AN INVESTIGATION INTO THE EFFECTIVENESS OF CERTAIN FACTORS
IN RETAIL COLLECTION CORRESPONDENCE

DISSERTATION

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PREFACE

For a number of years, the writer has been deeply interested in the field of Office Management, and particularly in that branch of it which involves correspondence. At first, he had a tendency to accept the writings of experts on correspondence as factual and axiomatic. However, as his specialization in the area continued, he often found himself questioning some of the statements made, or, at least, wanting to know the basis for them. He began to look behind the theories for evidence as to their truth.

In the field of collection correspondence, there definitely seemed to be a difference between the theories enunciated by leading authors and experts on business writing and the practices of credit men. For example, the writing authorities stressed the need for handling mail collections on an individual basis, while most of the credit and collections men used processed form letters, right up to and including a final notice that legal action would be taken to collect.

Similar situations exist in connection with other types of business letters. However, it is possible to measure the response to a collection letter rather objectively. Here was an opportunity to make a doctoral study in an attempt to resolve this conflict between
the theorist and the practitioner. Perhaps neither was completely right, but there was no documentary evidence to show what was the true situation.

It soon became evident that no actual statistical proof was available to show which collection methods and devices were most effective. So-called "tested" letters were not really tested under controlled conditions. Statements of principles for the collection letter were not backed with any real evidence of a scientifically defensible nature. It was the tendency of the credit man to give too much weight to a few recent and outstanding cases in arriving at a judgment of collections as a whole; whereas the theorist was guilty of making his theories all-inclusive on too little evidence. No one had ever really tested collection letters under scientifically-controlled conditions.

The task of the present investigation, then, was to find some statistical evidence as to what appeals and devices are most effective in collecting retail charge accounts. Such statistical data offer the first concrete proof of efficiency and results. Letters were mailed to a store's list of charge customers. The test letters prepared by the writer were tested against processed form letters already in use by the store. The results proved very interesting and valuable. It is now possible to state certain principles for the retail collection letter which are backed by some scientific evidence, even though the final answer must await still more investigation.
Many people and organizations furnished invaluable help in this study. Time and space preclude mentioning all, but some should be given specific mention.

The writer wishes, especially, to thank his advisor, Dr. Michael J. Jucius, and the rest of the committee which passed upon the selection of the topic and the preparation of the outline, in addition to reading the completed manuscript and making valuable criticisms and suggestions for improvement. The other committee members are Dr. Robert Bartels and Dr. Charles B. Hicks. Their suggestions and help were of great value.

There were two other people without whose aid this study could never have been completed. One of these is Mr. Claude Spang, a well-known Credit Manager in San Antonio, Texas. His cooperation was much more generous and complete than the investigator had a right to expect. The other is Professor William P. Boyd, of the University of Texas, whose advice, growing out of his wealth of experience in business writing, was invaluable. Since the scene of the investigation was far removed from the advisor in charge, Professor Boyd was able to answer questions and give help, and he was very generous in doing so. He played a large part in determining the limits and direction of the study.

Others whose help is greatly appreciated are: Mr. Leonard Berry, Educational Director of the National Retail Credit Association, who freely put the resources of his organization and himself
at the disposal of the writer; Professor Clyde Wilkinson of Michigan State University, who took a personal interest in the study, and whose encouragement kept the writer on the track in spite of difficulties and discouragements; and Professor C. R. Anderson of the University of Illinois, who, in his capacity as Permanent Secretary and Editor of the American Business Writing Association, put the facilities of that organization behind the study. These men recognized the need for the study and helped greatly in bringing it to completion.

The writer is also deeply grateful to the many credit men and collection managers who aided in the study, particularly those of the co-operating stores which used the test letters. Many others helped by completing and returning questionnaires and by writing and criticizing letters.

Thanks are also due to the many organizations in the field of credits and collections and of other phases of letter writing, to the magazines and periodicals, and to the many members of the American Business Writing Association, who gave excellent co-operation.

It is the hope of the writer that the completed research study lives up to the expectations of those who helped with it. If it does not, the fault lies with the investigator, only, and not with them.
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CHAPTER I. INTRODUCTION

The present study is made for the purpose of determining in a more accurate manner than has heretofore been possible just what factors render a retail store collection letter effective in collecting a debt. Statistical proof in this connection has long been lacking.

Importance of the Subject

Today, as perhaps never before, credit is of tremendous importance in our economy. Particularly is this true of retail credit. Since this study was made primarily in Texas retail stores, it is pertinent to refer to the Retail Credit Survey for 1951, as made for the Dallas Federal Reserve District. No survey was made for 1952; therefore these figures are the most recent available. According to this survey, credit sales volume increased in six of the nine types of stores included, over the figure for 1950.1 Among the six are the three types dealt with in this study: department stores, women's apparel stores, and men's clothing stores. Women's apparel

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stores showed the largest increase—9 per cent.

Charge sales showed greater strength in 1951 than either cash or installment sales. The ratio of charge account sales to total sales increased in all except hardware stores, and remained unchanged there.

Taking the three types of stores this study deals with, separately, it is seen that department store sales in 1951 reached a new high in the District. Most of the increase was in soft goods. Charge account sales were 8 per cent higher than in 1950. They made up a larger proportion of total sales than in any previous year since 1941.2

Men's clothing store sales in the District also rose to a new high. Charge account sales made up 64 per cent of the total. Both cash and credit sales rose at women's apparel stores, but the 9 per cent gain in charge account sales was the outstanding change. Accounts receivable and charge accounts outstanding were higher than the previous year.3

Statistics for the entire country also showed charge sales on the increase. The 1951 Retail Credit Survey showed installment sales declining about 600 millions of dollars, while cash sales

2. Ibid., P. 65.
3. Ibid., P. 67.
increased 6 billion and credit sales increased 2 billion. Charge account sales represented 19 per cent of total sales, or a figure of 29.2 billions of dollars. The charge account business, which had declined during World War II, had since become the most stable element of retail sales, according to the Federal Reserve Board. Charge sales of durable goods declined, while nondurable sales increased. 4

Using figures given for 2619 department stores, charge sales were up 5 per cent over the previous year and represented 29 per cent of the total. Of 463 men's clothing stores, charge sales were up 4 per cent, or 49 per cent of the total. In 681 women's apparel stores, charge sales were up 7 per cent, 46 per cent of the total. Accounts receivable had increased as follows: department stores, 6 per cent; men's clothing stores, 2 per cent; women's apparel stores, 7 per cent. The total outstandings amounted to nearly 4.6 billions of dollars, an increase of 0.2 billion. 5

It has been estimated that about one-half of all the retail stores in the United States sell at least some of their goods on credit. 6 About two-thirds of the credit sales are on charge

5. Ibid., pp. 645-8.
accounts and one-third are installment sales. The retail charge account is the dominant form of retail credit and, since other types of credit rest ultimately on a foundation of sound retail credit, it is most important in our economy. Another way of expressing the figures is to say that credit sales approximate 34 per cent of all retail store sales, but that for the stores offering credit, credit sales account for 53 per cent of all their sales. 7

These figures have been cited only to show the scope and importance of retail credit. Stores which were personally contacted by the writer bear out the increase in the number of charge accounts. This increasing number of applicants for credit poses a dual problem for the store credit manager: that of granting credit wisely and conservatively, rejecting doubtful risks, and that of collecting the many accounts which are not paid promptly when due.

There can be no question that many perfectly honest debtors fail to pay their accounts when due. For one reason or another, even the financially able allow their accounts to run considerably overtime. Many writers have attempted to explain this characteristic tendency. Ettinger and Golieb believe that the retail collection problem is more serious than that on a higher marketing level because retail buyers represent no special group or type of person. They are a heterogeneous group. Many are women and not accustomed to the give and take of business. At best, retail

7. Ibid., p. 25.
collections will be slower than mercantile collections. Retail
collection methods must be elastic, personal, and accommodating.
Many people appear to believe they are doing the house a favor by
paying a bill. Any harsh attempt at collection will offend these
customers and lose a large amount of future business. As some
writers on the subject point out, it is strange indeed that efforts
to collect legitimate bills must be tactful and that payment of
obligations voluntarily assumed must often be pried out of people.
Yet, human nature being what it is, such is the case.

So widespread is this practice of allowing an account to run
overdue that the common 30-day charge account is close to becoming
a 90-day account. A panel of credit managers appearing at a recent
American Business Writing Association convention in Dallas agreed
that they do not consider an account really delinquent until about
90 days after the due date. This attitude is common in all parts
of Texas, and throughout the country, as is shown by a survey made
by the writer. Such a waiting period before beginning serious
attempts at collection is called by Phelps a "courtesy period."
He speaks of it as a standard policy to allow such a period of

8. Richard P. Ettinger and David E. Golieb, Credits and Collections.


30 to 90 days. The exact period will vary, but all agree that they cannot expect most accounts to be paid within 30 days and that they do not worry much about such accounts for the first few months.

Naturally, the stores prefer to collect their accounts early and do try to do so. However, they know the effort will be useless in a great many instances. Doubtless a "courtesy period" of the type described has long been in existence, but stores have tried to conceal this fact from their customers. Probably the excessively lenient collection policies of many stores is responsible for the extension of this period and the fact that customers seem to have taken advantage of the full 90-day period in increasing numbers in recent years.

**Importance of the Collection Letter**

The fact that a large number of customers delay payment makes it necessary to set up a collection program which will not offend the good customer who can and will pay and, at the same time, will suffice to bring action from the more reluctant debtor. Some sort of collection effort is needed to stimulate this action in either case. Perhaps the effort will vary according to the type of customer, but something must be done. The customer cannot be relied

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upon to pay entirely of his own volition, without some form of reminder.

Many credit managers are re-examining their entire collection systems in order to handle the large volume of accounts and to meet the new attitude of customers toward the traditional 30-day charge account. Letters remain a very important part of any collection program. They are relatively inexpensive and are effective in a great many cases. The usual practice is to send some sort of form reminder during the "courtesy period" and then to send other letters—either reproduced or personally prepared. Today's collection letters need revising, too, to keep them in tune with the times. Many of them have not been changed in any material way for several decades. They constitute the most frequently used method of collection and thus should be carefully planned and thoughtfully used.

The foregoing should be sufficient to indicate that the problem of credit—and specifically, that of collecting for credit purchases—is a big one and an important one, occupying much of the time of the credit manager or collection manager. Millions of dollars are involved and about half of the store's customers will be affected by what is done.

Need for the Study

At first thought it would seem that everything has already been done in this field, and the last word said on the subject.
Many books and countless articles have been written about collections. Several magazines exist which specialize in that field. Yet, in this mass of published matter there is no substantial evidence available as to what is most effective in collecting a retail charge account. The writer has examined most of the literature and has yet to find any statistical or scientifically sound evidence. So-called "tested" letters were not really tested under anything like scientific conditions. Data cited as the response to certain letters are found to be only estimates. It is true that credit men have some idea as to which letters seem to work best, but few have kept any accurate records to back up their beliefs. Such "evidence" as exists appears to be purely empirical.

Before deciding to go into this investigation, the writer contacted every available "expert" in order to see if he would be duplicating what someone else had done. He found nothing to show that this would be true. Mr. Leonard Berry, Educational Director of the National Retail Credit Association, said in a letter: "As for the use of the word, tested, I am afraid this word was used in a general rather than a scientific sense. I am sure these letters have not been tested scientifically. We have no figures on letters that have been measured statistically and, personally, I don't believe that much has been done along this line."

Mr. A. L. Trotta, Manager of the Credit Management Division of the National Retail Dry Goods Association, wrote: "Unfortunately,
I know of no specific organization that has conducted any scientifically controlled tests of the effectiveness of collection letters." Mr. L. H. Funk of Dun & Bradstreet said, "We do not know of any tests made of collection letters."

The same report was obtained everywhere. Other organizations and periodicals queried included the National Association of Credit Men, The Retail Credit Executives of Texas, The United States Department of Commerce, The Federal Reserve Board, The Dartnell Corporation, The National Office Management Association, The American Business Writing Association, The National Industrial Conference Board, Retail Credit Institute of America, Credit Research Foundation, Inc., Mail Advertising Service Association, Direct Mail Advertising Association, Daniel Starch and Associates, Associated Credit Bureaus of America, American Collectors Association, Inc., Printers' Ink, The Reporter of Direct Mail Advertising, Time, and many textbook writers and ranking experts in credit and in letter writing. No master's theses or previous doctoral dissertations could be discovered in the various bibliographies available to the writer. All agreed that they knew of no tests that have been made of collection letters on any large scale, and most felt that something needed to be done along this line.

As one author and teacher put it, there have been many tests of the use of colored inks and stationery, size of stationery, use of gadgets, use of indicia instead of stamps, and the like, but not
of the content of the letter—the copy. Most of the tests have been made in the field of direct mail advertising. *Time* has made some tests, but mostly on sales letters. No tests seem to have been made of retail store collection letters on any scale.

The May, 1951, issue of the American Business Writing Association Bulletin was devoted to the question of research in the field of business writing. The general consensus was that research in any phase of business writing was badly needed, particularly in analyzing and testing letter content. To quote: "Our biggest opportunity for research, however, is in 'effect analysis.' The final proof of a business letter or report is the result obtained. One question we would very much like to have answered is: How important is personalization to the success of a letter?"¹²

Many authorities could be quoted in the same vein. Phelps stresses the need for research in pointing out that an inadequate amount of attention is given to statistics and research in retail stores.¹³ Burd and Miller concur and add that most firms have only the vaguest conception of the effectiveness of their letter series. No scientific analysis is made. There is no knowledge of the results of individual letters. Yet each store could gather such

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¹³ Phelps, op. cit., p. 362.
information without a great deal of trouble and effort and it would be most valuable. ¹⁴

The present study, then, attempts to test the effectiveness of collection letters in use in certain kinds of retail stores, in order to suggest improvements and derive some guiding principles. It is the first in this particular field and presents information which should be of considerable value to the management of retail firms, and to credit men in particular.

The Basic Thesis

This research was begun with this thesis in mind: A retail collection letter which is informal and conversational in tone and which appears to be directed to the individual debtor will be more successful than the stiff, form letter which has become typical in retail stores. The study was undertaken to determine the validity of this thesis.

Other questions to be answered are: (1) How good a job are retail collection letters now doing? and (2) What principles can be set up for the guidance of the collection letter writer?

Method

As a part of this research project, questionnaires were

mailed to a large number of credit managers and to letter writing experts, in order to obtain as many reactions as possible before actual tests were begun. A major purpose of these questionnaires was to obtain criteria for the study. Also, material was obtained on credit department practices, insofar as collections are concerned. A total of 560 questionnaires were mailed.

Library research was employed in order to ascertain the amount of work previously done in the field and to obtain background information for the problem. Then a great mass of collection letters actually used by retail stores were analyzed on the basis of the criteria set up by the preliminary studies.

The heart of the study consists of the results of testing collection letters in actual use. With the co-operation of eight Texas stores, actual letters were mailed to the stores' customers under controlled conditions and the results were tabulated. The results of these tests and the validation of the data they reveal will be found in a later chapter of this dissertation.

The sources of data, then, were: published materials, replies to questionnaires and interviews, and the results of actual letters mailed and tested.

Objectives

The major objectives of the study are:

(1) To assist in the developing a body of principles for collecting retail charge accounts by mail.
(2) To obtain statistical proof of the results of various appeals and techniques in certain retail collection letters.

(3) To ascertaining the effects of personalizing a given collection letter.

(4) To suggest what is the most effective kind of retail collection letter in certain situations.

**Scope and Limitations**

This study is concerned only with collection letters used by retail stores which sell articles which cannot be repossessed in the event of nonpayment. To be more specific, three types of stores were used: the department store, the women's specialty store, and the men's clothing store. These stores represent what is called in the trade the "wearing apparel" group. The study is limited to these stores, but the results should be of value to other retail stores as well.

This research does not deal with so-called "budget" or installment accounts, but confines itself to open charge accounts, intended to be payable within 30 days of purchase.

Only collection letters will be included. Other collection devices and methods, as well as other types of letters written by the credit department, are outside the scope of this paper.

It has been found necessary to eliminate the so-called "reminder stage" of collections. In other words, the writer has not tested letters to the debtor whose account has just become overdue.
For the first 30 to 90 days, it has been found that most stores send no letters. They merely use printed reminders or additional statements. This is the "courtesy period" referred to above.

Textbook writers and practicing credit men, alike, insist that any collection effort during this period must be entirely impersonal. It must merely assume that the debt has been overlooked. They feel that, if the customer thinks he is being singled out as an account the store is worried about, he will be offended. They prefer that the collection reminder be considered a mere matter of routine. Phelps, in his official National Retail Credit Association textbook, supports this view most strongly.15

In view of this generally accepted opinion, also borne out by the questionnaires used by the writer, most of the letters used for this study began at 90 days after the due date or later. Most of the efforts of the writer were concentrated in the period of 90 to 210 days' delinquency, although a number of letters were sent to accounts still further past due. That this is the area in which most research is needed is verified by Mr. A. L. Trotta of the National Retail Dry Goods Association. In a letter to the writer, he states that the period between 75 and 180 days is the one with which the investigator should be most concerned. Because of circumstances, this limit has been extended slightly. Rather than taking for granted these opinions regarding the early stages of

delinquency, however, the writer feels that tests should be car-
ried on in this area, also, at some future date.

As far as the actual testing of letters is concerned, it was
limited to Texas stores, largely in the San Antonio–Austin area.
However, the writer believes that customers in other parts of the
country will not differ greatly from those in Texas and that the
findings of the study will be applicable to other states as well.
It is hoped that other studies will follow and expand our knowledge
of collection effectiveness still further.

The study was carried on over a period of nearly two years;
therefore it is felt that any seasonal differences or results of
temporary conditions were canceled out.

Specific information as to the exact tests conducted will be
found in Chapter VI.

Plan of the Study

The study has been divided into several main categories, and
several related subjects to the main thesis are included for better
understanding of the whole. In Chapter II will be considered the
history of the study of collection letters and letter testing, as
well as background information for understanding what is to follow.
In Chapter III the usual collection systems and procedures followed
by stores will be discussed and analyzed. Some cost figures, too,
will be presented. Present-day collection letters, as gathered from a large number of retail stores, will be analyzed in Chapter IV. In Chapter V the criteria for the study and further points on methodology will be explained and the results of the preliminary questionnaires reported.

The results of the experiments with mailing actual letters and tabulating replies will appear in Chapter VI, while discussion of such related topics as the goodwill won or lost by collection letters, comments by credit men on the test letters, and the practicability of using personally-typewritten letters for collections will appear in Chapter VII. The conclusions of the study, together with a statement of principles for the collection letter, will be set forth in Chapter VIII.
CHAPTER II. BACKGROUND INFORMATION

Before attempting to determine the effectiveness of retail collection letters, a great deal of research was done into the literature of the credit field and related areas in order to see what previous testing had been done and to gather background information for understanding the problem. Mail and personal inquiries were also made to many associations and recognized experts.

Credit and Related Research

As has been pointed out above, no real testing of collection letters has been done, other than abortive tests by one credit manager of a few of his own store's letters.

Butterfield and others have published "tested" letters labeled with their "per cent of effectiveness." In a letter to the writer, Butterfield stated that the figures used were not his own, but were given him by the stores which furnished the letters. He did not know how the percentage figures were obtained. A check with several of the firms represented, selected at random, showed

that the figures were obtained under something other than controlled conditions. The Credit Manager developed a letter that seemed good and mailed it to some of his delinquent customers. The exact stage of delinquency varied. The number of cases on which records were kept was very small and often the records were inadequate. The letters may have been tested in only one mailing. There was no control group, and there is no evidence as to whether the letter was reproduced in quantity or individually typewritten. In some cases, the letter was mailed to a selected group—not a random sample. In other instances, the figure cited was merely an estimate, based on the user's memory of the letter effect. At best, the testing was done on a very small scale and over a short period of time.

Other collections of "tested" letters were based on similar situations or used the word only to mean that the letters had been tried out in actual use, with some success. Usually no percentage figures were given.

Most of the testing of letter effectiveness has not been done in collections, but in the area of direct mail advertising. Daniel Starch and other researchers have done some valuable work in this field. Tests have been made of sealed versus unsealed letters, color and size of stationery, difference in enclosures, and the like. Even here, very little has been done in measuring content, such as testing one sales appeal against another. However, the
techniques used are valid for any tests of letters. The usual procedure is to choose a random sample and use half of the sample as a control group. The other group is sent a letter different in only one important respect from that sent the control group, in order properly to test this variable. The two groups must be similar, of course, in important characteristics.

Rudolf Flesch and others have contributed valuable information on the readability of letters. They have analyzed letters as to length of paragraphs, length of sentences, length of words, number of personal references per sentence or paragraph, and so on. These studies have been valuable in enabling letter writers to make their meaning clearer by using simpler phrasing.

Murphy reports on an experiment of this type, carried on by an Iowa farm paper. Using a split run, they varied only the readability level, using Flesch's formula. Words per sentence were reduced from 18 to 12. Instead of 33 affixes per 100, only 14 were used in the test part of the run. Personal references were increased from 2 per 100 to 4 per 100. The Readability Index was 1.5, as compared with 3.66. Using personal interviews, the

researchers found that the reader-interest score on the simpler copy was 18 per cent better. According to their analysis, 99,000 readers would read an entire issue instead of 74,000, at least as far as comprehending it was concerned. This experiment clearly shows the type of thing which has also been done with letters to increase their readability—to enable a higher percentage of people to read and understand what is said. Such research is valuable, but it does not duplicate the present study in any way, except that the letters used by the writer were intended to be as simple and clear as possible, for complete understanding by their readers.

Credit Research

There has been research in the credit field. However, most of it has dealt with the extent of credit, number of different kinds of accounts, collection ratios reported by stores, and similar data. The Credit Research Foundation and the Credit Research Institute conduct surveys on the condition of accounts receivable and the like. The Federal Reserve Board publishes credit figures in each issue of the Bulletin and, until the past year, conducted a yearly Retail Credit Survey, which was an excellent source of statistical information on the overall picture of retail credit. Some Bureaus of Business Research of leading Universities, such as the University of Texas, also publish statistics on credit and collections for their areas of service.
The National Retail Credit Association publishes figures and also conducts a Better Letters Service for those who wish to subscribe to it. The service consists primarily of criticism of a store's letters and the furnishing of bulletins of helpful hints, plus sample letters which can be adapted to the store's own use. Examples of actual store letters are printed in each issue of the Association organ, Credit World, together with comments on them. Their effectiveness may be attested to in general terms, but actual figures are missing. The publications of the state retail credit organizations and the National Retail Dry Goods Association usually follow a similar pattern. The National Association of Credit Men publishes statistics dealing primarily with the wholesaler or manufacturer. Some of the merchants' associations of large cities, such as New York, do some valuable work for their locality. The National Conference on Consumer Credit and the conventions of the various credit organizations are sources of much valuable information. Credit Bureaus and their organizations carry on some research. However, none of these deal specifically with the testing of letters.

Most of the research in the field of business letter writing has been concerned with determining the ways in which the subject is being taught in colleges and universities and ways of improving such teaching.
Dr. Clyde W. Phelps, whose publications have been sponsored by such organizations as Household Finance Corporation and National Retail Credit Association, has conducted research into various areas of credit. He has not been primarily concerned with the collection letter, but some of his findings on collections in general are of interest.

For example, Dr. Phelps points out that those whose accounts have become considerably past due seldom buy currently and, if they do, they buy in smaller quantities. Often they stop trading with the store entirely. The very slow accounts return little of their cost to the store and, indeed, the costs of such accounts go up considerably. These are arguments in favor of a positive collection policy, applied early.

Dr. Phelps also indicates some fallacies in relying upon the standard type of collection percentage figure—that is, the proportion of outstandings at the beginning of the month which are collected during that month. A satisfactory collection percentage may result from more rapid payments of current accounts. At the same time, the very old accounts continue to become more


seriously delinquent. The collection percentage, alone, does not reveal how serious the delinquency of certain customers is becoming. The same difficulty occurs with using the ratio of accounts receivable to average monthly sales as an indication of the average length of outstandings. The average just does not always show the increasing proportion of very slow accounts. Such slow accounts, far past due, may be offset in other ways so that the average still looks favorable.\textsuperscript{20}

These points are made because most of the published statistics are of these two types. These figures are valuable and helpful, but they still leave many questions unanswered. The credit man must be concerned about the extremes on his books, as well as the average.

The Collection Problem

At this point, the comments of various credit and collection authorities should be cited, in order to make clear the objectives of retail collections and the trend of thinking on the subject. Books and other publications on credit have been published for many years. Some of the ideas set out in the oldest of these books still hold true today. In other cases, the concept has changed greatly.

\textsuperscript{20} Ibid., pp. 21–22.
The fact that the collection letter has the dual objective of collecting the account and also retaining goodwill and future business has been attested by virtually every writer on the subject, from Beckman and Held in 1925\(^{21}\) to Smart and McKelvey in 1950.\(^{22}\)

Beckman and Held also point out that correspondence carries the bulk of the collection activity because of its economy, the ease of control, its confidential nature, and the fact that it provides a permanent and available record.\(^{23}\)

In spite of the fact that it appears to be done very seldom, many authorities counsel the handling of collections on an individual basis. As Frailey puts it, "No one letter can ever do the perfect job for all situations.\(^{24}\) Yet almost all of the stores investigated by the writer used form letters almost exclusively and made no attempt to apply individual treatment. The reason given was invariably that time and the shortage of competent help made impossible the individualizing of collections.


\(^{23}\) Beckman and Held, op. cit., pp. 10-11.

Frailey feels that nothing constructive can be done about collections until one knows the facts of the case. However, it seems to be human nature to conceal the facts as long as possible.\(^25\)

Many writers have attempted to discover why people do not pay their accounts when due. Some of the reasons have already been indicated, but reference may be made here to the varying lists of reasons given by the experts, from a list of three reasons to as many as nine.

According to Phelps, people delay payment for one of three reasons: negligence, inability to pay, or unwillingness to pay. He feels that most of the trouble lies in failure to educate the customer to proper paying habits when he opens his account. If the store insists from the start on compliance with terms, Phelps thinks there will be very little trouble.\(^26\)

Burd and Miller say the problem of delinquency arises because of an error in granting credit initially, unexpected reverses, unwillingness to pay, or lack of funds. In collecting from customers, some need only to be notified, some have to be reminded, some must be reasoned with or helped, some need to be shown the unfavorable consequences of their acts, and some have to be forced to pay. All of these types are to be found among the customers of practically

\(^{25}\) Ibid., p. 102.

every business house. The collection writer does not know in advance just how and when each one will react. However, he must collect from each as quickly and as economically as possible. 27

A more comprehensive list of types of debtors is given by Ettinger and Golieb, as follows: those who disregard the account because of its smallness, those who overlook it because of negligence or poor business methods, those who disregard it because they know they can get away with it, those who have taken unearned discounts, those who are chronically slow, those who are temporarily slow but who will pay, the temporarily embarrassed, the insolvent, and the crooked or deliberately fraudulent. 28

In theory, each class should be given different treatment. In practice, as has been shown, this is not often done.

Frailey gives four classes: the careless, the poor managers, the naturally slow, and those who do not intend to pay. 29

Tregoe and Whyte cite the following reasons for slow collections: in retail transactions there is less contractual obligation; terms are more flexible, with liberal returns policy; the competition is more localized, so that the offended customer can go across the street and buy from someone else; there is less inducement for prompt payment—no discount for cash; there is reluctance

27. Burd and Miller, op. cit., pp. 244, 271.
29. Frailey, op. cit., p. 45.
to pay for goods already consumed; the personal buyer is less careful than the business buyer in his budgeting; the personal debtor is more sensitive than the business debtor, as the relationship is not so impersonal.30

From the foregoing comments, one can see that the collection problem, at the retail level, is complicated by many variable factors. Unquestionably, one must study the debtors of his firm and know their psychology before attempting to collect from them. The lists which have been given of reasons why people do not pay differ only in wording and emphasis. Essentially, they all add up to the same things, whether a list of three is used, or a list of nine. The psychology of the debtor is there. The letter writer must study it and apply it. However, it will be shown that, in some respects at least, debtors can be dealt with effectively as a group.

Naturally, the credit manager cannot expect to collect every account without loss and he cannot expect to collect every account without injured feelings. However, as long-time letter consultant Frailey points out, the real test of his system is how low his loss ratio can be kept without destroying goodwill.31

31. Frailey, op. cit., p. 11
In the following chapter, the findings of the writer in his preliminary investigations will be given, so that the practices of stores in the survey may be compared with these suggestions and principles given by credit men and letter writing authorities.
CHAPTER III. COLLECTION DEPARTMENT OPERATION

In order to understand more fully the existing picture of collection practices, it is pertinent to examine the way in which most store collection departments operate. Any standard reference on credits and collections will make clear the need for a definite system. There must be some way of keeping track of accounts which are not paid promptly and of following them up.

Most stores use letters as a major part of their collection process. These letters are ordinarily arranged in a series, ranging from fairly mild, friendly letters to more severe and businesslike attempts to collect the account. However, the number and kind of letters used, as well as the time of sending them, vary greatly among retail firms. Therefore, an attempt was made to determine just which practices are most common in retail store credit departments at the present time. Rather than relying on statements in books and magazines, the author obtained a considerable amount of data first-hand from credit men.

Four Questionnaires Used

The writer mailed out at various intervals four questionnaires to credit men and letter writing experts in all parts of
the United States. The names used were furnished by the National Retail Credit Association, Retail Credit Executives of Texas, and American Business Writing Association. In addition, he ascertained by interview and correspondence the practices current in some twelve or fifteen additional stores.

Questionnaire 1 was mailed August 1-12, 1971, to 51 members of the American Business Writing Association (mostly college teachers of business writing) and to 22 credit men. The replies from teachers and letter writing experts will be analyzed later, since they dealt largely with criteria for the study. Of the business men, only five replied. The total response to this questionnaire was 27.

Items for this questionnaire were selected after a careful study of writings on the subject of collection letters in textbooks and in periodicals. Also, the advice of several leaders in the field of business writing was obtained. The basic questions which were confronting the writer, as the methods to follow, items to test, criteria for judgment, and the like, were the basis for this questionnaire.

The chief criticism of Questionnaire 1 was that it required discussion answers in the blank spaces provided. Apparently,

32. All of the questionnaires referred to herein may be found in Appendix I of this dissertation.
answering it appeared to involve too much trouble for many of those questioned. Therefore, a revised version of this same questionnaire was prepared, using many of the same questions, but arranged for short answers—checks or one-word fill-ins. In other words, this was arranged as an objective quiz, to make it easy to answer. On September 24, 1951, 59 copies of Questionnaire 2 were sent to credit men of various stores throughout the country, using names supplied by the National Retail Credit Association. Of this group, 18 replied. However, one reply was negative, stating that the person did not have the time at present to fill out the questionnaire.

Questionnaire 3 was mailed on March 14, 1952, to 46 additional credit men, largely in the state of Texas. Many of these names were furnished by the Retail Credit Executives of Texas. Twelve replies were received.

The fourth questionnaire was mailed out as from the Retail Credit Executives of Texas and was sent to 382 of their members on April 21 and 22, 1952, just in advance of their annual convention. Forty-eight replies were obtained from this questionnaire.

Out of a total of 509 questionnaires to credit men, 83 usable replies were received, or 16.3%. The purposes of these questionnaires varied somewhat. In the case of the first two, they were designed to obtain the thinking of credit people as to criteria for collection letters and to secure suggestions for procedure in
the study. Only incidentally did they bring out points on credit department operation. Questionnaire 2 was a revision of Questionnaire 1, with a few additions.

The fourth questionnaire was made possible by the Retail Credit Executives of Texas, who were glad to co-operate with the investigator in this study. Its primary purpose was to obtain information as to the credit and collection practices in various firms. The panel discussion of credit men in Dallas, previously referred to, also revealed some interesting data on this subject.

Results

On the basis of the data obtained from all these questionnaires, many points about letter usage may be made. It was found that 36 out of 78 firms use printed form letters with addresses filled in. Form letters, individually typed each time, were used by 43, while 5 used the automatic typewriter. It is interesting to note that 58 reported that at least some of their collection letters were dictated to suit the individual case. Unfortunately, the question was not so worded as to make it clear just how many personally-dictated letters were used. However, the writer found, through personal contact with virtually all the stores of the three types studied in San Antonio and Austin, in addition to others in Dallas, Fort Worth, and Houston, that personally-dictated collection letters were almost never used. Only two stores were found
which use them as a regular practice. Many others would like to do so but find themselves with insufficient time. Therefore, this writer believes that the stores which reported using dictated letters had reference to situations in which something unusual had come up in connection with an account, such as a complaint, an error in billing, a request for further time on an old account, and the like. Or they might be used when everything else had been tried and had failed. On the basis of all the other evidence he has been able to acquire, the writer is convinced that such was the meaning of the answers to this question. Credit managers reported in interviews that they had attempted to dictate letters in the early stages of collection and had found that such letters were invariably so similar that continuance of the practice was considered unprofitable.

The number of form letters a store may use varies widely. Survey answers ranged from one to 110. If form letters are considered as including the various types of printed reminders and notices, it would doubtless be found that every store uses a sizable number of form notices—at least at first. However, judging from other statements made, it seems clear that the respondents interpreted this question to mean printed or duplicated (or even typewritten) messages in the form of complete letters; letters, not notices.

The fact that one firm uses 110 form letters and several others
use nearly as many shows how far a business may go in attempting to foresee possible contingencies and to provide "canned" messages to deal with them. Also, it shows the variety available, so that some leeway in the treatment of customers is possible. A customer need not receive the same letter several times in the course of his association with a store.

The number of letters used in the course of collecting one account was not asked on the questionnaires. However, personal investigation reveals that stores may mail from four or five letters to as many as twenty in collecting one debt. Although the series of letters will usually run its course in a period of from three or four months to as much as twelve to eighteen months or even longer, there are some instances of accounts kept in the regular ledger for several years, without being charged off to profit and loss. For example, in 1953, one store in San Antonio is still sending collection efforts to some 1950 accounts.

However, even where many form letters are available, the tendency is to use certain ones over and over, to the exclusion of others. It is difficult to keep in mind the large number of letters which can be used, so the credit manager relies on a few which become his favorites and largely neglects the rest. For example, in one retail store there are 80 form letters, in a looseleaf binder. These letters are not reproduced in quantity, but are typed individually each time they are used. The wording is not
changed and no dictation is necessary. The investigator found that seven or eight of these letters were used repeatedly, while many were not used at all. Among the firms surveyed, one with 100 form letters used only 30 to any extent. Another firm has 50 letters, of which only 15 are used. On the survey, more votes were cast for the use of a few letters. The largest number of answers was for the use of three or four letters.

On the other hand, one large department store in Philadelphia has 92 letters and uses them all regularly. A checklist is prepared for the use of letter writers, using the first few words of each letter to call to the memory of the writer the substance of the letter. Each letter is also assigned a number. It is sufficient in most cases to indicate to the typist the number of the letter to be used. She will be able to obtain the complete letter from the files. In some firms she copies it and in others there will be a printed or multigraphed copy on which she fills in the address before mailing. This method is used by a number of firms which have many form letters and want to use them all to some extent.

Need for Revision of Form Letters

Several credit men told the writer that their list of collection letters had not been revised or examined for many years. In some cases the letters in use had been "inherited" from a predecessor. In very few cases had the letters been developed in a thorough study
of customer records and careful composition, with an eye to elimin­
ating offensive phrases and bringing the letters into line with
other store policies and practices. Many letters were lifted intact
from one of the many collections of "best" or "tested" letters.
Seldom is a collection letter born spontaneously from the brain of
the writer; it is usually a symposium of the thoughts of others
and one's own experience. An analysis of collection letters will
show considerable family resemblance among the letters of widely
separated firms—as will be shown in Chapter IV.

A great many credit men, contacted by the writer, had not made
any thorough analysis of their letters. Many of them had never had
any training in business writing to enable them to criticize with
any practical basis. A number of these credit managers were eager
for new material to send their customers and were glad to use let­
ters prepared by the writer.

One or two firms reported an excellent, but seldom—practiced,
technique: that of revising the form letters every month. Most
of the stores surveyed made little effort to prevent a customer
from receiving the same letter several times in the case of re­
peated delinquency. Even minor changes would prevent the effect
of rote repetition.

Time of Delinquency and Its Treatment

Practice varies greatly as to when an account is considered
delinquent. As previously pointed out, a 30-day charge account is seldom considered delinquent when first overdue. The standard practice is to continue billing and perhaps send a form reminder with the statement. Not until several months after the account becomes overdue is a regular collection letter sent. Naturally, store practices vary. Some stores have a strict policy and follow up an unpaid account very promptly. However, most of the stores with which the writer is familiar pursue a liberal policy and permit the "courtesy period" previously referred to. Credit managers point out that many very good customers do not pay their accounts when billed at the end of the month. They forget, they are temporarily short of funds, or they simply have the habit of delaying payments. Some customers seem to feel that their bills are not due for about 90 days, even on an open account. In such cases, the stores are probably responsible for not holding them to terms in the beginning.

It may be wondered what effect cycle billing is having on this picture. Actually, the collection of the account and the practice of letting it run past the due date continue just about as before. However, there are fewer accounts in each cycle and fewer collection letters to be sent at any one time. The account is still considered due in 30 days, but the fact that billing may occur in the middle of the month may lead some customers who receive their own compensation the first of the month to delay their payments.
Stores using cycle billing still have a collection problem. The trend among a few of them toward the extended use of printed inserts and stickers instead of letters until the account is very seriously delinquent seems contrary to the evidence of this study. Such impersonal collection efforts are bound to be less effective in the later stages of delinquency. However, it should be pointed out that many firms which use cycle billing still employ collection letters in much the same way as stores using first-of-the-month billing.

Survey results on this point show that the first notice (not necessarily a letter) is sent out anywhere from 30 to 120 days after the due date. The largest number of firms reporting any one period was 25, who waited 60 days. Twelve delayed 90 days and 6, 30 days.

The first message in the form of a letter, as distinguished from notices and stickers, was mailed after 90 days by 17 firms. Thirteen waited a longer time—120 days to 6 months after the due date.

As to the first type of reminder sent, the most common were: printed reminder—33; notations on statement—19; stickers on statement—19; cards—13; additional statements alone—9; letters—5. One firm reported using an aged-balance statement at this point.
Because the practice of so many firms seems to be to wait approximately 90 days, if not longer, before beginning to press the customer for payment, the writer began his tests of letters at 90 days' delinquency in each case.

Interval

Once collection efforts begin, at what intervals are they sent? Here, too, there is a variation. The traditional 30-day period is no longer the invariable practice. Where 30 days are still allowed it is often because the amount of work involved makes the sending of two notices or letters a month impossible.

The 30-day intervals was reported in use by 30 firms. A two-week, or 15-day interval is used by 29. Shorter intervals were reported by 8 firms; 7 used 10 days and one used a week.

In theory it is unquestionably desirable to consider each case on its individual merits. Before sending any letters, the credit (or collection) manager should re-read the application for credit and any other correspondence from the customer and re-check the previous record with the store. Many credit managers do attempt to do this. Few are able to do so in all cases, and they are usually in the smaller stores. The large store with thousands of accounts may wish to do this, but finds it too big a job. The task of sending out collection notices and letters is left to clerical and secretarial help and all customers get the same
treatment, unless some letter or action on the part of the debtor makes special treatment really necessary. The problem of keeping competent office help is a serious one in many credit departments and also affects the efficiency with which their collection systems are applied.

The fact that some stores are trying to give some individual treatment is shown by the report of 40 firms that the interval between letters varies. That is, the better customers, or those with small balances, are given more time between letters than are others. This is an encouraging sign. Most credit managers contacted said they got to know some of their customers very well and did not always apply the "system" to them. In the smaller stores, particularly, most of the "regulars" become known.

It is interesting to note, also, that there are usually a few "special" customers who must be handled with care—who take offense at any sort of collection message, even though their accounts are past due. Stores which deal with wealthy customers report them especially difficult to collect from. They resent being notified of a debt and yet they often let it run several months. Then they pay the entire amount in one lump sum.

The firms questioned on the third questionnaire were asked if the interval allowed between letters was longer in the case of out-of-town customers—to allow for delays in the mails. Only five firms of 48 responding reported any such distinction. Most
of the firms treated local and out-of-town customers the same.

**Telephone and Other Collection Devices**

Even in a research paper devoted to collection letters, it is impossible to ignore completely the use of the telephone in collections. Many firms use the telephone from the early stages of delinquency, along with letters. Others wait until letters seem to have failed in collecting. But virtually all use the telephone in some way.

Of the firms surveyed on this question, 45 of 48 reported using the telephone for collections. Six firms said they used it only occasionally. As to how soon they used it, answers varied from 45 days, or after a few letters, to 120 days or more. Nine firms used it after 120 days and 9 more reported its use only in special cases. Three more employed telephone collections only after everything else had failed. Nine waited 90 days or more and eight used the telephone between 60 and 90 days. The tendency seems to be to try letters first, and then to use the telephone to debtors who do not respond to several letters. A few firms use the telephone almost exclusively. Others use it intensively for debtors whose accounts have been abandoned as far as letters are concerned and have, perhaps, been charged off the Profit and Loss. The telephone has the advantage of insuring some sort of reply from the debtor. However, it is time consuming and is seldom used for out-of-town customers.
Ultimatum

Most textbook examples of the collection letter series include an ultimatum letter. That is, a deadline date is set, by which the payment must be received or "drastic action" will be taken. The exact nature of the action planned may or may not be disclosed. However, in several of the stores where tests were made, the investigator found that such a letter was not used except in the few cases where a lawsuit was planned. In most instances, the store stopped sending letters and charged off the account, but did not tell the customer it was giving up or transferring the account to a collector. Therefore, the stores surveyed were asked if they actually used such a letter. Forty-two stores reported that they did.

It is interesting to note that several stores will send out such a "last chance" letter, setting the deadline date for action and then, if no response if forthcoming, will continue to send letters instead of taking the action threatened. The investigator pointed out to the credit managers involved the danger of such tactics, since the debtor soon gets to know if the store is bluffing or indulging in empty threats and pays no attention to threats from then on. The store should keep its word if it hopes to keep the respect of its customers. The credit managers admitted the justice of this criticism; however, they seemed to feel that, if a bluff would work on some debtors it was justified.
Two or three stores reported using registered or special delivery mail for these ultimatum letters. This question was not asked specifically, so it may be that others attempt to secure better attention and feeling of importance by these methods.

Other Practices

Other practices among the stores surveyed included the use of humor in collection letters, the value of "credit education," and the length of letters. The vote was definitely against the use of humor. As one credit manager put it, "There's nothing funny about a debt that's overdue." There is probably no collection of "best" letters which does not include examples of humorous, trick, or "stunt" letters. The so-called experts seem to like them. However, the practicing credit men are not so sure of their value. There was no reference to humor on Questionnaire 4, but the results of the other three showed 27 votes against humor and only 3 in favor of it. Even those three advocated its use only in the very early stages of delinquency. Humorous reminders are sometimes used, but there is always the possibility of misunderstanding, plus the fact that what is funny to one person may not be to another. In any event, few of the famous humorous letters were used by the retail stores surveyed.

As for credit education, all 12 of the respondents to Questionnaire 3—the only one on which the question appeared—felt it desirable
and helpful. By credit education is meant including in each letter a reminder of how credit terms operate, the conditions of the credit agreement, the importance of credit, and the like.

The vote of a large majority of those surveyed was for the short letter—all other things being equal.

**Profit and Loss Accounts**

Virtually all retail stores charge off some of their old accounts to Profit and Loss periodically. These are the accounts which are very old and very difficult to collect. Usually the charge-off is strictly according to age. Charging them off does not necessarily mean that no more attempts will be made to collect. The firm is likely to turn the list of P & L accounts over to an agency or special collector. However, it is considered a standard and conservative bookkeeping practice to charge them off for the current year.

The charge-off is usually yearly. This practice was reported by 49 firms. Seven wrote off credit losses twice a year and two reported doing so every month. The age of accounts thus charged off varies from 60 days to two years, but most of the firms surveyed used four months to one year. Twenty reported charging off 6-month accounts and older. Twenty others charged off year-old accounts. Eight charged off accounts four months old or over.

Some firms consider the past record of the customer, but many apply the age limit rigidly, without considering the individual.
The customer is not notified of this action, but if the account passes into the hands of an outside collector he will, of course, receive collection notices from that collector. A few stores employ special personnel to work on these P & L accounts, while others make no further effort to collect unless the account is large, feeling that a few will pay anyway, eventually, and the others are not worth added effort and expense. Of course, in the case of large accounts, the store may resort to legal action.

Most stores do use an outside collector. Nine stores reported using the local merchants' association or similar organization. Six used an attorney. Nine used a collection agency, and four tried personal contact. Many used the telephone at this stage.

Costs of Credit Program

In attempting to determine operating costs, one runs into the difficulty of comparisons between stores. The activities for which the credit manager is responsible vary greatly. For example, a large store may separate credit granting from collections and have both a credit manager and a collection manager. However, most stores keep all the credit activities under one head. But many extra duties and extra personnel to be supervised complicate the picture in many cases.

A great many retail credit men also have the responsibility for adjustments. Twenty-two firms of the 60 respondents to the last two
questionnaires reported that such was the case in their stores. Thirty-five reported that they supervised the bookkeepers—at least the accounts receivable. Few had anything to do with accounts payable. Two handled direct mail promotions; four were in charge of layaway or Will Call; eight supervised the cashiers. In isolated cases, others reported being in charge of salaries for the entire store, auditing of sales, secretarial help, buying records, and inventory.

Because of these variations, any figures on cost of operation of the credit department lose much of their meaning. However, Questionnaire 4 included such a question. Few answered it. The costs given varied from 1.5% of charge sales to 6.1%. However, most replies gave figures of between 1.5% and 2%. As a per cent of total sales, answers varied from .5% to 3.5%, with most answers clustered around .5% to 1 or 1.5%.

The per cent of collections for the past year was reported by 37 stores. Answers ranged from 38% to 99.6%, with most in the 40 to 60% bracket. Information is not available on the stores which claimed over 95%, of which there were four. It is possible that they are small, specialized operations. At any rate, these were extremes. Most stores seem to get about 50%.

It is possible, of course, that this question was misunderstood. Instead of giving the usual monthly collection figure, some may have interpreted the question to mean the per cent of debts which were eventually collected—even after the lapse of a
considerable amount of time. Most stores stated a monthly percentage figure, in the customary way.

Summary

In general, then, the customary system of collections in a retail store works as follows:

When a customer's account first becomes overdue, form notices or reminders are sent—usually printed and impersonal.

After about 90 days' delinquency, the letters begin. Frequently, the same ones are sent to all debtors. These letters begin with a mild tone and eventually lead up to stronger and more severe arguments. They are sent out at 15 to 30-day intervals,

After from 5 to 25 letters, if no payments have been received, the attempts to collect may be abandoned, or the account may be given to an outside agency.

This is the collection series, usually used in some form by all retail stores. Its operation and effect are well illustrated by the diagram which appears on the next page. This chart is based on letters sent in series to 100 accounts by an actual business firm. The first six collection messages were sent at 15-day intervals; numbers 7 and 8 were sent at 10-day intervals; and 9 and 10, at 5-day intervals. The total time elapsed was 120 days. The number who paid after each letter is indicated. This is fairly typical of the way such a series works, although the interval and total period are shorter than that of many stores. The number paying is
large at first, but tapers off. In this case, only one account had to be turned over to the attorney for action.

**DIAGRAM I**

Collection Follow-up Series

<table>
<thead>
<tr>
<th>FIRST STAGE</th>
<th>DISCUSSION STAGE</th>
<th>FINAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>DUPLICATE STATEMENT</td>
<td>DUPLICATE STATEMENT STICKER</td>
<td>ERROR</td>
</tr>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>REQUEST PAYMENT</td>
<td>OFFER ASSISTANCE</td>
<td>APPEAL TO PRIDE</td>
</tr>
<tr>
<td>4</td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td>FAIR PLAY</td>
<td>EXECUTIVE INDEBTEDNESS</td>
<td>THREAT</td>
</tr>
<tr>
<td>7</td>
<td>8</td>
<td>9</td>
</tr>
<tr>
<td>ACCOUNTS PAID</td>
<td></td>
<td>10</td>
</tr>
</tbody>
</table>

CHAPTER IV. EVALUATION OF PRESENT-DAY COLLECTION LETTERS

An additional preliminary study, before attempting to create and test new collection letters, was to examine a large number of retail collection letters actually in use, in order to see their strong points and their weaknesses. If the letters to be used in the tests were to be typical, or improved, it was necessary, first, to see what the situation was in retail collections by mail.

Some 700 letters were evaluated and tabulated, coming from 85 different retail stores. These letters were analyzed and criticized on the basis of criteria set up from the preliminary surveys and from the writings of experts as to what a collection letter should be like.

There exists a good deal of expert testimony as to the ideal characteristics of a collection letter. For example, Beckman and Held give the following "marks of a satisfactory letter": standard usage, correctness, lack of wordiness, one central idea, coherence, dignity, equanimity, tact, originality, affirmative or positive suggestion, applicability to the situation, and personal and individual treatment to anticipate the needs of the customer. 34

Chapin says the things to avoid are: superior attitude, offensive

tone, lack of clarity, use of insistent or demanding language, stereotypes, monotony, sarcasm, overuse of either "we" or "you."³⁵

According to Beckman and Bartels, it is quite important to avoid stilted, hackneyed, and uninteresting sentences, which are likely to occur especially in letter beginnings. Instead, the letter should appear to be a personal message. The same authors proceed to stress friendly tone, courtesy, tact, dignity, and firmness, with an avoidance of apologies and excuses.³⁶

Butterfield lists "Seven Sins" for the collection writer: curt tone, obvious form letter, trite expressions, exasperated tone, offensive or discourteous expressions, injured or pouting tone, and excessive length. He gives numerous examples of each category. On the positive side, he counsels mentioning the amount due in every letter, being "human," making the letter personal, informal, and friendly.³⁷ Frailey joins with Butterfield in listing offensive or unnecessarily irritating expressions, such as "neglect," "ignore," and "complaint." He also points out the common error of beginning the collection letter in an unoriginal, routine, impersonal way, by simply stating the amount due in the first sentence.³⁸

³⁷ Butterfield, op. cit., pp. 15, 26, 94-110.
It is important to make the amount clear, but reference to it in
the opening is hardly the best way to insure a complete reading of
the letter, with the proper psychological effect.

Janis lists still more offensive words and phrases, which are
likely to lower the effectiveness of the letter.\textsuperscript{39}

In a little different approach, Picken sets up standards for
judging a letter:

Does the letter accomplish its purpose?
Does it hold goodwill?
Is it worthy of the standing and reputation of the house?
Is the physical makeup attractive?
Is the style simple and clear?
Has every effort been made to accomplish its purpose without
further correspondence.\textsuperscript{40}

Most of the other writers in this field set up similar stand­
ards for judging effectiveness. Other points will be developed as
the letters are criticized.

\textbf{Criticisms of Letters}

Virtually all the letters examined were prepared form letters,
since it has been found that most collection letters are of this type,
they will serve to illustrate the most common faults and virtues to
be found in collection letters as customarily used.

\textsuperscript{39} J. Harold Janis, "An Index of Insults for Writers of Business

\textsuperscript{40} James H. Picken, Credit and Collection Correspondence. New York:
The largest number of criticisms has to do with triteness and lack of originality. It will be remembered that Beckman and Held list lack of originality as a fault which renders the collection letter much less effective. Most other writers on the subject also stress the avoidance of old-fashioned, stereotyped words and phrases. Some of these are considered bad because they have been used in a manner contrary to their dictionary meaning, while others were once good usage, but have been so overworked that much of their force and meaning have been lost.

Of the letters examined, 71 contained expressions listed by three or more authorities as trite. The most common of these were: "favor," which appeared 13 times; "kindly," 17 times; "trust," 18 times; "advise," 21 times; "communication," 8 times; "above," 9 times; and the trailing ending, which is an incomplete sentence merging into the complimentary close, 12 times. It must be remembered that these words were not used in the accepted meaning, although when properly used, some of them are still good.

It probably cannot be proved that the inclusion of such expressions lessens the effectiveness of a particular letter. However, a great many serious students of the subject feel they do handicap the letter, and no one seems to have a good reason in favor of their continued usage. The best explanation for the frequency of their appearance seems to be tradition and lack of thought

41. Beckman and Held, op. cit., p. 33.
on the part of the writer. No one uses the old "whiskered" words in everyday conversation. There seems to be no justification for including them in nearly every business letter. If nothing else, they are the opposite of original thought.

While one trite expression may not condemn a letter, yet constant use certainly tends to show lack of interest in the letter and its reader, as well as lack of originality in word choice. In short, they rob a letter of personality and make it possible to write one without much thought.

The idea that there is a separate language for business letters, as distinguished from conversational English, has been pretty well exploded. Students of business psychology believe that customers of a firm prefer a letter that seems personal and human—directed especially to them. In line with this belief, the feeling is widespread that the business letter should be couched in conversational language for best results.

Even those letters which did not contain specific expressions which have become threadbare through excessive use were often found to be quite impersonal in wording. At least 22 letters fell into this category. These letters were formal and stilted in wording. They were usually directed to customers in general, and not to anyone individually. They might be called "blanket" letters.

Even in the case of prepared form letters, the wording can be such that the letter appears to be directed to one person. Therefore,
each person can apply it to himself. A general statement, such as, "People who allow their accounts to become overdue may find themselves without the precious possession of credit," can hardly have the effect of an appeal or statement in terms of the individual's own situation or problem. The letter should be written in the singular, rather than the plural.

Examples of lack of originality abound. Far too many collection letters use the "statement" beginning. That is, they start by stating, "Your account for August, amounting to $37.51, is still past due." While these facts do need to be brought again to the debtor's attention, he can hardly be expected to react with pleasure or to find the opening so fascinating and interesting as to induce him to read more. The sending another statement would probably do just as well.

If we accept the premise that it is possible and desirable to use psychology in inducing a person to pay when he does not already intend to pay—at least not now—then we must admit the necessity for letters that are "out of the rut"—letters with enough ingenuity and originality to gain interest and a reading.

Impersonal salutations are found on a great many form letters. Even if it must be filled in on a printed form, the name salutation commands more interest than does "Dear Customer." If the address is to be filled in on the form, provision should be made for filling in the appropriate personal salutation also. People do like to be
called by name. Many of the firms surveyed do this, but too many others do not.

Unnecessarily formal complimentary closes are found on a majority of collection letters. In this survey, 44 used the " Truly" closes. While the close may not have much effect on the results of the letter, still "Yours very truly," "Very truly yours," or "Yours truly," are too formal to match the friendly, conversational letter which is becoming more and more widely used. The close should be consistent with the tone of the letter and the salutation.

Other examples of impersonal wording include the excessive use of the passive voice. Thus, a letter will read, "Your attention is called," "Reference is made," and other wordy and indirect passages which are not conducive to reader interest.

Discourteous Letters

Another criticism which must be made of existing collection letters is a lack of courtesy. Perhaps this fault is an unconscious one on the part of many writers. However, in the later stages of delinquency, the collection letter writer appears to be trying to shock or frighten the debtor into paying, and the harsh words are used to aid this purpose.

The better credit men continue to regard their customers as human beings, even when accounts are far past due. They realize that
the customer has feelings which can be hurt. Not overlooking the possibility that there will be a few people deliberately trying to defraud the store, the credit manager must still proceed on the assumption that all intend to pay, because he does not know who does not. Since most debtors really do mean to be honest, all should be treated that way.

In any case, irritation, anger, sarcasm, and bitter language do not add to the success of a collection letter. Discourtesy does not make collection easier. In fact, many think the debtor is only angered, so that he resists payment even more.

Since it is almost universally held that a collection letter should gain payment without sacrificing goodwill, insults should be avoided—even at the end of a series of collection attempts. A delinquent debtor who finally pays up is going to buy somewhere afterwards. If he feels resentment toward the store, he will take his business elsewhere. Even the person who never pays in full may be a source of cash business. Loss of goodwill may hurt a firm more than the failure to collect an account. One must look at long-range effects and not merely at immediate collection results.

As a matter of fact, when a person has an account which is past due, he often quits trading with the store as soon as he finds he cannot pay the old account. The debt may run on for several months before any disposition of it is made, but all during this time the debtor may be ashamed to deal with the store.
Courtesy, friendliness, and fairness may hold these customers for the store. In any case, politeness is desirable, even when an ultimatum is delivered. Often the debtor may want to pay, but is unable to do so. Discourtesy does not make a threat any stronger or more definite. It merely offends and hurts the feelings of the recipient.

Of the letters studied, 52 contained words or expressions which might offend or insult. Several were quite offensive throughout, showing anger, irritation, or petulance.

W. H. Butterfield, a recognized authority on collection letters for the National Retail Credit Association, labels certain words and phrases as "red flag" expressions, calculated to offend and antagonize. 42 Several of these expressions have been previously pointed out. One of them is "ignore." This word occurred in the letters examined 15 times. It seems to imply a deliberate lack of attention to the debt, whereas there may be every intention of paying, but a temporary inability to do so. Or it may have been unintentionally overlooked. "Neglect" and "fail" each occurred 10 times. "Delinquent" was found in 9 letters.

Other discourteous expressions were "indifferent," "disregard," "unfair," "apparent lack of interest," and "Is there a reason for not paying?" Any of these are likely to make a reader angry. For example, if he does have honest intentions, he will resent the

implication that there may not be any reason for his non-payment.

Consideration for the reader and his viewpoint—often referred to as "You-attitude"—was found to be lacking in four letters. Of course, in a sense, any evidence of discourtesy that occurs might be thought of as lack of you-attitude. However, it is possible to single out some letters that were definitely selfish, with the "we-attitude" predominant.

**Miscellaneous Criticisms**

Correctness of English is always important to the success of a business letter, and 13 letters were deficient in this respect. Several misspellings were noticed, as well as such errors in grammar as a dangling modifier, lack of agreement of pronoun with antecedent, comma splice, and the like.

The amount due was not mentioned in 13 letters. Some debtors make no attempt to remember the amounts they owe and do not want to make the effort of looking them up. The extent of indebtedness should be clearly stated in every collection letter, so that the customer has no excuse for not sending the entire payment at once.

Big words were used in several letters—vocabulary which might well be beyond the comprehension of the average reader. Examples of this were found in 12 letters. There is no point in confusing the reader with words he cannot understand. Clarity is best achieved by the use of short, simple words for the most part. Some
words which might not be clear were: "abeyance," "arbitrarily," "interim," "construe," and "arrears."

In a few cases—four to be exact—negative, rather than positive tone was in evidence. For instance, they contained such thoughts as "We don't want to annoy you, but—" or "If it will not inconvenience you too much, please send—". An attitude of confidence is necessary. The collection letter writer must never give the impression that he thinks the debt will not be paid and that the letter is sure to fail. Also, it is unnecessary to apologize for writing a person about a legitimate debt which he owes.

In 16 letters appeared some form of the idea: "Please disregard this notice if the payment has already been sent." Perhaps this should not be a criticism. Few people would be offended. However, some writers on the subject feel very strongly that this statement should be omitted. They say it sounds like an excuse for slow bookkeeping.

**Appeals Used in Collection Letters**

In addition to ascertaining errors made, the collection letters were also studied so as to arrive at some conclusions as to their content; the most common appeals used.

An examination of a large number of textbooks on correspondence shows that the most common appeals given by writers for the collection
series are: co-operation, fair play, pride, self-interest, and fear. Others sometimes given are sympathy, convenience, and savings. There are many variations of these, of course.

In the letters studied, a wide variety of appeals were found, although many of them could be classified under the basic ones given above. It is interesting to note that the fair play appeal—usually listed as a mild and early one by writers on the subject—appears to be used more frequently near the end of the series, as one of the strongest arguments. The self-interest appeal, in one form or another, is used at various stages of delinquency. In fact, some series are composed entirely of variations of this appeal.

Judging by the number of examples found of each, the letters which appear in most retail collection series are as follows:

First, there is a series of reminders; usually not more than three. These are printed forms on cards or envelopes, and merely assume the debt has been overlooked. Stickers were found to be used by only one or two of the firms involved.

Following the reminders, comes a letter asking if there is any question concerning the indebtedness. This letter may take the form of a question asking, "Are we at fault in any way?" Or it gives the customer a chance to question the amount, to ask for an adjustment if it seems appropriate, or to clear up any misunderstandings concerning the account. Some credit managers
told the writer they did not like to use such a letter, because it might encourage complaints and arguments which were unfounded. However, it appears to be very widely used.

After this, the most popular approach is to ask for an explanation of the facts surrounding the delinquency. It is true that this type of letter sometimes emphasizes the appeal to fairness. However, most of the ones examined made no attempt to bring in the Golden Rule idea at this stage. They merely asked for facts, so that the store could help the customer. In a few cases, space was given for the debtor's reasons for delay to be filled in.

Another early letter is the one which concentrates on asking the debtor to come in for a personal talk. In some cases, the customer is asked to make such a visit before placing any additional charges. The account is not definitely closed, however. Most of the letters examined of this type did not set any requirement, but urged the customer to come in to confer.

Frequently, letters in the early stages included what may be called credit education. That is, they reminded the reader of the terms of the purchase, as agreed upon, and often went into some detail on the way the credit system works, the value of credit today, its basic elements, and the like. A certain amount of such material is to be found in most collection letters. However, letters which emphasize this angle exclusively are becoming very numerous. One of the largest groups of letters dealing with any
one argument fitted into this category—37.

The other most commonly used appeals found were pride, fairness, and self-interest, though not always in that order. Thirty letters were found which appealed to the debtor's pride in his standing in the community, his reputation for honesty, and so on. This expression of confidence in the customer and his intentions appears to get results.

**Fair Play and Self-Interest**

There are many ways of presenting the fairness appeal. It is often effective to repeat to the debtor all that the store has done, in order to shame him into doing something in return. The half-and-half letter is one example—half of the sheet being left blank to show that the customer has not lived up to his share of the bargain. Sometimes the debtor is asked, in so many words, to do the fair thing. In other cases, a more subtle implication of lack of fairness is utilized. Sometimes the appeal is combined with the request for an explanation or a personal visit. Occasionally, the customer is asked to put himself in the credit manager's place and see what he would do.

In one form or another, the fair play appeal is one of the most commonly used. It attempts to apply the Golden Rule to the dealings of the customer with the store. Of the letters studied, 44 exemplified this appeal, in addition to others cited under
other headings, which were partially of this nature.

The self-interest appeal also takes several forms. However, its essential element is the reminding of the debtor of the serious effect delinquency can have on his credit. Occasionally, reference is made to the coming of auditors or examiners, with the thought that the customer would not like for them to see his record. In other instances, the possible publication of the delinquency to others through a report to the local credit association is suggested.

A variation of the self-interest appeal which occurs frequently is the idea of paying bills promptly, in order to maintain good service and fair prices. This may run into the danger of a feeling on the part of the customer that the present service is not good and the prices not fair. The self-interest appeal may have either a positive or a negative aspect. The store may stress the advantages of a good credit rating, or depict the consequences of a loss of credit. In one form or another, 32 self-interest letters were found.

Appeal to Fear and Others

Naturally, the so-called appeal to fear is used as a last resort in virtually every series. Such a letter refers to possible drastic action on the part of an attorney, collection agency, or other outside agent. In some cases, the threat is veiled and
purposely indefinite. The survey found 71 letters of the appeal to fear type. In many cases, a time limit was set for payment; after that, if no action was taken, the store would enforce sterner measures.

Certainly, it is not desirable to abuse the customer and try to frighten him by speaking of jail and the like. But it is effective to state definitely and unequivocally that certain action will follow refusal to pay or to make definite arrangements to pay. The most popular letters in the fear category appear to be those which are written in polite language, though stating the consequences firmly and definitely.

Other types of letters which were found are hard to classify into any of the foregoing categories. Some review the history of the account. Some state that the account is temporarily closed until some new arrangement is made. Occasionally, following an appeal to fear, or replacing it, appears a letter from the President of the firm or, ostensibly, from the Credit Association.

Many writers of collection letters make no attempt to indicate the age of the account, either on a statement or in the letter, because of the extra time required to age each account. However, a substantial number do take the trouble. They feel that the customer may not realize how far behind he is and, when faced with the facts, may be shocked into doing something about the account. In the writer's own experiments, each collection
letter showed the age of the account. Most authorities advocate the use of aged balances.

While the letter may also include other appeals, still one additional type of letter approach was found and should be cited. It is the one which Butterfield calls the "injured tone." Such letters began "We are surprised that—," "We are disappointed," or "We simply cannot understand—." Many debtors react adversely to such a petulant, "How can you treat us this way" statement. In any event, the approach stresses "We" instead of "You."

To make up a complete series of letters, certain other types must be included. Most firms have a letter for use when a partial payment of an outstanding account is made. Such a letter expresses appreciation for the payment, but reminds the debtor that the entire amount is past due and should be paid at once.

Another form is often prepared to deal with a promise to pay which has not been kept. Still another is used especially for accounts with small balances. Debtors owing small amounts are likely to feel that the store will not bother with insignificant sums and need to be admonished that small accounts do mount up and become serious.

Humor was quite lacking in the letters studied. Most collection writers find it difficult to compose an original, humorous

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appeal, and the famous examples of effective humor have been overworked. Therefore, only a few stores attempt to be funny or clever in the early stages, and almost none in a serious delinquency.

Summary

Thus, the study of a large sampling of existing collection correspondence has shown that the most common appeals are:

- Is there an error?
- Please send us an explanation
- Visit the store for a conference
- Appeal to pride
- Credit education
- Appeal to fairness
- Appeal to self-interest
- Appeal to fear
- Part-payment letter
- Small amount letter
- Promise not kept letter.

Such a list constitutes the most common collection "series" at the retail level.

The chief criticisms of existing collection letters are impersonality, triteness and lack of originality, lack of courtesy or you-attitude, lack of grammatical correctness, negative tone, big words, and failure to mention the amount due.

It should be made clear that all of the letters under discussion are form letters, prepared in advance to meet various situations. Some were individually typewritten, but most were reproduced in quantity.
Similarities will readily be noted between the results of the questionnaires sent out by the writer and the analysis of the letters actually used by stores, although the stores were different ones in many cases. The combination of the two studies presents data which appear to give a valid picture of the practices followed by retail stores in handling collections. With this picture in mind, it is possible to approach the testing of new letters with a better understanding.

It now remains to examine the criteria and methodology used for this testing program.
Very early in planning this study, it was necessary to make two major decisions. It was necessary to decide upon the content and methodology to be used, and to determine the criteria for evaluating the work done. Rather than depend upon his own judgment and reading, the writer decided to get the advice of as many experts as possible on these points. Such was the main purpose of sending out the first of the questionnaires—primarily to members of the American Business Writing Association (ABWA). Naturally, information coming from the other questionnaires and from published sources was added to the results of Questionnaire 1.

Expert testimony was needed and it was felt that members of ABWA could be considered experts in the technique of business letter writing, which includes collection letter writing. Not every member was contacted, but, from the complete membership roster, 51 of the long-time and more active members were chosen. They were the ones whose names have become well-known in the business writing field. Twenty-two responded to the questionnaire. This questionnaire may be found with the others in Appendix I of this paper.
As experts on credit in general and collection letters in particular, those ABWA members who are practicing credit and/or collection managers were used, together with other credit men, representing some of the largest and best-known retail stores in the country. Many of these names were submitted by the National Retail Credit Association as being those of progressive and outstanding credit men.

Both the ABWA members and the credit men used for the first two questionnaires represented all parts of the United States. The questions asked them about criteria and methodology were arrived at after careful study of the literature on the subject and upon the advice of the Secretary and Editor of ABWA, as well as other prominent educators in the field of business writing.

Criteria for a Successful Letter

One of the first things asked of these experts was: What makes a collection letter successful? How may we know if the letter has done its job well?

A variety of answers were obtained. Many respondents checked several of the criteria listed, as applying. It was the feeling of 32 that the best test of a collection letter's effectiveness was the collection of the debt for which it was written, in full, together with a strengthening of the goodwill felt by the customer toward the firm.
A check mark was placed by payment in full, alone, by 23. Nineteen voted also for part payment, with promise of the rest. Seventeen selected explanation of delay and promise, with no money involved at all. Five would judge success by the repeat business of the customer afterward. One set up, as a criterion, the development of sound paying habits on the part of the customer. Eight felt that any response at all from the customer was evidence of success.

Naturally, there is overlapping in these answers. However, they do seem to bear out the dual objectives of the collection letter usually set up by writers on the subject: collection of the debt, plus the strengthening of goodwill. Either objective alone would be relatively easy to achieve, but to accomplish the two together is a real test of the collection letter. Several respondents went into some detail in stressing this point.

Many of those who checked "Payment in full" also checked other answers. Some respondents put their ideas this way: Full and prompt payment plus goodwill is the most successful result that can be hoped for. Full payment with no evidence concerning goodwill, or part payment with a promise of the rest, render the letter fairly effective and successful. A specific promise of payment, or even an explanation of the reasons for delay, constitutes

44. Beckman and Bartels, op. cit., p. 607.
partial success. So, in a sense, any reply to the letter is an indication of a successful effort. With this reply, the credit man can plan his next step. Without any reply, he has nothing to go on. The customer may want very much to pay, but be unable to do so. Or he may be able, but unwilling. The letter writer seldom knows for sure, in advance.

Criteria Chosen

There is much merit in the idea that the success of a collection letter should be measured by the conduct of the customer afterward, as a few respondents suggested. That is, does he continue to buy, and in similar volume? Does he eventually develop better paying habits? If so, then the letter writer has succeeded indeed. These points will be given some consideration in this study. However, they are very difficult to apply to the actual business situation. Such conduct is hard to measure. Also, most credit men and letter experts recommended the more obvious marks of success.

Therefore, the investigator decided to obtain three measures for each letter tested in the study: payment in full, part payment, and a promise or explanation, even with no payment attached. He also attempted to determine, to some extent, the goodwill resulting from the letters. The letters mailed out by the co-operating

45. Morton and Viets, op. cit., p. 201.
stores, then, were tested as to whether they produced one of these three types of results. Naturally, there are degrees of success, and a letter which obtains full payment is doing a better job than one which gains only part. But the three types of records were kept.

The time element is, perhaps, worthy of consideration. A payment which comes in after a long period of time is probably a lesser tribute to the effectiveness of a letter than is a prompt return. However, since a second collection letter will usually be sent out within 30 days, perhaps the time element may be ignored in this instance. The only case in which it becomes a problem is when the store, through shortage of time or help, fails to "work" all delinquent customers every month. In any event, the writer did keep a record of the dates of responses, as well as the amounts.

The writer does not intend to say that all payments received after a letter is sent are unquestionably due to that letter. The cumulative effect of several letters may be responsible. It is possible that the debtor would have paid anyway. In a case of nonpayment, it may not be the fault of the letter. The debtor may want very much to pay and be unable, financially, to do so. However, the only objective measure that can be set up is the actual response which follows the sending of a letter. Certainly, the letter is at least partially responsible. 46

As far as the cumulative effect of several letters is concerned, it is probable that any differences, as between the control group and the test group, will cancel out, since there was a cumulative effect in both groups. Also, results of the mailing of an entire series to each group will be reported.

Methodology

Many points of methodology came up during the planning of this research. The experts in letter writing and in credit were asked for their suggestions.

For example, the experts were asked whether they thought customers in different parts of the country were comparable. Twenty-five people felt that the tests should be confined to Texas. They thought that customers in other parts of the country might react differently, to some extent. At any rate, they felt that a thorough job in a small area would make a more valuable thesis. The application to other areas could be made later.

Many respondents also felt that there were too many variables among charge account customers for any data gathered from them to be valid. Such variables were pointed out as income and economic level, occupation or profession, type of item purchased, previous credit record, race, regional peculiarities, length of time with the store, buying habits, time of receiving income, size of account, size of town, type of store, and so on.
The writer admits the existence of these variables and that they complicate the picture and affect the validity of findings. However, by limiting the study to eight Texas stores, he has eliminated the possibility of regional differences. Some of the variables are of minor importance, as far as affecting the paying of debts is concerned. As for the others, the writer will attempt to show that they did not affect the results. That is, in a truly random sample, most of them cancel out. The test group and the control group, each being of large size, were found to contain virtually the same components of the important variables, as will be shown in Chapter VI.

On the advice of statisticians and psychologists, the investigator conducted his tests to a random sampling of the debtors of the stores in question. In order to do a more thorough job, with as many cases as possible, only a few letters were tested. However, they were tested in a large number of cases and for several different stores. It was felt that, if one of two letters could be proved better than the other in terms of actual results in business, then the study was worthwhile, because all previous figures and comparisons were based on estimates, theories, and guesswork. It was the writer's feeling that, even if it were found that a printed form letter with fill-ins and stilted language did pull just as well as a personalized letter, the results would still be
worth-while. There just is very little real knowledge concerning the matter. Most students of letter writing have felt that a personalized letter would be more effective. Many credit men think no change in the letter would affect results very much. The statistical proof of this study will help to clear up the confusion on this point. Credit organizations and business writing organizations, alike, have wanted to know. It is to be hoped that the present study will at least indicate an answer.

Those questioned were also asked whether the effect of single letters or of a cumulative series should be tested. Sixteen felt that both series and single letters should be measured. Eleven counseled testing single letters as more practicable. They admitted that there was likely to be a cumulative effect, and that payment after a letter might really be the result of a feeling which had been building up through several letters. However, most felt it would be next to impossible to deal with this effect.

As has been indicated, the writer does have some results of the mailing of a series, as well as of single letters.

Those surveyed felt that letters at all stages of delinquency should be tested. The writer sees the merit of this but has reluctantly had to limit his study to certain phases of the collection process. To cover the entire field of collection letters thoroughly is too big and too demanding a task for one investigation.
The difficulties in controlling the conditions of such a study as this are undoubtedly the reason why others have not made it the subject of research. Perhaps some of the suggestions resulting from this investigation will encourage others to make further study of related areas.

Content

Questions were also asked as to what points about letters should be tested. Seventeen votes appeared for tests of courtesy in letters and for the effect of a definite show of interest in the customer and his welfare (you—attitude). Thirteen voted for personalization; eight, for positive tone; eight, for ease of reply. Other suggested tests were of credit education, length of letters, review of credit history, sense of urgency, and others.

The investigator also talked and corresponded with numerous organizations, teachers, and credit men about this problem of content. Recognizing the desirability of testing many of these things, nevertheless the writer decided to limit the tests to those described above for practical reasons of being able to deal with the subject fairly thoroughly. The major emphasis was placed on the factor of personalization, although factors of courtesy and interest in the customer are included to some extent, as part of the whole problem of making the collection letter personal, conversational, and friendly.
Of the various psychological appeals used in collection letters, the ones receiving the most votes from credit men were the appeal to fair play and the appeal to self-interest. Therefore, the major tests conducted involved letters of these two types. Many other types of letters were also tested on a smaller scale before the investigator decided it would be necessary to concentrate on a few appeals and build up more cases for them.

Mechanical factors, such as sealed versus unsealed envelopes, stamped versus metered mail, and the like, were not considered in this study. Attempts have already been made to measure such things, particularly in connection with direct mail sales letters. It was felt that the present investigation should concentrate on letter content—wording rather than form.

To sum up, the procedure decided upon was to mail out collection letters through the co-operating stores, concentrating upon the appeal to fairness and the appeal to self-interest. In order to get the results of a series, the appeal to pride and the appeal to fear were also tested. Results were to be computed on the basis of full payment, part payment, or promise and explanation. From these results, it was planned to attempt the derivation of some guiding principles for the retail collection letter.
CHAPTER VI. EVALUATING THE EFFECTIVENESS OF LETTERS BY TESTING

In order to arrive at direct and valid evidence as to which collection methods and devices get the best results, the writer did not rely on written material and credit men's comments alone, but carried on intensive tests in eight Texas stores. In addition, other stores used some of the test letters, but did not report findings in a form to be compared with the others.

Three of the test stores were located in a city of nearly 500,000 population. One department store, one men's clothing store, and one women's specialty store were chosen from this city. These three types constitute the bulk of the "wearing apparel group" or "soft goods group." That is, they do not deal primarily in expensive appliances and "hard" goods, which can be repossessed in the event of non-payment. Although the department store does sell some goods under a chattel mortgage, the bulk of its sales, also, are in non-repossessable items.

Three other stores, representing the same three types, were used for the experiments. These stores were located in a city of approximately 100,000 population. The other two principal co-operating stores were located in different cities. One—a department
store—was in a city of 60,000 population. The other—a women’s specialty shop—was in a city of nearly 200,000.

The store in which the largest number of tests were made was a women’s specialty store in the first city mentioned. The store ranks third in sales in this city of 500,000. It does a business of over $7 million a year. It has 104,000 square feet of selling space. It has almost 20,000 accounts that are at least somewhat active, and its accounts receivable amounted to $1,262,315.64, at the last report received by the investigator. Out of town accounts make up 40 per cent of the total. New accounts opened each month range in number from 500 to as high as 900. Of course, many of these are military accounts, of a transient nature, since the city has a large military population.

There are eleven employees reporting to the credit manager, in addition to the bookkeepers, who are under another head. Collection percentages averaged about 42 per cent at the time the experiments began, and the loss on bad debts was about .16 per cent. Accounts more than six months old, with some exceptions, are charged off to Profit and Loss, but attempts to collect them still continue, with one person spending full-time on telephone and mail attempts to collect the old accounts. Ultimately, most of them do make some sort of settlement. In 1951, some $20,105.09 worth of charge accounts, as distinguished from budget accounts—were written off.
However, this figure is higher than normal.

These figures are given in order to give a clearer picture of the store where the bulk of the tests took place. It is not possible to give quite such a detailed report on all the stores, but some pertinent facts and figures will be reported.

The department store in the city of 100,000 is in the $5 to $10 million bracket. The store has approximately 20,000 active accounts. Its collection percentage is approximately 53 per cent, and its bad debt loss is about one fourth of one per cent of total sales. Another department store has a volume of $1\frac{1}{2}$ to $3$ million, with 8500 to 9000 accounts. Its average collection percentage is 49 per cent, with a charge-off of one half of one per cent.

The other stores are similar to the last-described. Exact figures could not be obtained.

These stores consented to mail out letters prepared by the investigator, to their regular list of charge customers, and to measure the results in comparison with the results of a comparable number of the store's regular, prepared form letters.

No letters were sent to budget or installment accounts, but only to the open accounts, of the supposedly "30-day" variety. The first letters were mailed to customers whose accounts were 90 days delinquent. Some of the stores used cycle billing, but this made no difference except for the number of letters mailed at one time.
Difficulties Encountered

Certain difficulties presented themselves in the conducting of the tests. At first it was planned to prepare a different letter for each debtor in the test group, to be adapted to his special situation. This would involve checking all available information on his past history. In practice, this proved impossible to do. As has been shown, the help was not available in the stores to handle everything on an individual basis. Also, it was found that the variances between two such letters would be so slight that the same effect could be achieved by a personally-typewritten form letter, filling in the amount and age of the account and, perhaps, a reference to the item purchased. The only other information at hand was usually the occupation and the previous debt-paying record. It was the opinion of the investigator and his advisors that the occupation would affect the letter itself very little, and that the random sampling would take care of the other variable. Reference could be made to the previous record in the typewritten form letter if necessary. Information as to income was not available.

In view of these facts, the tests resolved themselves into the testing of form letters prepared by the investigator against the store's existing form letters. However, the test letters were purposely made informal and personal in tone and wording, and were individually typewritten in order to give the appearance of a personal letter. The store letters, for the most part, were processed forms
with names, addresses, and salutations filled in. Therefore, it was possible to test the effects of personalization and friendliness in this way. It was also possible to test the varying appeals against each other.

It would be interesting to test the effectiveness of completely individualized letters, but it does not seem practicable except in unusual cases. The stores will continue to use form letters because of economy, plus the shortage and turnover of help. If this study can show them how to prepare a better form letter—one which does not look or read like a form letter—then it will be justified. The emphasis is upon the testing of the qualities of the letter.

That there is justification for this approach to the testing of collection letters is attested by numerous authorities in the field of credit writing. For example, Beckman and Held say, "Even if it were practicable in larger firms to handle each collection case in an individual way, it would still be inadvisable to make the early collection notices personal."47

Saunders puts it this way: "Modern collection efficiency and high costs make the use of forms imperative. But one should try to disguise the fact that they are forms."48

47. Beckman and Held, op. cit., p. 47.

Hotchkiss, Kilduff, and Janis state, "The need for a personalseeming letter arises so frequently, and the circumstances are somuch alike, that a letter for one delinquent may be suitable foranother, with slight change. Letters may be copied on the typewriter or processed and filled in to look personal."\(^{49}\)

From Smart and McKelvey comes this quotation: \(^{50}\)

Personal letters may be dictated or prepared as forms. The latter procedure is preferable—especially in large firms. Use of forms reduces cost and allows greater variety and individuality. Forms can be carefully prepared and reworked until they are practically perfect. . . . The degree of excellence thus obtained can be equaled by few correspondents in personally dictating letter after letter.

Aurner says, "Form letters may be effectively used in 80 to 90% of the cases calling for use of collection letters." He goes on to add that a form letter is economical, multiplies one's skill, multiplies the scope of the letter. However, the form letter must be written as if each copy were to go to one person instead of to many. Personal tone is possible in a form letter. \(^{51}\)

Picken points out that it is easier to write a collection letter with a form to go by. One may forget something in dictating or


\(^{50}\) Smart and McKelvey, *op. cit.*, p. 209.

otherwise do a poor job with the letter. 52

Chapin warns that a form letter is good only if carefully prepared to simulate a personal letter. However, he believes a good form letter is better than a poor dictated letter. 53 Butterfield says substantially the same thing: "A form letter is a useful collection device only when it does not look like what it is." It needs warmth of tone, personality, and sympathetic understanding of human nature. 54

Thus, it will be seen that many authorities believe the form letter, if properly prepared and used, can be as effective in collections as an individual letter.

As has been pointed out in Chapter V, it had to be assumed that a response, in the form of full payment, part payment, or a definite promise to pay, following the mailing of a letter, was the result of that letter. While this may not be entirely true, it is sufficiently near the truth to make this use of a tangible, objective measure the most practicable one. Results are available of individual letters and also of a series, where the cumulative effect of a succession of letters can be felt.

52. Picken, op. cit., pp. 144-5.
Hotchkiss, Kilduff, and Janis believe tests of individual mailings are better than of an entire system. Picken states that the only test of efficiency necessary is to find the number of accounts collected by a letter, or the percentage of collections over a period of time.

Most of the data of this study do pertain to the results of individual letters.

Procedure Followed

Naturally, not all of a store's charge customers could be included in the tests. Some were special accounts and handled in a special way. Others were already so large and/or so old that they were due to be charged off to Profit and Loss. Others were so complicated with large returns on virtually every purchase and many part payments as to be very difficult to age. Still others were questioning certain charges and asking for adjustments.

It was necessary for the writer, in most cases, to go through the entire list of delinquents and choose those which were of a definite age of delinquency and which were free of the other conditions mentioned. These names, together with the history of their purchases, returns, payments, etc., were kept on cards. In most cases, no collection letters had been mailed to them, other than

55. Hotchkiss, Kilduff, Janis, op. cit., p. 420.
56. Picken, op. cit., p. 344.
the formal, printed reminders used by most stores during the first two months.

These cards were then sorted into groups according to the age of the account. Such other variable factors as occupation, location, and size of account were temporarily ignored. It was felt that the length of the delinquency was by far the most important factor which the test group and the control group must have in common. This is borne out by the statement of Beckman and Held that length of delinquency puts debtors into groups and by Loughridge's statement that it is more feasible to group them by age of account than by any other factor.

At first a variety of tests were tried, but it soon became apparent that, in order to obtain a satisfactory number of cases, it would be necessary to limit the tests to one or two main considerations, and this was done. Some of the results of the first tests, however, are interesting and will be reported later in this paper.

The placing of the names and pertinent data on cards instead of relying entirely on the ledger was already in practice in several of the stores used for the experiments. Ettinger and Golieb point out that overdue accounts, kept on separate cards by

57. Beckman and Held, op. cit., p. 56.
the dates due, furnish the credit man with more usable informa-
tion in handier form. More regular intervals of sending letters
are insured. And much time is saved in not having to refer di-
rectly to the ledgers, which must, of necessity, be used by many
other people in the office also. 59

As has been said, the cards were first sorted into groups
according to the age of the account. The procedure was the one
suggested by Phelps. 60 That is, payments were applied against the
oldest balance, and the date of the oldest balance remaining, even
if small, was considered the age of the account. The age was com-
puted in terms of months, since most of the stores sent out collection
notices only once a month. Even if they wished to use a
shorter interval, they found it impossible because of the volume
of accounts and the shortage of competent help.

Within the age groups, the cards were arranged in alphabetic
order. No attention was paid to the size of the account at this
time. Various means were used to make certain that the division
of the cards into two groups was really random. At first, every
second name was taken out for the control group. Later, the lists
of names were sometimes alternated. In other cases, every third


60. Clyde William Phelps, Age Analysis of Charge Accounts, Second
name was used for the control group, or the list was just divided into halves. It will be shown later that the two groups were definitely comparable.

Each mailing consisted of approximately the same number of the store's printed form letters with fill-ins, to the control group, and of individually-typewritten test letters to the others. All the letters for each test were mailed at approximately the same time.

At the end of thirty days, a different letter was sent to those who had not responded to the first one. The 30-day interval between letters seemed to be the usual time period for the stores. Thus, a 90-day delinquent was carried through an entire series of letters until his delinquency reached 9 months, or in some cases one year. Very few tests were conducted on debts over 9 months old.

More tests were made at 90 days, 120 days, and at 7 months than at any other stage of delinquency, in order to obtain more data on the fair play and self-interest appeals. That is, the tests were concentrated in the early stages and towards the end of the series.

Testing Methods

As previously pointed out, the letters to be tested were composed by the investigator, were individually typewritten on the
store's letterhead stationery, and were mailed out with the store's postage meter imprint. The test letters varied from the form letters sent at the same time, primarily in personalization and tone. That is, the stiff, formal language was avoided and the name salutation was used. The collection data contained concerned only the particular account and no other. However, the wording of the test letters sent at one mailing was substantially identical. Examples of the test letters used appear in the Appendix to this paper.

Even at the later stages of delinquency, as has been indicated, it proved very difficult to compose an entirely different letter for each debtor. The factors the cases possessed in common were more numerous than their differences. In other words, the writer found himself saying substantially the same thing, anyway, when he tried to dictate individual letters. When the debtor's original application for credit was examined, only a few items of personal information were usually revealed, such as wife or husband's name, occupation, previous residence, and other charge accounts. These factors did not seriously affect the wording of the letters. It is possible that the occupation might do so; however, very few of the really low income customers were found as patrons of the stores tested. It is believed that the occupation would not be a material factor of difference and would cancel out in the two groups selected at random. It was not possible to consider the income, since this was not on the application.
The primary differences between customers, as stressed in this experiment, were the length of the account, the size of the account, the type of merchandise bought, the history of payments and returns, and the calls or letters previously exchanged. These factors were taken into account and the wording changed in the test letters where necessary to fit, although substantially the same letters could be used.

Thus the tests resolved themselves into primarily a test of personalized form letters against processed form letters, both exemplifying the same psychological appeal. As the delinquency progressed, some tests were made of one appeal against another. Some test letters were tested against each other, with the variance existing only in one small particular.

The stores involved in the tests were very co-operative. However, they just would not consent to individual dictating of each letter, because of the lack of time and the shortage of help.

The New York Credit and Financial Management Association urges testing of the type done in this study. They suggest listing all the past-due accounts ready for the first letter. Then, they would divide them into two equal stacks, mail the two different letters to the two groups, and see which receives the best response. 61

It is realized that, if the results of two different letters are measured, it is difficult to say exactly what factor in one

letter made it more successful than another. However, since the primary difference was in personalization and friendly tone, it is the belief of the writer that any substantial difference should be attributed to this personalization factor.

It should be pointed out that the form letters of the stores used for the tests were, for the most part, good letters. They were better in tone, content, originality, and form than the average collection form letter studied by the writer. Examples of these letters appear in the Appendix.

In addition to the data obtained from the ledgers of the stores in question, and from notations on collection cards which some of the stores kept separately, letters received from debtors were examined. These letters made explanations or promises and, in some cases, commented on the collection letters sent them. In the case of the debtors being tested, a notation was made on the ledger card itself, or on the collection card, to identify them. Then, whenever any sort of response was obtained, the investigator could be notified and be given a copy of letters received. With this identification, also, no one else would make any collection attempts from the group of debtors being tested.

Over a period of two years, approximately 4,500 letters were mailed and results noted. In some of the stores, particularly those at some distance from the investigator, results were not available in statistical form. However, enough accurate figures were obtained for valid findings.
Results of the Tests

The results of the tests carried on will be reported according to the various appeals used, and as an entire series.

Fairness Appeal

As has been indicated previously, the appeal to a debtor's sense of fair play is widely used. Credit men feel that it is effective, although no accurate data could be found to prove their contention. The practice seems to be to include more than one such letter in the collection series, and to place them after several others. However, the testing was done before the complete analysis of collection practices was made; therefore the fair play letters were used at the beginning of the delinquency. The tests began with them because most of the textbooks on the subject do list this appeal as one which is used early. For purposes of this study, the fair play appeal is the first one used. Three letters exemplifying co-operation and fairness were mailed, the first being sent out at 90 days' delinquency. That is, the accounts were at least 90 days old and had not reached 120 days.

Examples of the fairness appeal appear in the Appendix to this dissertation. They illustrate various approaches to the "Golden Rule" idea. That is, the customer is shown what has been done for him. Now it is only fair (certainly not unreasonable or
demanding) that he do his part by paying the debt or by making definite arrangements to do so. All of the stores had a form letter or two using this type of argument. The letters prepared by the writer were tested against these form letters. Naturally, the rate of return is higher on the early letters in the series, regardless of their appeal, simply because those customers who have merely postponed payment for a short time will do so now. As has been shown, it is to be expected that the number responding will decrease as the debt becomes older. It was the writer's hope to prove that the number of early responses, as well as the later ones, could be increased by a better-prepared letter.

This first real letter is a very important one. It should convince the reader that payment should be made—that the situation is serious. However, since it is the first attempt at individualizing collections, care must be taken not to offend or to imply to the customer that a doubt exists as to his good intentions.

The first tests, then, were conducted on accounts ranging from 90 days to 120 days. This length of delinquency was a common factor in all the mailings of Letter 1. Letter 1 was sent to approximately 640 debtors in the most carefully controlled tests. Many others were mailed also, but if the results were not checked off accurately and in detail and reported as statistical data, they were not included in the final percentage figures. Letter 3 was sent to 273 persons and Letter 4, to 276. All of these letters
were examples of the appeal to co-operation and a sense of fair play. Although the writer attempted to keep the numbers sent the store letter and the test letter equal, occasionally certain factors caused one class or the other to exceed slightly in size.

A check sheet was kept for each mailing, as shown in the Appendix. On this sheet, the investigator wrote the names of all the customers involved, together with the number of letters sent and the date of mailing. In addition, he was given carbon copies of the letters mailed in most cases. On the check sheet, columns were provided for recording the date and amount of payment, together with any explanations or promises received, either by mail or on the telephone.

If the customer, instead of making a payment, transferred the account from an open account to a budget payment account in order to pay it off in installments, the account was removed from the test lists. No attempt was made to test budget accounts. The tests were limited to ordinary charge accounts.

After the list was prepared and checked carefully with the carbon copies of the outgoing letters, the ledgers were checked directly, at frequent intervals, for responses. All payments, in part or as a whole, were recorded on the check sheet. It was found that, in some cases, a payment had been received before the letter had time to reach the debtor. Such names, too, were removed from the list. Although the list was checked for such recent payments
just before the completed letters were mailed, in some instances the payments, even though received, had not yet found their way into the ledgers. In fact, in many cases, the recording of receipts in the ledgers was a week or ten days behind the receiving of the mail or personal payments. This was caused by the shortage of help and the volume of accounts. It was for reasons such as these, primarily, that the exact number of accounts in the two groups could not be kept entirely equal. However, they were close enough in size for accurate comparisons to be made.

If no payment or other response was forthcoming before it was time to send out the next mailing—approximately thirty days—the debtor would be sent a second letter, and eventually more, until the whole series had been sent. A payment coming in right after the second letter would have to be attributed largely to it, rather than to the first one. Most of the responses to any one letter would come within a week or ten days or, at most, a month. A payment coming in several months after a collection letter was sent could hardly be attributed directly to the effectiveness of that letter, although there is no doubt that it might be partially responsible.

In the case of accounts of any stage of delinquency, if a part payment had been made within the last 30-day period, Letter 2 was mailed instead of one of the others. This letter was designed to thank the customer for his payment, but also to point
out the amount remaining past due in the account. Many customers do make partial payments, paying a little each month and continuing to charge more. Such payments make bookkeeping more difficult, though most stores allow them. However, as Waldo Marra says, they should not be accepted without comment. The store should explain to the customer that this is a violation of the credit agreement and educate the customer on credit procedure. 62

The test letters were composed by the writer, but he cannot claim complete originality, since the letters were inspired by the many famous letters in print, the actual store letters collected by the writer, and the advice of the experts with whom he talked.

In the case of Letter 1, mailed at 90 days, in 47% of the cases, full payment was received. Part payments amounted to 18.9% of the total, making a total response of 65.9% to the first letter. This is compared with the results of Store Letter 1—a processed letter with fill-ins—which elicited a response of 41.6% full payments and 19.9% partial payments, for a total of 61.5% returns. Here is concrete evidence to substantiate the fact that the early letters need not be entirely individual and personal in order to obtain a satisfactory response, but that some sort of letter is necessary, to obtain better results than the use of cards or statements.

The second fair play appeal—numbered Letter 3—obtained 40% full payments, 22.4% part payments, or a total response of 62.4%. The second store letter resulted in collections in full of 31.1% and part payments of 25%, making a total of 56.1%. The spread between the two is slightly larger than in the previous case.

The final fair play appeal—stressing the fairness approach in a slightly different manner—elicited returns of 33.6% full payment, 22.7% part payment, or 56.3% total. This letter was sent at a period of five months' delinquency. The stores concerned might be classified as "lenient," since they put on no pressure until the account was far overdue, nor would they permit the investigator to adopt other than a mild tone until very late in the delinquency.

Store Letter 4, sent at the same time, obtained 33.1% full payments and 19.6% part payments, or a total of 52.7% returns.

It will be seen that the test letters gained a slightly higher percentage of returns in every instance; however, the spread was not great at this stage. When the three letters are combined, the results of the test letters using the fairness appeal were: 42.7% full payment, 20.4% partial payment, 63.1% total payments received. In total response, the store letters had the following result: 36.8% full payment, 21.1% part payment, 57.9% total payments. Thus, the test letters showed a 5.2% increase in results over the store letters. It is interesting to note that, in regard to partial
payments, the store letters drew more response than the letters in the test group. However, in full payments, the test letters were almost 6% better.

These results are shown graphically in the charts which follow the report on all the letters. In addition, a more detailed illustration of results may be found in Appendix II. The letters actually used appear in Appendix I.

Pride Appeal

Only one test letter used the appeal to the debtor's pride in his good reputation and standing in the community. The writer recognizes that this appeal is important and usually a strong one. Many debtors respond very well to an expression of confidence and trust in them as outstanding citizens. However, in order to do a more thorough job, as has been explained, the investigator concentrated upon the fairness appeal and the self-interest appeal, leaving more detailed measurement of the effects of the pride appeal to a later investigation. However, the results of the one test carried on in this area of emphasis are of interest.

Some 234 letters were mailed for this test, rather evenly divided between store letters and test letters. In the case of Test Letter 5, 20.1% paid in full, 11.5% paid in part, for a total of 31.6%. The store letter drew 18.9% full payments, and 13.6% part payments, for a total of 32.5%. This was the only
instance in the series of tests, where the store letters drew better than the others. Of course, the results are so close as to be inconclusive. Also, an examination of the store appeal to pride in the appendix will show that it has a pleasant tone and good content, even though it is a form with fill-ins. These letters were mailed at six months' delinquency.

**Self-Interest Appeal**

The other major area of the tests was at the end of the collection series, when a firmer tone is required. The appeal to the debtor's interest in preserving his valuable credit is one of the most effective in inducing payment. Such letters vary from mere hints as to the seriousness of continued delay in payment to detailed explanations as to the consequences of such delay. The approach is usually that of helpfulness and real interest in the customer's welfare; the store is thinking of him and what the loss of credit would mean to him. Some stores have a policy of never threatening. However, they do try to sell the debtor on the advantages of credit and the desirability of keeping a good rating.

Since there are many possible approaches to this letter, the investigator devised two letters which stress the interest of the customer and the value of his credit to him. These letters were numbered 6 and 7.
The first self-interest test was concerned with 247 debtors at seven months' delinquency. Approximately half of these were sent Test Letter 6, with the following results: 21.1% full payment, 15% part payment, 36.1% total responses. The store letter drew 9.6% full payment, 4.4% part payment, and 14% total responses. Thus the test letters at this very serious stage of delinquency resulted in 22.1% more collections.

The second self-interest letter was mailed to 385 debtors. Letter 7 obtained 11.6% full payments, 8% part payments, or 19.6% total payments. Store Letter 7 resulted in 5.1% full payments and the same number of part payments, for a total of 10.2%.

The combined results of the self-interest letters showed Letters 6 and 7 with 14.9% full payments, 10.5% part payments, for a total of 25.4%. The store letters resulted in 7.2% full payments, 4.8% part payments, or a total of 12%. It will be seen that the test letters drew 13.4% more response than the others. These figures are shown in graphic form on the charts which will follow.

Fear Appeal

The final appeal in any collection series is essentially an appeal to fear. The collection man does not like to use this terminology, any more than he likes to speak of threats. Essentially, however, the letter does attempt to frighten the debtor into paying.
The consequences of not doing so are strongly implied or definitely stated and the case is put squarely up to him. If he suffers the consequences, he has only himself to blame. It should not be inferred from the foregoing, however, that strong language and abusive threats are advocated. Far from it. Polite language and interest in the reader's welfare are still in evidence. Still the letter is definite and final in tone. A legitimate debt exists; it must be paid; if it is not paid, these will be the inevitable results, as is only fair. Often the history of the account and of previous collection attempts is recapitulated. More than one such letter is likely to be used and the last one usually sets a deadline date by which the response must be received or action will be taken. The exact nature of the action may be stated or left to the reader's imagination. Many debtors who have held out through everything else will pay when they see that the store really means business.

The stores used for the survey used this appeal sparingly. However, in the case of accounts already charged off to Profit and Loss, but still collectible in part, the writer was given a free hand. Therefore, as another phase of testing the seriously delinquent debtor, a number of test mailings were tried of this type. The accounts were 9 months old or more. Some 701 letters were sent to these accounts. In this instance, by request, the number of the writer's test letters did exceed that of the store forms.
The results of the test letters were: 11% full payments within a reasonable time and 18.1% part payments, for a total of 29.1% payments. In addition, a letter was sent out over the signature of the president of one of the stores. This letter was not composed by the writer of this report, but he did keep a record of its success. The tone of this letter was friendly, but firm. Of the 140 letters sent out, 10% responded with full payment, and 4.3% sent in a part payment, for a total of 14.3%. In addition, 15.7% sent in promises to pay or explanations of their delinquency. The store form letters sent resulted in full payments of 4.1%, with no part payments at all. It was proved that the more personal letters were far more effective with the "last ditch" type of debtor.

Miscellaneous Tests

Although the number of accounts involved was small, two other tests may be reported. The results are rather inconclusive, but interesting.

The first such test dealt with the mailing of two letters exactly alike except for the first paragraph. In one case, the first paragraph was devised to be a little more friendly and personal in tone than the other. Both letters were individually typewritten. The letter with the informal first paragraph elicited 32.5% full payments, 15% part payments, or 47.5% total. The more
formal letter obtained 24% full payments and 20% part payments, for a total of 44%.

The other test involved a form letter with fill-ins and the same letter, individually typewritten. The individually typed letter drew 39% full payments and 28.8% part payments, or a total of 67.8%. The other resulted in 47.6% full payments, 19% part payments, 66.6% total payments. As has been said, the results are rather inconclusive. It would be interesting to develop this line of testing further. It had to be abandoned by the investigator for lack of time and in order to concentrate on the areas which have been mentioned. One other point of interest is that these letters were all sent at a quite early stage of delinquency.

The writer realizes that many other appeals for payment could be utilized for tests. In Chapter IV many such appeals are listed. However, for reasons of economy of time and the desire to concentrate on a narrow area for better results, they were not included in the tests.

Summary of Results

In summary, the test letters, as a whole, drew a response of 43.7%, with 25.8% full payments and 17.9% partial payments. The form letters obtained 38.5% payments, with 24.4% full payments and 14.1% partial. The results are shown in graphic form on the next page.
CHART I

Effectiveness of Test Letters

|        | 0 | 10 | 20 | 30 | 40 | 50 | 60 | 70 | 80 | 90 | 100%
|--------|---|----|----|----|----|----|----|----|----|----|-------
| Fairness |   |     |    |    |    |    |    |    |    |    | 63.1% |
| Pride    |   |     |    |    |    |    |    |    |    |    | 31.6% |
| Self-interest |   |     |    |    |    |    |    |    |    |    | 25.4% |
| Fear     |   |     |    |    |    |    |    |    |    |    | 29.1% |

CHART II

Effectiveness of Store Form Letters

|        | 0 | 10 | 20 | 30 | 40 | 50 | 60 | 70 | 80 | 90 | 100%
|--------|---|----|----|----|----|----|----|----|----|----|-------
| Fairness |   |     |    |    |    |    |    |    |    |    | 57.9% |
| Pride    |   |     |    |    |    |    |    |    |    |    | 32.5% |
| Self-interest |   |     |    |    |    |    |    |    |    |    | 12%   |
| Fear     |   |     |    |    |    |    |    |    |    |    | 14.3% |

CHART III

Effectiveness of Series

|        | 0 | 10 | 20 | 30 | 40 | 50 | 60 | 70 | 80 | 90 | 100%
|--------|---|----|----|----|----|----|----|----|----|----|-------
| Test Letters |   |     |    |    |    |    |    |    |    |    | 43.7% |
| Store Letters |   |     |    |    |    |    |    |    |    |    | 38.5% |

(Source: Original Investigation)
The results of individual letters are shown below. The test letter and the form letter against which it was tested are paired. With a few exceptions, the principle that the percentage of collections will decline with each successive stage of delinquency is borne out. Letter 2 on the chart was a "Thank you" letter and was sent out at various stages.

CHART IV

Individual Letter Results

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<th>70</th>
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</table>

(Source: Original Investigation)
It will be readily noted from the foregoing charts that, at the beginning of the delinquency, the differences in results between the test letters and the store letters were very small. As the delinquency progressed, the difference increased, and in several instances the results obtained by the test letters exceeded those of form letters with fill-ins by a wide margin.

A question which must inevitably come to mind is "What amounts in dollars were collected by these letters?" Later in this chapter, it will be shown that the amounts involved in the test letters were almost identical in size with those for which the store letters were written. That is, the test letters contained just as many large accounts as did the other group.

It is of interest to compare the four appeals for payment which were used. In the following chart no attempt is made to distinguish between store letters and test letters. It is merely a comparison of the effectiveness of the appeals with each other.

It was to be expected that the fairness appeal would draw the most responses, since, in this case, it was sent early in the delinquency. The other letters were sent to debtors who had refused numerous attempts to collect and who were harder to influence. As has been said, the appeal to pride dealt with fewer cases than the rest, and with only one letter. The results might have been different with more cases. The results from the self-interest appeal are small, but considering that these letters were sent to debtors whose accounts
were already seven months or more past due, even a response of 20% is a sizable amount to collect.

CHART V
Relative Effectiveness of Main Appeals (All letters combined)

|    | 0  | 10 | 20 | 30 | 40 | 50 | 60 | 70 | 80 | 90 | 100%
<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Fairness</td>
<td>60.6%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pride</td>
<td>32.1%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Self-interest</td>
<td>20.1%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fear</td>
<td>25.3%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(Source: Original investigation)

Little has been said concerning the explanations and promises which resulted from the letters. Many credit men consider any response a mark of success for the letter, since they know better how to proceed if they have some indication as to the debtor's motives and plans. In the case of the test letters mailed, 2.6% drew explanations or promises. For the store letters, the result was 2.7%, so there is no significant difference in this regard. These figures may not be complete, since it was very difficult to make certain that all such responses were reported to the investigator, in view of the number of people who handled them. It is interesting to note that the letter from the President of one of the stores drew the most explanations—15.7% for the one letter.
Validation of Results

It remains to determine whether the differences in results of the test letters and the form letters with fill-ins are significant and due to a difference in the letters, themselves, rather than to chance or to errors in sampling.

The total response to the test letters, as has been shown, was 43.7%; whereas the store letters drew 38.5%. Of the test letters, 1809 were used for this figure, being the ones for which entirely accurate data on results were available. The store letter percentage comes from 1096 cases. The following formula was used to determine sampling error:

Standard error = the square root of \( \frac{P_1 Q_1 - P_2 Q_2}{N_1} \)

In this formula, \( P \) equals the percentages of cases in a sample having an attribute, and \( Q \) equals \( 1 - P \). \( N_1 \) and \( N_2 \) represent the number of cases in samples 1 and 2 (test letters and store letters), respectively. Substituting the numbers of cases and the percentages of return, we have

\[
\frac{\text{Standard error}}{\text{square root of}} \left( \frac{(43.7)(56.3) - (38.5)(61.5)}{1809} \right) = \frac{1.8}{1096}
\]

or 1.8%.

Using a significance level of .5% (or a critical ratio of 1.96 standard errors) as a criterion for judgment, we find the difference between the two percentages to be \( \frac{43.7 - 38.5}{1.8} \) or \( \frac{5.2}{1.8} \) or 2.89.
standard errors. Therefore, since the difference is significant, it may be concluded that the difference tween the results of the two sets of letters was due to the quality of the letters and not to chance or to sampling errors.

Using the same formula, and substituting the figures for the fair play letters, the result is 1.86 standard errors. In this case, the difference may be due to sampling errors, since it is not a significant difference. However, using the self-interest appeal, the figure arrived at is 4.4 standard errors, which is a significant difference and not due to failure to randomize. The same formula applied to the appeal to fear letters results in 5.1 standard errors—a highly significant difference.

Summing up, then, the application of the formula shows that the total letters and the last two tests brought results which were significant and undoubtedly due to differences in the letters. The better results of the test letters would seem to indicate that the use of a more carefully prepared letter, with more personal tone and appearance, can secure more payments from the long overdue accounts of a firm, which are all too often given up as hopeless too soon.

In regard to the fairness appeal, it should be pointed out once more that these letters were sent early in the delinquency. The fact that the differential between test letters and store letters was less than later in the series tends to substantiate the belief
that personalization and individuality are not so important at the beginning of the collection process. Many theorists have conjectured that the debtor does not want to be singled out for individual attention at this stage, but prefers to be one of a crowd. Now there is experimental evidence to back up this theory.

In order to validate the results of the study still further, it was necessary to determine whether the two groups tested against each other were really comparable. Numerous variables which might affect the results have already been mentioned. The most important of these are location, size of account, occupation, income, and region. It was not possible to obtain income figures from any of the stores where the tests took place. Regional differences were eliminated by conducting all the tests in the same part of the country. Differences in past history were allowed for by changes in the body of the letters. An attempt was made to list the occupations, but it was soon found that there was no pattern. There was such a wide variety of occupations that there was little use in considering them. At any rate, it was apparent that the two groups, selected at random, would have similar cross sections of population representing the different occupations. It has been shown that most of the stores dealt primarily with upper middle class customers or above, so that there were few really low income classes involved.

The two chief variables not accounted for, then, were location and size of the account. Taking first the location, it was found
that most of the debtors in both groups were located in the same city as the store from which they bought. A break-down was made along the following lines: local, other large Texas cities, other Texas small towns, and out-of-state locations. The results are shown below:

<table>
<thead>
<tr>
<th>Local</th>
<th>Other Cities</th>
<th>Small Towns</th>
<th>Out of State</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal letters</td>
<td>62.3%</td>
<td>5.6%</td>
<td>26.6%</td>
</tr>
<tr>
<td>Store letters</td>
<td>63.8%</td>
<td>5.0%</td>
<td>26.4%</td>
</tr>
</tbody>
</table>

It will be readily seen that there are no appreciable differences between the two groups; they contain almost the same percentages of local and out-of-town customers. Since many feel that collections are easier from local customers, these figures are quite significant in showing that neither group of letters had an easier situation than the other to deal with in this respect.

In regard to the size of the account, the amounts owed naturally varied quite widely. For purposes of comparison, they were arbitrarily divided into classes. Since the largest number of accounts owed small sums, the classes were made smaller in the lower amounts. As the amounts increase, the number owing decreases sharply, so that the class interval was made much larger. Irregular class intervals were necessary in order to show a clear picture of the two groups. The results of this comparison are shown on the next page. Here, again, the two groups are found to contain virtually the same percentages of the variable factor.
Since many experts feel that the collection of small accounts is easier than large ones, if there is any difference between the two groups, the test group had the easier task. That is, there were a few more small accounts in that group. Amounts less than $10 were not considered, since the stores did not apply their collection series to such small amounts.

In view of this further proof that the two groups are definitely comparable, it may be restated that the results of the tests are significant and meaningful. The test letters' additional effectiveness was not due to chance, but to superiority of the letters.

Other interesting facts are shown by this breakdown of the two groups. For instance, it is quite apparent that the percentage of delinquency declines as the amount owed increases. In other words, only a few of the usual store's delinquent accounts are in the bracket of $250 and up. Over half the accounts are less than $50 in amount. Also, it is shown that over 60% of these metropolitan store's accounts are within the city limits, even discounting those who purchased while residing in the city and later moved away.
CHAPTER VII. SUPPLEMENTARY INFORMATION

In addition to the major lines of investigation in this study, some related information along other lines was discovered and is of interest in connection with the whole problem of retail collections.

The Establishment of Goodwill

After having completed most of the tests used for this study, the investigator turned his attention to an attempt at measuring the goodwill won or lost by the collection letters. At first it was thought that a survey might be used. A house-to-house survey in person was ruled out, since it would require far too much time. Also, it was doubtful that the debtor would want to discuss his debts with a stranger. Then a questionnaire was prepared and mailed, asking about the debtor's reaction to the collection letters. These questionnaires did not ask for a signature, and they were mailed under the letterhead of a research organization. They presumably represented several stores and the customer was asked to check the ones with which he had accounts. He was asked some detailed questions and then was asked which store's collection

113
letters were best, in his opinion. These questionnaires were sent only to one store's customers as a trial.

It became apparent at once that this procedure was not going to give satisfactory results. The returns were very meager. Therefore, the attempt to measure goodwill in this way was abandoned. It is only mentioned here because some of the comments of those who did respond were worth of mention.

It must be remembered that all of these customers had recently been mailed one of the test letters, or more, prepared by the writer. Of those who answered the question, every person mentioned the store for which the test letters were mailed as having the best collection letters. They praised the courtesy and friendliness of these letters and contrasted them with some of the letters sent by large chain stores, which they characterized as much too short and curt. They definitely liked evidence of personal interest and disliked errors concerning their accounts and impersonal application of a series of forms, even when they had paid something or written concerning the account. Most of these customers seemed to understand the need for a letter prepared in quantity instead of an individual one, and said they did not mind being so treated except when there was some special feature concerning their account.

Since the returns on this last questionnaire were inadequate, it cannot be used to measure goodwill. It appears to be almost impossible to test accurately the goodwill gained or lost by letters.
However, some of the letters received from customers in the normal course of business did comment on the collection letters they had received, and their comments have a bearing on goodwill. Such comments were found as: "Thank you for your courtesy and understanding," "Appreciated your nice letter," and "I wish all stores were as courteous and friendly as ____________'s."

Another possible indication of goodwill is the history of the customer after the account is settled. In the absence of exact figures, it can be said that a majority of the customers who were delinquent during the study and who received collection letters as part of the study did make purchases from the store again after the account was collected. In most cases they did not run up another seriously delinquent account; at least not while the investigator had access to the files.

Comments of Credit Men

When the results of the study were nearly complete, the writer chose the letters which had been most successful in the fairness appeal stage and in the self-interest stage, and mailed copies of them to some 50 credit men in various parts of the country, with a quest for their comments and criticisms. The responses received made it obvious that stores do vary considerably as to their leniency or severity in handling accounts. However, in most cases, the credit men liked the letters and a few agreed to try them out.
They felt that the tone was good and the wording well phrased.

**Costs of Personalization**

In view of the fact that the chief objection to personalizing letters is the cost, the writer made an attempt to ascertain the differences in cost between a dictated letter, a personally-typewritten form letter, and a processed form letter. It must be stated that the figures which follow apply only to one store and that they are the figures given by the credit manager of that store. The writer cannot attest to their absolute accuracy. They are presented as one large store's breakdown of their letter costs.

**Dictated letter:**

<table>
<thead>
<tr>
<th>Item</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries</td>
<td>$ .90</td>
</tr>
<tr>
<td>Stationery</td>
<td>.07</td>
</tr>
<tr>
<td>Depreciation</td>
<td>.02</td>
</tr>
<tr>
<td>Overhead</td>
<td>.06</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1.05</strong></td>
</tr>
</tbody>
</table>

**Processed letter with fill-ins:**

<table>
<thead>
<tr>
<th>Item</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary of stenographer</td>
<td>$ .14</td>
</tr>
<tr>
<td>Stationery</td>
<td>.07</td>
</tr>
<tr>
<td>Depreciation</td>
<td>.01</td>
</tr>
<tr>
<td>Overhead</td>
<td>.01</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>.23</strong></td>
</tr>
</tbody>
</table>

**Individually-typewritten form letter:**

<table>
<thead>
<tr>
<th>Item</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary of stenographer</td>
<td>$ .20</td>
</tr>
<tr>
<td>Stationery</td>
<td>.07</td>
</tr>
<tr>
<td>Depreciation</td>
<td>.02</td>
</tr>
<tr>
<td>Overhead</td>
<td>.06</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>.35</strong></td>
</tr>
</tbody>
</table>
The last two sets of figures are based on an estimated fifteen minutes per letter. If these amounts may be taken as typical, it would seem that the personally-typewritten form letter is but little more expensive than the printed form, yet its superiority has been shown by this study. If the credit manager feels that the possible gains from a dictated letter would not offset the added cost, he may well be influenced to use the form letter which is typewritten every time. Thus there is no need to attempt to match the address with the body, and it is possible to make as many insertions in the letter as desired without any difficulty. These advantages would certainly seem to be worth more than the twelve cents additional cost per letter. Of course, these amounts would vary in other stores. However, it seems reasonable to suppose that the proportionate costs would remain somewhat similar.
CHAPTER VIII. SUMMARY, CONCLUSIONS, AND DERIVATION OF PRINCIPLES

By way of recapitulation, it may be restated that this study was undertaken for the purpose of determining, insofar as possible, the effectiveness of personalizing the retail store collection letter. By personalization, in this instance, is meant the wording of the letter in a friendly, conversational, personal tone, as well as typing each copy separately. These individually-type-written letters were tested against processed form letters with fill-ins, already in use in the cooperating stores. Their effectiveness was measured in terms of full payments, partial payments, and promises received from the debtors.

Until this study, there was no statistical evidence as to the most effective collection approach by mail. In view of the volume of charge account business today, and the fact that a large part of retail collections is handled by letters, it becomes very important to determine the most effective type of letter to use. By actual tests of store customers, results were obtained to show the most effective kinds of collection letters. Only the charge account customers of retail stores of the "wearing apparel" group were included.
The Findings Summarized

In summing up this study, reference is again made to the three separate investigations carried on. In the first place, in order to establish criteria for judging the effectiveness of collection letters and to obtain information on collection practices, a large number of questionnaires were mailed. Then, many collection letters in use in retail stores were analyzed and criticized. Finally, actual tests were conducted of letters prepared by the writer, tested against store form letters with fill-ins. These letters were mailed through the stores concerned, to their own charge customers.

It was found that most stores do use processed form letters with addresses and salutations filled in, except in very unusual cases. They use them even when the delinquency has progressed for many months. The reason for this widespread use of form letters, with little attempt at personalizing them, was the increasing volume of charge accounts and the shortage of trained help. Time and competent assistance did not permit the individualizing of collections. There was a rapid turnover of employees in the stores observed. In many stores, even seriously delinquent customers had been sent no collection message of any kind for a considerable period of time. Even though the credit manager might prefer to dictate individual letters, he found it impossible to do so.
As for the number of form letters used, they varied from one to 110. However, the tendency was to concentrate on a few, even when many were available.

It was found that an account is not usually considered overdue until at least 90 days after the original due date. During this 90-day period, form notices or cards may be sent. Beginning at approximately 90 days, letters will be sent, although they will be form letters. Thus the 30-day charge account has become a 90-day account in the practice of many customers. It seems to be a standard practice not to worry much about an account until that length of time has passed.

The traditional 30-day interval between collection efforts continues and, in some cases, is even extended. However, a 15-day interval is attempted by many. The questionnaires showed about an even division on this point.

Judging both from the questionnaire replies and the letters actually gathered and analyzed, the usual collection procedure appears to be as follows:

1. When an account becomes overdue, a form notice is sent, of an obviously impersonal nature.

2. After about 90 days' delinquency, notices in the form of letters are sent; still form letters and impersonal, merely assuming the debt has been overlooked.

3. At 15 to 30-day intervals, other letters are sent. Usually, the first one asks, "Is there an error in your account?"
4. A letter is sent, asking for some sort of explanation.
5. The customer is asked to come in for a conference.
6. An appeal to the customer's pride is used.
7. A letter stressing the importance of credit and the way the credit system works is sent.
8. The fair play appeal is used.
9. A letter stressing the self-interest appeal is sent.
10. One or more letters of the appeal to "fear" type are mailed. They do not resort to open threats, but make the case seem serious and drastic action inevitable in case the debtor still does not pay.

Other letters in the usual collection "series" have to do with handling partial payments, handling small accounts, and dealing with promises not adhered to. A "Thank you" letter is an integral part of every series.

After a number of letters are sent—anywhere from 5 to 25—if no payments have been received, the account is charged to Profit and Loss or turned over to a collector.

Collection letters in use in retail stores today are to be criticized chiefly because of impersonality, triteness and lack of originality, lack of courtesy or you-attitude, lack of grammatical correctness, negative tone, big words, and failure to mention the amount of the debt. Also, very few attempt to age the account, although the writer found the effect on the customer of such dating of his overdue balance very favorable.
Tests of Letters

With the foregoing facts in mind, the writer proceeded to carry on his tests. His purpose was to test the thesis that a letter which is more personal, friendly, courteous, and individual will collect more accounts than the usual stiff and formal prepared form letter. Almost 4500 letters were mailed out by eight Texas stores and a careful record kept of the results. The test letters were prepared by the writer. The list of debtors was divided at random into two groups and one group was sent the test letter, while the other was sent the store form letter of a similar appeal. The primary tests dealt with the fair play appeal and the self-interest appeal, since these were the two most credit men advocated as most effective. They represent a fairly early stage of delinquency and a late stage. Taking advantage of an opportunity to try collection methods on a number of accounts already written off the books, the writer also sent several letters of the appeal to fear type. A few tests were made of the appeal to pride, with inconclusive results.

The detailed results appear in Chapter VI and in the Appendix, but certain figures may be repeated here. Taken as a whole series, the test letters prepared by the writer resulted in 43.7% collections, while the store letters drew 38.5%. On the fairness appeal, the total result was 63.1% from the test letters and 57.9% for store
letters. The self-interest appeals drew 25.4% from the test letters and only 12% from store letters. The appeal to fear resulted in 29.1% payments from the test letters, and 12.7% for store letters, even including one letter from a store president.

These results have been subjected to tests determining their significance. It has been shown that random errors of sampling could not account for most of the differences. There is definitely a variation in the pulling power of the more personalized letters, particularly in the later stages of collection.

Also, the two groups have been compared as to whether they contain more local accounts, accounts of larger size, and so on. It was shown that they are not essentially different in these respects, but are composed of the same sort of cross section of customers of the stores involved. Therefore, the results appear to be valid.

Conclusions

The following conclusions result from the data obtained and analyzed in this investigation:

1. In the early stages of delinquency, attempts to personalize and individualize the letter are not likely to cause much improvement in results, since most debtors who are able to do so, pay their accounts at this time, anyway.

2. In the later and more serious stages of delinquency, a more personal, friendly, and individual letter is definitely more effective in collecting the account.
3. The best letter for these late stages of delinquency is the personally-typewritten form letter, which appears to be a personal letter, and which can be typed to include items pertaining to the specific account, although the essential structure of all the letters for a certain period is identical.

4. Persistent, regular, and continuous attempts to collect will result in eventual success in most cases.

5. More evidence is needed as to the effect on goodwill of collection letters; however, it appears that the friendly treatment, even in a firmly-worded letter, will result in a strengthening of the goodwill of the customer toward the store.

6. Of the appeals used in this study, the appeal to fairness appears to bring the most returns; however, this may be due to the fact that it is sent out early in the delinquency.

7. Many of the form collection letters in use today are poorly worded, harsh in tone, and contain errors in English.

8. As the delinquency increases in dollar amount, the number of debtors tends to decrease in a direct ratio.

9. Over half the overdue accounts of the type of stores studied are likely to amount to $50 or less.

10. Over 60% of the accounts of a store of the type studied are likely to be within the city limits.

Statement of Principles

This study was begun with the idea of finding out how collections are now handled, actually testing the effectiveness of differing letter content and appeals, and deriving from the findings a set of principles for the retail collection letter.

It has been shown in Chapter I that this has never been done. The principles usually enunciated were derived empirically. They
have not been backed by statistical evidence. This is the first study which has actually mailed and tested large numbers of collection letters for several stores. The writer does not intend to say that this study is the last word on the subject. Naturally, there is room for much more study of the problem of mail collections. However, this research does indicate lines of attack on the problem which appear to be successful. This study has confirmed many beliefs concerning collections and contradicted others. Even though more evidence may yet be needed to be certain of the fundamental truths, the writer feels that some statements may be made concerning retail mail collections which are borne out by his research and which appear to be fundamental principles in the light of the evidence available. It must be remembered, however, that the tests on which these principles are based dealt only with open charge accounts, not budget accounts, and only with department and apparel stores.

On the basis of the findings and conclusions of this study, therefore, the writer presents these principles as guides to the collection letter writer:

Principle 1. Prompt, continuous follow-up of an overdue account is essential. If the store permits the customer to "get by" with letting his account go, he will only continue to abuse his credit privilege. Failure to keep up with collection mailings has caused many a store to suffer in collections.
Principle 2. At the beginning of the delinquency, a form letter may well be used, if it is a good form letter. A personally-prepared letter is not likely to achieve appreciably better results.

Principle 3. When a debt becomes seriously past due, the credit man should use a personally-typewritten letter, which can refer to the particular account and any special circumstances surrounding it, and which should be courteous, friendly, individual, and interested in the debtor, insofar as the way it is worded is concerned.

Principle 4. The store should prepare a set of form letters and should revise them frequently. These letters should not contain trite expressions and impersonal, stock phrasing, but should have a conversational and friendly tone.

Principle 5. It is desirable to address the debtor by name and to use his name in the letter salutation, as part of the process of personalizing the letter.

Principle 6. The collection letters mailed in late stages of delinquency may be expected to be longer letters than those used earlier, in order to allow a stronger appeal to the debtor's better side.

Principle 7. The credit man should expect overdue accounts to occur and should not regard all delinquent customers as people who are trying to defraud the store. Instead, he should attempt to find the reason for the delinquency and take an attitude of helpfulness.

Principle 8. The collection letter writer should take advantage of the many possible appeals or basic ideas of collection letters and not rely on just one or two appeals.

Principle 9. The collection letter writer should compose his own letters, to fit his store's customers and policies, rather than merely copying someone else's.
Principle 10. The credit man should conduct his own re-
search, on his own store's letters, in order
to determine the results he is getting and
find ways to improve them.

Principle 11. The credit man should not allow pressure of
other duties, limited budget, shortage of time
and help to keep him from carrying on the col-
lections part of his job to the best of his
ability. He must take time to give collections
the personal and human touch. He can only suc-
cceed if he is really interested in his custo-
mers and in helping them to pay.

In conclusion, it should be restated that the present study
is limited. It can only indicate possibilities or what seems to
be true. It is to be hoped that it will point the way for further
research. Detailed studies and tests in each of the many areas
concerned with collections are needed, before we can be certain
that we know the best way to collect an overdue account. Contri-
butions of great worth could be made by studying the effects on
customer goodwill of different procedures and methods, the effect
of varying the order of the customary appeals, the possibilities
of better results in the reminder stage, possible patterns of
background and situation among the seriously-delinquent group, and
the like. Research to build up more cases to prove the effective-
ness of personalization more completely is desirable. In addition
to all of these, there is room for research into dealing with
installment and budget accounts and accounts with other types of
stores, and for research into the many other phases of the credit
man's job.
Credit men have not been particularly research-minded, either because of lack of interest, lack of training, or lack of time. It is to be hoped that they can be led to see the value of more such research in the future. Perhaps the many credit organizations can stimulate research among those in the credit field, to supplement what is being done by other students of the subject.
APPENDIX I

Forms and Work Sheets Used
QUESTIONNAIRE ON COLLECTION LETTERS

Introduction: A study is proposed on the effectiveness of collection letters. In co-operation with business firms, letters will be composed and mailed. Results will be tested in comparison with form letters regularly in use in the firms used. The purpose of this questionnaire is to try to arrive at a consensus of opinion as to what phases of collection should be tested and what criteria can be set up for the successful collection letter. Your reply to this questionnaire will be helpful and will be much appreciated.

1. What are the criteria for judging the success of a collection letter?

A. For example, is the only test of success the collection of the debt in full? Or would a reply giving an explanation of the delay be considered a mark of success? How about part payments? Should goodwill be an element, as measured by the reaction of the recipient, by the elapsed time before he places his next order, or by some other measure?

B. Your ideas as to criteria for success:
B. Your answers to these questions and others that may be suggested by them:

C. Other points of methodology and control. For example, should single letters be tested or a series? Will the cumulative effect of early letters make it impossible or difficult to determine the effectiveness of a particular letter? How many cases should be tested for the results to be statistically meaningful?

D. Your answers and other suggestions:
B. What other things about the letter should be tested and compared? A few sample items follow:

(1) Courteous tone (no red flag expressions)
(2) Positive tone (no negative expressions)
(3) Personalization (no obvious form letters)
(4) You-attitude
(5) Ease of reply (stamped envelope)
(6) Other

C. Your comments on the desirability and practicability of testing these items:

4. Any other suggestions or advice concerning the content or methodology of this proposed Ph. D. study will be welcomed.
QUESTIONNAIRE ON RETAIL COLLECTION LETTERS

Introduction: A study is proposed on the effectiveness of retail collection letters, leading to a possible Ph. D. dissertation. In cooperation with several retail business firms in southwest Texas, letters will be composed and mailed to actual store debtors. An attempt will be made to test, as scientifically as possible, the results of different letter content, personalization as opposed to form letters, etc. It is hoped that the results will be some statistically sound data as to what works and what does not in retail collections. According to all available information, no scientific testing of this kind has ever been done before. Your co-operation will be greatly appreciated in defining the criteria—or standards for judgment—and in determining the content and devices to be tested.

It will also be most helpful if you can enclose with your reply some samples of your collection form letters. Various credit organizations—such as the Retail Credit Executives of Texas, National Retail Credit Association, and the Credit Division of National Retail Dry Goods Association—are interested in this study and feel that it is worthwhile. Your help will be much appreciated, in filling out and returning this questionnaire to the address shown.

1. Criteria for judging the success or failure of a collection letter

In your judgment, which of the following actions represent success, at least to a degree? Check them or comment by them.

A. Payment in full
B. Part payment with a promise of the rest
C. Explanation and promise to pay
D. Explanation of delay, with future action vague
E. Payment, plus increase in goodwill, as measured by interview of customer or future orders placed
E. Should the letters be tested by sending out identical letters to two different groups, except for the one point to be measured?

3. Content

What points or appeals should be tested? Following, is a list of appeals sometimes used in the collection series. Indicate by each, whether you think it is effective or not.

A. Expression of confidence in debtor
B. Pay to make you "feel good"
C. Appeal to co-operation
D. Appeal to pride
E. Appeal to self-interest
F. Appeal to fear (subtle threat, but nevertheless definite)
G. Appeal to sense of fair play
H. Other

Which of the following points do you think would best be tested in this study? That is, which seem of more immediate importance?

A. Courteous tone (no insults)
B. Positive tone (No negative expressions)
C. Personalization (As opposed to obvious form letters)
D. Ease of reply (stamped envelope)
E. Real interest in customer and his problems
F. Other

4. Your own collection system

A. How many collection form letters does your store?
CREDIT DEPARTMENT OPERATION

1. Kind of letters

Does your firm use:
- Form letters with addresses
- Form letters individually copied each time
- Form letters prepared by automatic typewriter
- Personally-dictated letters
- Other

2. How many prepared form letters does your firm have? ________
   How many are actually used very often? ________

3. When a debt first becomes overdue, do you use:
   - Cards
   - Stickers
   - Notations on statement
   - Printed reminder
   - Only additional statements
   - Other devices

4. How soon after a debt becomes due do you mail any collection effort other than a statement? ________
   How soon after it becomes due do you begin sending actual letters, as contrasted with impersonal notices and cards? ________

5. At what intervals are collection letters sent? ________

6. Do you prefer short letters? ________

7. Do you advocate humor in collection letters? ________

8. When an account becomes hopelessly overdue and other action has been unsuccessful, ________
Dear Credit Manager:

An attempt is being made to make a scientific study of collection letters used by retail stores and their effect. This study is sanctioned by the American Business Writing Association, the National Retail Credit Association, the Retail Credit Executives of Texas, The Credit Division of the National Retail Dry Goods Association is also interested.

I hope you will be interested, too. I intend to try to earn a Ph.D. by finding out on a large scale various factors about credit department operation. Also I shall analyze large numbers of actual collection letters to find their common elements. I shall survey a large segment of the consuming public as to their reactions to certain items in collection letters. Finally, and this is the heart of the study, I shall (and already) test the effectiveness of various kinds of collection letters in actual use in collecting the accounts of co-operating retail stores in Texas.

You can help take some of the guesswork out of collection department operation by answering and returning the attached questionnaire. I hope you will take a few minutes to fill it in, right now. In return, I hope to send to all who co-operate a report on the results of the study.

Sincerely yours,
CREDIT DEPARTMENT OPERATION

The following information is needed for a discussion which is planned for the state convention of the Texas Retail Credit Executives, May 19th and 20th.

All of these questions refer to 30-day Charge Accounts only.

1. Check the items used. Indicate frequency of use by two checks:
   - Form letters (mimeographed or printed) with addresses filled in _______________________.
   - Form letters individually copied (typed) _______________________.
   - Form letters reproduced by the automatic typewriter _______________________.
   - Personally dictated letters _______________________.

2. If you use form letters, how many such letters does your firm have? _______________________. How many are in frequent use? _______________________.

3. When an account first becomes overdue, do you use:
   - Cards ____________________________________________
   - Stickers __________________________________________
   - Notations on Statement ______________________________
   - Printed Reminders _________________________________
   - Additional statements only __________________________

4. HOW soon after a debt becomes due do you mail any collection effort other than the statement? _________________________________.
   How long do you wait before sending actual letters? _________________________________.

5. At what intervals are collection letters sent out? _________________________________.
   Does the interval vary according to the type of customer? _________________________________.
   Does the interval vary as between local and out-of-town customers? _________________________________.

Questionnaire L

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Dear Mrs.

All of us forget things at times. We're wondering if that's what has happened to your account with us. Part of your overdue balance of $ dates back to last

We are sure you will want to co-operate with us in clearing up this indebtedness in order to maintain your good credit record.

May we have your remittance very soon?

Sincerely yours,
Dear Mrs.

Thank you very much for your recent payment on your account. We appreciate the fact that you are trying to reduce this indebtedness.

Perhaps you have not realized, however, that part of your balance still remains unpaid. As of September 30, your total overdue account amounts to $.

We shall appreciate it very much if you can make arrangements to take care of this balance as soon as possible.

Sincerely yours,
Dear Mrs.*

It's been said many times, but it's still true that "there are two sides to every question."

Here's our side: We were glad to serve you in your selection of merchandise and to extend you credit on generous terms. Your account has been permitted to run four months past the due date.

We've done everything possible to be fair about your account. Now, what about your side of the question? It's only fair, isn't it, to expect you to do your part now and send in your remittance?

If you can't do that, then won't you write or call us anyway and tell us what you can do? We'll appreciate it.

Amount due—$ *

Sincerely yours,
Dear Mrs.

Monthly charge accounts represent a service which Blank's is happy to extend to its customers at no additional cost.

We are glad you are taking advantage of the conveniences provided by your charge account. In order to make possible these conveniences and services, however, it is necessary that customers pay their accounts each month.

Your own account for is now considerably past due. It amounts to $ . We know you will want to do the fair thing and settle this account at once or tell us what arrangements you can make. We'll appreciate a letter or a call from you.

Sincerely yours,
Dear Mrs.

When we opened a charge account for you it was because of your good credit standing. Such a credit record is something to be proud of, and we are sure you are proud of it.

Surely you do not wish to do anything which is likely to affect your good reputation. Yet a part of your overdue balance on our books dates back to last

The total amount due is $ . Keep your good credit reputation. It's a very valuable possession. All that's necessary is a payment or an explanation by return mail.

Sincerely yours,
Dear Mrs.

"Amount past due . . . . . . $_______"

"Manner of payment . . . . . ___________

We are frequently called upon to answer such questions as these concerning our charge customers. In such cases we have no choice other than to give the facts—whether favorable or unfavorable.

If we received such a request concerning your account, we would have to say that part of your overdue balance of $ dates back to last . In that case, no matter how urgent the need, the inquiring firm might not be able to open an account for you.

Surely you want to protect your credit standing, as one of your most valuable possessions. Send in your payment at once. We may receive an inquiry concerning you tomorrow.

Sincerely yours,
Dear Mrs.

It takes a long time to build up a good credit reputation, but after it is done, the result is well worthwhile.

Your account with us, amounting to $, is now seriously past due. Part of it dates back to last . Failure to pay this sum is certain to injure that valuable credit rating.

Isn't it worth $ to preserve your ability to walk into a store and say, "Charge it"?

Send your remittance now and begin to restore your credit before it is too late.

Sincerely yours,
Dear Mrs.*

Just how valuable is your credit rating to you?

If you possess a good rating, you will be able to make purchases on a charge basis whenever necessary. You will be able to buy expensive items without paying the entire cost in cash at the time of purchase. If an emergency arises, your credit will stand you in good stead. Cash will not be necessary to obtain what you need.

On the other hand, if your record in various places shows you as a poor credit risk, this valuable possession of credit will be lost. Other creditors will press for payment. You are likely to be subjected to the unpleasantness of drastic collection measures. In addition to the present effect, your credit reputation will follow you wherever you go. It will take many years to restore your good rating. You may be deprived of items you would like to purchase, because of the necessity for paying cash.

These are facts. We mention them only so that you will not take lightly the possible loss of your credit which may follow unless your account with us is paid.

It is still possible to salvage your credit reputation. The first step is to pay this long overdue account, amounting to $ . If you cannot pay it all immediately, you will find us willing to discuss a definite arrangement to take care of it. The next step is up to you.

Sincerely yours,
May we direct your attention to your account balance of which dates back to

We sincerely request your remittance, and assure you of our appreciation.

Very truly yours,
Recently I wrote you asking your attention to your past due account in the amount of $. Perhaps you have been away on your vacation and have not had an opportunity to send in your remittance. Won't you please do so now?

If circumstances prevent your paying this account in full, why don't you send in a partial payment along with a note telling me how soon the balance will be paid? By doing this, your account will become active and will be liquidated in an orderly manner.

Please let me hear from you.

Very truly yours,
For some reason unknown to us, we have not received payment of your account, or any explanation why the account has not been paid.

According to our terms, your account of is long past due. We know you will understand that it is only good business on our part in asking your cooperation in making immediate payment.

If you will mail your check now for this amount, we shall be very appreciative.

Very truly yours,

Amount Due $
Store Letter 5

Your account shows an outstanding balance owing for several months in the amount of $.

Credit is one of the most valuable assets a person can have, since it represents their trustworthiness. Knowing that your credit has always been held in high esteem by both you and ______________'s, I feel that you will appreciate my offering to assist you to maintain the honor and reputation which you have built up over a period of years.

I know that many times through oversight or reverses one does not always do the things that one intends to do. If this is the case, won't you drop me a note letting me know when I may expect payment?

I want you to know that I am here to assist you in every way, so please feel free to call on me.

Very truly yours,
We have been expecting to receive payment of your account, which amounts to

Although you have been reminded of this on several occasions, your payment has not been received.

When you consider that the account has run, you will appreciate why we ask for immediate settlement.

Very truly yours,
Store Letter 7

I am at a loss to understand your failure to respond to our many letters regarding your unpaid balance of $

It is imperative that a definite understanding be arrived at immediately in order that we may continue to keep your name on our ledgers. As you know credit is extended only on a personal promise to pay your account in full within thirty days from date of purchase, however, we note that your balance has been outstanding for several months.

It is only by sending us your remittance immediately that we will be in a position to continue to carry your account. Your continued silence and apparent lack of interest will force us to take more aggressive steps for the collection of your account.

Your immediate attention will be appreciated and expected.

Very truly yours,
I am at a total loss to understand your apparent lack of interest in your delinquent account with ________'s. I must, therefore, presume that you have no intention of paying this honest obligation.

In not having complied with our many requests, to make an amicable settlement of your account, you leave me no alternative except to turn your account over to Retail Merchants Association, with instructions to force collection.

I am indeed sorry that you are forcing me to take such drastic steps to protect our interest, but your continued silence leaves me no other course.

Very truly yours,
Store Letter for Part Payments

Your recent remittance is much appreciated.

May we respectfully call your attention to your unpaid balance of $ which is considerably overdue. Your prompt remittance will be appreciated.

Very truly yours,
Sample Work Sheet

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APPENDIX II

Supplementary Charts
CHART VI
Effectiveness of Test Letters in Terms of Total Payments

0 10 20 30 40 50 60 70 80 90 100%

Fairness ////////////////////////////////////////////////////// 42.7%
Pride ////////////////////////////////// 20.1%
Self-interest ///////////// 14.9%
Fear ///////////// 11%

CHART VII
Effectiveness of Test Letters in Terms of Part Payments

0 10 20 30 40 50 60 70 80 90 100%

Fairness ///////////// 20.4%
Pride ///////////// 11.5%
Self-interest ///// 10.5%
Fear ///////////// 18.1%

(Source: Original Investigation)
CHART VIII

Effectiveness of Store Letters in Terms of Full Payment

0 10 20 30 40 50 60 70 80 90 100%

Fairness ////////// 36.8%
Pride ////// 18.9%
Self-interest /// 7.2%
Fear // 4.1%

CHART IX

Effectiveness of Store Letters in Terms of Part Payment

0 10 20 30 40 50 60 70 80 90 100%

Fairness ////////// 21.1%
Pride ////// 13.6%
Self-interest /// 4.8%
Fear 0%

(Source: Original Investigation)
CHART X

Effectiveness of Formal Versus Informal Letters

Formal: 44%
Informal: 47.5%

CHART XI

Effectiveness of Typed Letter Versus Processed Letter

Typewritten: 67.3%
Processed with Fill-ins: 66.6%

(Source: Original Investigation)
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Periodicals


Also, files for the past two or three years were checked of the following periodicals: Credit Currents, Credit and Financial Management, Credit World, Dun's Review, Federal Reserve Bulletin, Monthly Business Review (of Dallas Federal Reserve District), Survey of Current Business, Texas Business Review, and Texas Retail Credit News.
I, Donald Vinson Allgeier, was born in Mountain Grove, Missouri, October 31, 1915. I received my secondary school education in the public schools of that city. My undergraduate training was obtained at Southwest Missouri State College in Springfield. From that institution, I received the A. B. and B. S. degrees in 1937 and 1938. My Master's degree comes from New York University, being awarded in June, 1946.

I taught in the high schools of Missouri prior to receiving the Master's degree. Afterwards, I taught one year at the University of Oklahoma, and came to Ohio State University as an Instructor in 1947. While serving as Instructor for three years, I completed the course work and general examinations for the Ph. D. degree. My doctoral dissertation was written while I was teaching at Southwest Texas State College, San Marcos, Texas. At Ohio State I majored in Office Management and Personnel Management.