends and make appropriate adjustments.

Chasing a collection can be stressful when wondering when to call and what words to use when pushing for a payment. Chasing a collection takes more time when there is no central record of every communication with a customer. Consistent timing and standardized, recorded communications reduce the kind of stress that can cause staff turnover costs.

One cost you don't want: losing a good customer because of poor collections communication. This doesn't mean you don't send overdue reminders to a good customer. A good customer will appreciate a friendly reminder that payments are overdue. There is a difference between "firm" and "threatening". That difference should not be left to a user or AI agent.

Measurements Related to Bad Debts:



An Average Days Overdue chart produced by TaiRox Collections from Sage 300 sample data.

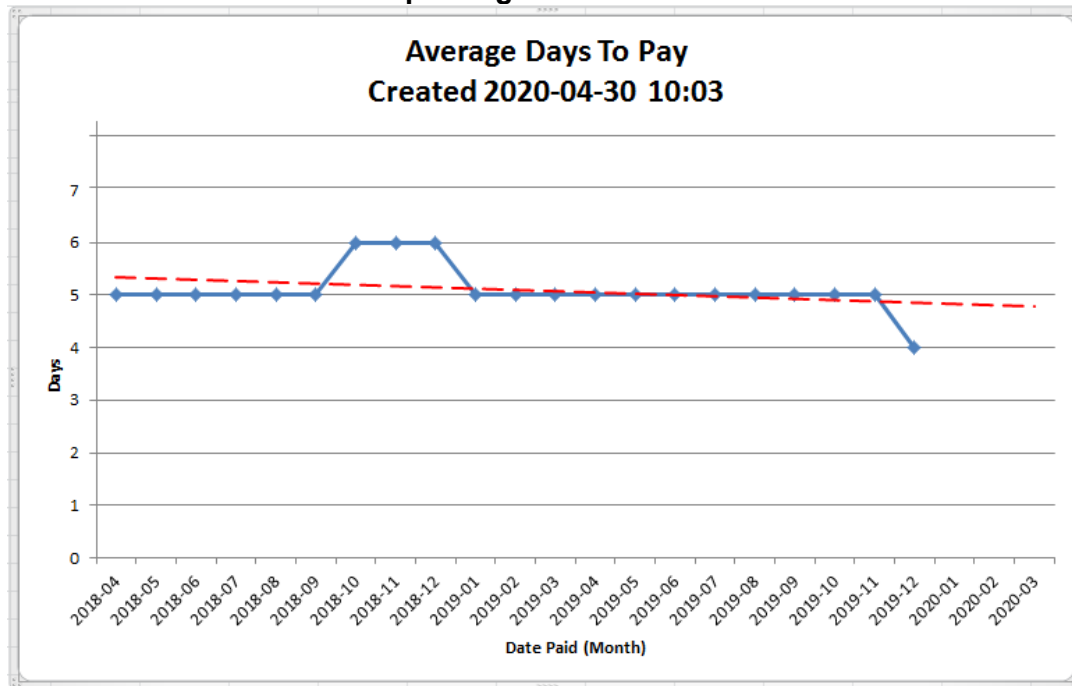
To be meaningful, the measurements must be based on **consistent** timing and messaging.

Average Days Overdue: as this number goes up, the likelihood of bad debts increases. Sage 300 accounts receivable tables contain this data.

Promised Payments Failure Rate: as this number goes up, the likelihood of bad debts increases. TaiRox Collections tables contain this data, including a complete log of changes to promised payment data and notes.

Disputed Invoice Aging Totals: disputed invoices, unless dealt with in a timely manner, are likely to become bad debts. TaiRox Collections tables contain this data, including a complete log of changes to disputed invoice data and notes.

Measurements Related to Improving Cash Flow:



An Average Days to Pay chart produced by TaiRox Collections from Sage 300 sample data

Without data, it is hard to distinguish a temporary cash-flow dip from a structural breakdown.

Average Days to Pay: as this number goes down, cashflow is likely to increase. Weighting the number of days by the amount on an invoice, has advantages and disadvantages. Sage 300 accounts receivable tables contain this data.

Average Days to Resolve Disputes: quickly resolving a dispute improves cash flow. TaiRox Collections tables contain this data, including a complete log of changes to disputed invoice data.

Tracked Invoices: Manufacturing businesses will, on occasion, receive a very large order with payments tied to project milestones. TaiRox can track invoices that need attention but are not overdue.

AI Risks:

- **Trust** is the number 1 concern companies have when adopting AI agents. This often means you don't know what the AI is doing with your data. What companies or other AI agents are getting access to your data? Would that include your bank or your bank's AI? Your customers' AIs?
- **Hacking** incidents are widely reported, related to how "goals" are set. Will your AI, having a goal to get money from a customer, hack into that customer's bank and take the money you're owed?
- **Blackmail** by an AI Agent has resulted in lawsuits. AIs have threatened to ruin people's reputations, sometimes with fabricated material. Do you want today's AI interacting with your customers before guardrails are in place?

AI is useful. Use an AI Agent to draft messages using a tone or style suitable for your business. But you don't want your A/R AI talking to your customer's A/P AI, at least not this year. For today, let automation deal with routine matters and have human judgement deal with exceptions.