WHAT IS THE MOST IMPORTANT TRAIT OF A COMMERCIAL COLLECTION AGENCY?

When credit professionals are asked to provide an instantaneous response to the question of "What is the most important trait of a commercial collection agency?" invariably the answer is always, "What is the collection fee percent charged by an agency?" A credit professional that is looking to add to his company's bottom line net, the better question would be, "Can your agency better our current Recovery Rate?"

If a commercial collection agency does not have the ability to collect, then the collection fee rate that the agency charges becomes meaningless. See below:

	Competitor	**Williams & Williams, Inc.**
Amount Placed	$100,000	$100,000
Amount Collected	$40,000 *(40%* Recovery Ratio)*	$45,000 *(45% *Recovery Ratio)*
Collection Fees	$6,000 *(15% Fee)*	$9,000 *(20% Fee)*
Bottom Line Net	$34,000	$36,000

*Recovery Ratio ($ collected/ $ placed) is the dominant factor affecting the Bottom Line Net.

The Bottom Line Net Performance example above illustrates some surprising conclusions. One is that an agency having a 2% better Recovery Rate can add more to the bottom line "client net" in spite of its collection fee rate being 33% higher (20% fee vs.15% fee). In the example above, Williams & Williams, Inc. had a higher Collection Fee of 5%. By collecting just 5% more of the Amount Placed, Williams & Williams, Inc. offset the 5% higher Fee by delivering more "net dollars" to the Bottom Line.

It is important when selecting an agency to understand how the Recovery Ratio and the Fee rate work in combination to affect the Bottom Line Net. We guarantee a much higher Recovery Ratio difference than the 5% illustrated above.

In conclusion, profit and accountability are two specialties of Williams & Williams, Inc. With many of our clients, given the caveat of "timely placed accounts," we can achieve a Recovery Rate of 85% together with an average fee rate of only 16% and perhaps less when including Free Demand recoveries.

Good performance begins with timely placements. If a debtor is in business and has a cash flow, in many instances we can collect an account and the overall fee charged comes to only 16%. Most of the time, our clients' "Markup or Gross Profit Margin" is higher than our collection fee. Like every company, all expenses are paid first and what remains is profit. Therefore, a collection from a timely placement means a client can still make a profit albeit smaller.

On the other hand, if a receivable is ultimately deemed uncollectable, then the write-off negatively affects a company's Net Profit "dollar for dollar." This is relative to what would have been realized if the placement had been collected. The bottom line is adversely affected because all of the creditors' operating expenses have been paid. Conversely, a successful collection usually results in losing only part of the "Markup" margin. There are an infinite number of factors, which can contribute or detract from profits; however, the basic explanation stated above will generally be applicable most of the time – it's just a matter to what degree.