How Collection Agencies are Used and Abused

Joe 00:11

Hello, welcome to credit careercast, brought to you by highako. Today, Bob Schultz, Michelle Herman, and Melanie Marcel bring their extensive knowledge to talk about the use and abuse of collection agencies. Let's get right into this great conversation.

Bob 00:31

Hey, everybody, we've got a great topic today we're going to talk about collection agencies that kind of the use and abuse of collection agencies.

For starters, Melanie, you know, there are hundreds of agencies out there, and a credit manager has to choose, you know, who are they going to work with? What do you think the best criteria would be? Or how a credit manager evaluates all the agencies that are calling them up? Typically, every week? How do they choose one? What do you think?

Melanie 01:01

Yeah, every week, every day, right, multiple calls. And, you know there are a few points that are most important, you know, first, the collection professionals that are employed at the agency should be certified should have a formal certification.

It's also very helpful if the agency pays for that certification, and then recertified them with refreshers, right? And then also, it should be a portable certification so that if they should look, leave that agency and go work for someone else, they take that certification with them.

The reason why I always thought that was so important, Bob, is because that's a true investment in your employee, and with the 1000s of agents out there, some great some not so great, that that to me, was always very important.

You know, if it's an international organization, and they need bilingual, multilingual, you know, having collection staff that has the native language is also something that's very important to look at,

you know, French Canadian is very different than European France, you know, and when you're calling a debtor, they know the difference, and then they will, they will that will sidetrack it and distract from the collection, and then also being licensed and, you know, understanding who their attorney partners are,

if you're going to need attorney, you know, intervention at some point. And then most important for me, simply because I've been in the industry for over 20 years, is the agency provides their the company with an educational resource.

I think that's very important, you know, just complementary, frankly, you know, so that you're a partner with that department or those departments, you're an extension of that department. So having an educational opportunity together, I think is also very important. That those are the key areas that I've always focused on.

Bob 03:02

What do you think Michelle,

Michelle 03:05

I totally agree with Melanie, and that one of the things that come to my mind instantly is, inter-industry knowledge. And I think maybe Melanie, that's kind of what you're referring to is, our world is really so unique.

And of course, we all know you can't really go to college, except for UCLA Extension, to get an education on what is it that we do, and with just blindly making phone calls, trying to collect money, and you don't understand what the industry is about? And I think even a step further is the vertical market, right?

If you're collecting and food services, or insurance or hospitality, or construction, they all have their unique proclivities, where if you don't understand what those proclivities are, you're not going to be an effective collector, or you're going to waste a lot of time trying to get to the bottom of the heap.

So I think, understanding what the industry is about that it is so different from consumer collections, and understanding the industry that you're in, and what are the factors that are at play, I think are huge.

Bob 04:06

Yeah, I think you guys hit the high points, in terms of industry knowledge, giving back something in terms of educated, you know, having well-trained, educated people doing the collections. The other thing.

I've always looked for that advisory role from a collection agency about, you know, things that they notice about my internal process, and so on. So communication is very important.

So if I was choosing an agency, I would want to understand what's the communication between the two of us how do I refer an account over there? What insights do I have and what the collectors are doing, so that I can kind of monitor the progress? The other really important thing for me has always been an agency that's flexible in terms of how I want them to approach my account.

There are some referrals you make, you know, in the future, you may want to do business with them again, and So it's a kind of a lighter, touch others, you want them to be very aggressive.

I've worked with agencies where I'll just tell them, you know, turn up or down the volume. And they're very flexible with that. I've also experienced walking around inside an agency and listening, where their collectors were literally screaming. At one of the customers, we had literally screaming, that's unacceptable. It's legally, it's legally abusive.

And it's an unacceptable thing where, you know, I don't want our company represented that way. So those are, I agree with everything you said, those are some of the other things I look for, you know, one of the things I've noticed, as a consultant for many years, going into companies, and working in the aftermath of a predecessor is that a lot of credit managers just kind of suck the life out of a, an open balance before they send it to an agency.

And to me, that's, that's really not the way to go. What do you guys think in terms of how would somebody develop a policy in terms of how I use an agency when I make a referral? etc? What do you think, an example would be of the best practice there? Melanie?

Melanie 06:22

Sure. Well, you know, that's something I always recommend my client partners, you know, to have a credit policy, and if they don't have a formal credit policy within the organization, you know, I work with them to develop, because that's very, you know, so. But as far as you know, not, what did you say, sucking the life out of it?

You know, quite often what I found here, historically, what I found is that, you know, at times credit managers can, can feel like they failed, if they have to turn it over to an agency, right?

And that's not the case at all, you know, that debtor just needs perhaps a stepped-up demand of some sort, right? However, that's a hurdle, you know, that collection agencies for years have had to overcome, you know, and educate their clients so that they are truly an extension of their department and their partner.

So I'm less threatening, not, you know, we're here to make you successful. Michelle, I remember you and me talking about this, you know, using an agency and having a rhythmic time on when you place, it allows the credit managers to focus on their KPIs. Right, and other areas that are more important.

So having that partnership is, is key, and but I think really, historically, was the threat of oh, I failed, I have to turn it over to a collection agency. And I've heard that quite a bit. And that was a hurdle that, you know, I was able to overcome, but it still sits there a little bit today, a rhythmic, regular placement is the absolute best way to go.

Michelle 08:01

And I think you're right, that there is this personal sense of I have failed, my team has failed, we have to give up and give it to an agency. And people forget, you know, they're really not weighing.

They're like, Oh, the agency is going to take 20% or 25% or 30% of the receivable. And they're looking at the cost of that versus Hello, having your own people sit there and hammer away at these people isn't really necessarily any cheaper than that.

And if you think as you said, if you actually have a process in place where you have a policy where it says, At X days outstanding after X number of attempts, then we place it with a third party, then you've got a process that makes sense.

And then your collectors can actually operate in an environment where they can communicate easily to the customer and what your salespeople know that to listen, this is how it works after X many attempts, your 90 days past due, this is our process, this is what we do. It's no offense to you. This is just simply how we operate to maximize our own resources internally.

Bob 08:58

Yeah, just to elaborate on so I put it in very simple terms. If you have a policy, and it's very predictable, and it's a fair policy. And it's consistent, then everyone knows, knows when the train has left the station.

Once it's left the station, it's out of the reach of your salespeople to try to influence don't press them too hard. Just write it off, you know, et cetera. I think a lot of the mode of credit managers that I've seen that keep things too long, is fear.

They're afraid, you know, hey, I'm managing this credit department. My boss is looking, my boss is going to wonder why am I taking a good segment of our receivables and shuffling it off to a third party. What's wrong with me? And I think the points you've raised are spot on.

That's not it at all. It's a matter of managing your priorities and deploying your people in the most effective way. Why would you have them work and work and work and aged small balance So when you have, you know, a zero to 30 balance, or 61 to 90 balance, that's really going to drive your cash flow.

That's the way to deploy your people, What's the objective, you're trying to bring money into your company. So having them, you know, work on lower priority things that probably, you're going to end up writing off or giving to a collection agency anyway, that's really a mistake.

The other way to look at it, and just very plain terms, is what is a collection agency, it's contract labor, it's contract labor. And guess what you're only paying them if they collect money, if they don't collect, you get people working on the good stuff, that makes a difference, and you're not paying anything.

And then you have the free demand period. And in my experience, a lot, a high percentage of payments are made in that free demand, and then you don't pay anybody anything, but you get your money.

The other thing, and Michelle, you touched on this, it's the change of stationery, you can call and call and call and I, you know, they're never gonna do anything about it. I don't have to pay them all to wait enough for their mind.

But when they see that change of stationery, and they realize that, you know, this may be visible to the outside world on the Bureau reports that really drives payments. So that change of stationery, in my view is a big deal. And credit managers need to understand all these things.

And to your point, don't be afraid to refer to it it's good business, and it makes sense. And you have to explain this to your boss. So anyway, I think people ought to think that way.

Does anybody have any examples of when a collection agency has just, you know, really the horrible example of abuse of their customers or, or things that a credit manager should be aware that all agencies aren't the same? That some of them are, you know, can do pretty unethical things. Any examples? Michelle?

Michelle 12:07

Well, first, I was gonna say, for all of those millennial credit managers out there who might be listening, that we should clarify that when you say, Change stationery, we mean, letterhead on a piece of paper. I keep thinking there's something. Missionary? That's so funny. But it's not true, right?

It's just a different approach and having somebody contact you, from an outside entity or a different entity. And that's a horrifying thought. I mean, when you think about you, you know, I'm sure all of us at one point, you know, when you mail when you move, or you have different things that happen, and all sudden some bills that you just missed somehow ends up at a collection date, and you get that notice in the mail.

It is it's well, maybe just because we're in credit, but to me, it's like horrific. It's a horrifying moment of oh, my god, someone else knows about this. And it's gotten this far. And what are the ramifications of this?

It does strike fear in the heart. And I think that one of the benefits of having it be placed with an outside agency is that you get that those people getting that letter getting that email.

They have they are also consumers, right? So they know what that means in their own personal life. And so when you get it, even though it's a business transaction, it still is a weighty transaction. And it makes people take a step back and think, Oh, dear God, what is happening? We better pay attention to this.

So I think it ups the urgency. But yeah, I was, you know, thinking about an unethical agency. Oh, my gosh, you know, actually started really in this business.

I was in Florida. And I, Florida was like, every intersection there, like for collection agencies on every corner. It was just, it was incredible. So the stories that I heard, were just amazing about things that would go on.

And, you know, things have really changed a lot. I mean, you know, back back in the day, there were really a lot of shady shifty things going on. We could probably do a whole entire podcast about that.

You know, one of the things that that just comes to mind, I was just doing some research the other day, one of my customers, which I couldn't name because technically they actually went to federal prison.

But they were a credit manager. And they decided they saw all this cash coming in, they saw this cash going out to a third party agency, how much money these agencies were making, how little it was being monitored.

So he set up his own collection agency, and he started making placements to his own collection agency, and he and his wife built a huge house, and they basically embezzled $1.5 million from the company.

And it took him years to find this out. And it's, you know, I mean, this is where the checks and balances come into play is that it's so easy for unethical things to happen. Especially in a fast-paced world.

We're just you know, you're not monitoring every transaction. You just don't have time. It's everything's rush. So So it does happen. And when people think, oh, wouldn't it be certified?

Oh, no, we don't need to check on our agencies. Yeah, you do. Things really do happen. There are bad bad things that can happen and people can end up in jail. Yeah,

Bob 15:11

I think the certification and just making sure you're dealing with somebody legitimate is so important.

In my experience of, you know, the two things that come to mind, there are others, but the two that come to mind as I got a call, and it happened to be in Florida, Michelle, nothing against Florida.

That's an agency that will go named in Florida, and I get the call and, and the first thing that guy says Is he says, Hey, Bob, do you hear that growling in the background? I said, What are you talking about?

He says that's our collectors, we keep them in cages. And I thought that's really not somebody I want to deal with. The other one is I got a call from a guy, and I'm gonna go through the whole story in the interest of time, but the bottom line was that he offered me a bribe.

And what he suggested I do is to send a claim, which they would collect, you know, some amount. And they would report that they collected a lesser amount. They would be paid, you know, their commission on the full amount, and they would give me a kickback. And I was so horrified.

I tried to get the return phone number and, you know, asked him quite okay, well, and I'm not interested in myself for fear I was being recorded. But my company loves our discounts. Yeah. And I took all his information, which was all false. But I reported it to the FBI when my boss and I said, what happened?

I reported it to the FBI, I thought his head was gonna explode, that I had actually done that. But wow, those things do happen. And I was thinking of the poor. a person who's a credit manager and a small company, probably not making a lot of money that has bills and kids and in would be attracted to that type of thing. And now they're an embezzler. And in all kinds of other things.

So yeah, no, you have to that's, that's just a poster child for why you want to deal with a legitimate agency, and you need to vet them carefully.

So let's get back to kind of the mechanics here. I'm interested, I'll go back to you again, Michelle, and Melanie. Why do you think it's appropriate for a credit manager to actually refer an account? What type of timeline do you think is best practice?

Melanie 17:48

Well, you know, the probability of collection right, a due date is under 100%. It's right around 92%. Right, a due date, right?

So, um, the sooner it gets collected, but you know, usually what'll happen is we'll have buckets, right, we'll have age, age of placement buckets, perhaps along with dollar amounts.

I always say it's best, maybe you do 30, 60, & 90, depending on, you know, depending on the buckets that currently exist, right, the amount of staff who have internally and where you want them to focus on age and or dollar size, and then set up a consistent rhythm.

You know, I always say 30 days, you know, after 30 days, but I also outsourced a first party as well as a third party, right? So we, you know, I also presented ourselves as part of that team, you know, Melanie from that organization, so, the earlier it's placed, the higher the probability of collection, and it significantly decreases, and it goes down to 50%.

Right, at about 65 days, you know, so just do the math, you know, so what I do, though, is I'll just educate, you know, the stats, I'll share the statistics, and then I'll allow the credit manager to make that decision. But again, that should be that policy that we talked about, right?

As you set it up, but for me, best practices, if it's not collected within 30 days, and or if you have a certain bucket, maybe you want to get the aged out, done, you know, it's a partnership. So there are some factors, different factors at play. So and I think

Michelle 19:34

I'm sorry to interrupt. Yeah, I think one of the things that are really important and Emily, I think you do a great job of this, too, is that each company has its own philosophy. From a sales and marketing standpoint, where are we going?

What are we trying to do? And if you don't understand what is the overarching goal of the company, you can do some real damage by placing something too soon, or too late.

So no If you're not in alignment with management and understanding, what are the actual Are you planning on going public in the next year?

If so, you probably want to be really, really careful about what you place. But if you're not, if you're making big investments, I mean, you need to understand kind of the environment in which the company operates.

Your management team needs to buy in, when are you placing it? And why are you placing? And it might even, you might even have different criteria for different lines of business, right?

That's right, depending on the industry standards, and depending on what you're trying to achieve, like, if you've got a brand new product line, you might have a little bit less flexibility, or more flexibility, depending on where you are kind of in the pecking order of the competition.

So there's a lot of things I think that people need to consider, that is that you can do a lot of damage. Again, if you wait too long, or if you place too soon. So you've got to look at what your world looks like. Yeah,

Bob 20:54

I think some of it is dependent on the type of terms you have to and normal industry payment practices.

So you have to like you have to make adjustments. If you have very long terms, and then somebody doesn't pay you, I think you have to crank up the volume a little bit because the further out a receivable gets, the less likelihood of collection, there is the other thing and it kind of ties into this is how do you prevent the need to refer to an agency in the first place.

And you can use some champions in your own company, you know, everybody dishes, sales, and credit and that relationship, but I don't see it that way. A salesperson has a vested interest in preventing this.

So going the individual has a relationship with the customer, not necessarily at the payables level, but with a buyer or a program manager or somebody at the other end and has a vested interest in keeping things running smoothly.

If you leverage those people internally to help you, to me that that really prevents a lot of referrals and, and misunderstandings. And the worst thing to do is to refer somebody to a collection agency, without letting your salesperson know, if possible, it's like a one-handed slap, it's like the tree that falls down in the forest and nobody hears it. Why would you want to do that, I mean, you have the ability to, you know, prevent a credit hole and a referral, if you just are proactive about it. And when you do refer somebody to an agency, you do stop shipping to them.

What happens, your whole cash conversion cycle is impacted. You got the product in the warehouse, you can't ship, and you got to sales and cash forecast you can't make. So trying to keep things going and being proactive about it is very important.

To Melanie's point when you have structure, it really helps. There are advanced alerts, wow, this is going to happen. The train is going to leave the station. So anyway, all good points. Do you have something else? Melanie?

Melanie 23:20

you know, the key is always to preserve the client's relationship with their customer. Right. And as you place you build intelligence around the health of that portfolio, and then that one, then I would always say, let's adjust the throttle, right? Maybe you don't need to play.

So sooner, maybe let's place a little quicker because this, you know, we say we always want to make a bad pair a good pair, right? That's, that's an old language. Right? And, but so but really, that's what it is to really understand the health of the portfolio. And then you have the flexibility.

I think you mentioned that Bob earlier to adjust the throttle with regard to placement. You know, the other thing too, that I'm learning over the last 10 years is just now it's all about brands, right?

So the companies that the newer organizations today, right? The tech companies and other just, you know, different industries that are of recent, they're more worried about their brands, so they'll place it actually faster because they want to keep that good pair a good pair and not get them to you know, and that's why when I mentioned like the first party being an extension and then their department just isn't large enough to handle that.

You know, the key is brand loyalty and to identify, you know, the customer and get them back on track. You know, and or provide that intelligence to the company to say, You know what, you really shouldn't do business with this company anymore because they're really not, they're not good they're not a good customer to be working with. You know,

Bob 24:57

I used to tell people that work for me This is gonna sound a little odd. Nixon had a saying something, I'll paraphrase it like, let him hang high and swing in the wind. If you have a distributor or a dealer, they know how vendors behave.

Yes. And if you want to have discipline in terms of payments, and so on, get a reputation that you're no-nonsense. And that will filter through your entire dealer distribution network.

Just another thing to think about. Let's move on to another topic. Particularly Melanie, you probably are best suited for this question. What does an agency need from a credit manager in order to do a good job? What should a credit manager be prepared to provide them? To get the best results?

Melanie 25:53

Okay, well, when you place a claim, there's usually a claim placement form, everyone has one. And it has all of the contact information, the point of contact with the company, who the veteran is address all of that regular information on the placement form.

But the more information, the better. Any contracts that exist. Any letters of engagement, and writing a credit application is key, always try and get a credit application, any of the invoices, the last invoices, any other invoices, and even some invoices that are not yet due, are also very good to have because you can kind of keep control over Oh, this one is also coming up.

So how am I going to approach this invoice because there's another one coming in another 10 days, right, the statement of account, you know, also proof of delivery, you know, is also very important.

So any communication that they've had with the debtor, you know, and we get access to their systems, so we can look at their notes, and all of the conversations that have already taken place. So the more information, the better the credit application, and all of that I just shared. Michelle, is there anything else that you can think of?

Michelle 27:08

Yeah, so one of the things that, of course, always comes to mind, for me, is credit report information. And it really is remarkable how things have evolved over the last many, many years.

You know, back in the day, you know, this kind of goes to like, why do people hang on to an account so long? Because back in the day, depending on your profit margin, and the balance of the account, you wouldn't necessarily go pull a fresh credit report at that point, because it's almost like throwing good money after bad, right? That was really expensive.

And, you know, can you really want to understand, if you've got a $100 balance, you're gonna pull a credit report and spend $50, to determine if you should send that item to an agency, why would you do that? You don't, so you hang on to it, hoping to milk every last bit of it.

But now credit information is so ubiquitous, it's so easy to get, you know, portfolio scoring is out there, really. And that should be that should definitely play a part in, in identifying, you know, when a customer is paying everybody else on time, but you then you've got to look at yourself and say it's not bad, the customer is not bad.

It's something in our own process, either we're not invoicing correctly, or maybe they're not getting the bill or maybe there's a problem with the product. So having that knowledge now is easier than it's ever been before.

if you don't the collection agency and an agency gets that, you know, what does almost everybody do? They run credit reports, they do portfolio scoring all the time. So if you can understand, is this really a dispute?

Is there a reason this isn't being paid? versus these people are just deadbeats, they don't pay anybody because they're probably out of business? Or maybe they're struggling from some natural disaster or catastrophe, or God knows what. And I think that that's that having access to the information has never been easier before and the number of people who still don't access it.

It's never been cheaper. There are so many sources out there. We have phenomenal data. And it's just to me, it's crazy to not leverage that in this entire process beginning from the middle to the end.

Bob 29:05

These are great points. Let's move on to another topic here. How does a credit manager know if an agency wants to be selected on or dealing with one or maybe more than one?

How do they know that the agency is doing a good job for them? And if they're calibrating their referral timing, you know, too fast or too slow? How do they evaluate, you know, the ongoing performance of an agency? Melanie, let's start with you here.

Melanie 29:35

Well, it's the percentage of recovery right? The percentage of you who know how you're now recovering you had mentioned free demand earlier.

You know, if you have too many, collecting through the free demand, right, that that adjusts, also write and write, and then for the key is to have a formal quality assurance program.

You know, so when you're interviewing what agency to use, look at how they want Watch the entire process, you know, I say from cradle to grave, right?

And they have a formal quality assurance program, they have a certain system of scripting, that's, you know, and the call monitoring and how their note taking an agency should provide access to, you know, full access to the notes of the collection professional.

So that's really how they know whether doing the job they have access to, you know, 7x24 access they should have to the collection organization and their claims, they can review the notes, that percentage of the recovery.

And then again, as I said, it's all about the quality, the quality and the monitoring, and the scoring of their quality.

Bob 30:48

Yeah, that's great. Michelle, do you have anything else to add?

Michelle 30:52

Yeah, I think there's, there's a lot of value in looking at those recovery rates and understanding what's the norm for your industry. Right, and what are the historical trends? What are other economic factors that are at play here?

I think this is why this you know, this job of being a credit manager is, is a difficult one, because of all these different factors that you really need to be evaluating. You can't just say, okay, an accountant hit 60 days, it's supposed to go to an agency really well, is there some embargo that just impacted everybody?

And you know, you need to know all these things that are going on in the world for you to really make an effective decision because it's not just about your right, your KPIs is getting, you know, getting your metrics, right, it's about what are you doing to your company?

What are you doing to know what's happening in the company. And if you don't know all those factors, you you've got a lot of risks there.

Bob 31:42

Now, the only thing I would add is, collection agencies probably don't like to hear this. But I think it's good to have more than one agency, if you're a credit manager, there's some subtle competition that goes there because they know that you're sending referrals to another agency, and you're comparing performance.

The other thing is you may have, you may find that in certain aspects of your portfolio, one agency outperforms the other because they're just some characteristic about that agency that helps them do that.

And I think that's, that's another thing. And it's, it's good to benchmark one against the other, and if one is not performing and hunt around for another one and make a change. You know, I think we're out of time here.

It's been a really, really great discussion, I think, and I hope that credit managers that are listening to this, get some good viewpoints and know how to better behave with agencies and how to better utilize the tool. And with that, let's close thank you so much, Melanie, and Michelle. Great stuff.

Joe 32:54

Thank you, everybody, for tuning in. If you want to learn more on the topic, check out academy.hihgako.com We'll see you next time on the credit careercast.