

# SBM

The Source for Business Owners

ST. LOUIS  
**Small  
Business  
Monthly**

VOL. 19, ISSUE I

FEBRUARY 2006

## 5 Things To Consider When Choosing A Collection Agency

If you've been in business for a while, sooner or later it's bound to happen. Someone will not honor his or her obligation to pay your invoice. You've sent invoices, letters, your salesperson to talk to them and nothing seems to work. Now you decide to get a third party involved, a professional that knows how to handle the situation and is likely to get your money.

It is important that you build a good understanding of the agency's strengths and weaknesses to determine if it is a good match to your business environment. How do you decide if a collection agency will do a good job for you? Here are five things you should consider when hiring a collection firm.

### **In what type of collections does the agency specialize?**

There are generally two types of debts—commercial and consumer. Commercial collections are collecting receivables that were from the sale of one business (the creditor) to another business (the debtor). Consumer collections are from debts that are due by individuals. There are different collection laws for each type of debt—commercial and consumer—so if your transactions are business to business, hire a commercial collection agency. If you sell to individuals, hire a collection agency that specializes in consumer collections.

Consideration should also be given to your industry. Some industries like construction and medical have unique collection problems. If you are in these industries, make sure the agency has experience in collecting these types of accounts.

### **Volume and debtor's location**

If you have a large sales volume and hundreds of collection accounts to be worked, make sure the agency can handle the volume or

use more than one agency. Likewise, if you only have a handful of accounts to collect, look for a smaller agency because you will be a more valuable client to them.

Also consider the location of your customers. Are most of your customers local? Do you sell out of state? All across the nation? Each state has its own collection laws and many require a state license. Is the collection agency licensed in these states? If you sell nationally, choose a larger collection agency that collects in these areas. If most of your customers are local, you may get better results hiring a local company because they are more familiar with the area and the local business environment.

### **Customer service**

Once you have turned an account over for collections, how often will you be updated?

Many larger collection firms provide monthly updates on every account that you have placed. Some even let you go online to check the progress. My experience is that the summaries are so general that they have only limited value. Smaller companies may not offer automated updates, but you can probably talk to someone that can provide more details on your accounts. If you are dealing with a smaller company, try to develop a relationship with the person that is actually working on your accounts. You will get much better information when dealing directly with the collector.

Also, ask what the collection agency's policy is on paying you the money that was collected on your behalf. Expect about 3 weeks for the check to clear and to process your payment.

### **What fee should you pay and how much should you expect to collect?**

Most agencies work on a contingency basis. So if they are not successful in their collection efforts, you do not owe them anything. This is

usually the best arrangement. Be cautious if a collection agency requests money upfront unless it is for court costs in a suit proceeding. Rates can vary. On commercial accounts, look to pay between 15% and 35% depending on the size of the account. On consumer accounts, rates are usually from 30% to 50%. Expect to pay higher rates if the debts are over one year old.

Regardless of the rate, **your first consideration should be how much will be collected for you.** If someone charges 30% but collects 60% of the accounts placed with them, you will get more money back than someone who charges 20% and recovers 40%. For example, if you turn over five \$1,000 accounts to Company A that collects 60% of them and charges 30%, you will receive \$2,100. If you turn the same accounts over to Company B and it collects 40% at a rate of 20%, then you will receive \$1,600. So the collection rate is more important than the fee.

There are many variables that go into collecting an account. Your customer's industry, cash flow and integrity, as well as the quality of the service you provided and the collector's experience and in dealing with these factors determine if the account will be collected. You can only estimate what you will get back. My best advice is to **insist on getting three references in your geographical area.** If they hesitate to provide references then do not do business with them. Furthermore, if the references can't give glowing or at least very positive comments, you might want to keep looking.

### **How will they treat your customer?**

This should concern you. Why? Because your reputation is at stake and you could be held legally responsible for the collector's actions. You should view the collection agency as if it is an extension of your firm because it is representing you. There are many good agencies that treat your customer professionally

and abide by federal and state laws. Others do not. Your first clue is how the salesperson treats you. Is he annoying or pushy? Does he break his commitments or act like you've previously committed to place accounts with him when you haven't? If he will do anything to get your account, he will do anything to collect your money. But he might cross the line in doing so and even if you get paid, the debtor may become so upset that he tells his friends

and business associates how poorly you have treated him. So if you have concerns about the salesperson's integrity, eliminate that agency from further consideration.

You should expect a good collector to not only get the money that is due, but also protect your good name and even help mend a few relationships along the way so that you can do profitable business with that customer some time in the future.

*Beacon Recovery Systems is a local collection firm. Request a free copy of the booklet, "18 Proven Tips and Strategies to Boost Collections and Increase Your Cash Flow" by contacting [Info@BeaconRecoverySystems.com](mailto:Info@BeaconRecoverySystems.com).*