

SA-VIT COLLECTION AGENCY TIPS OF THE MONTH ARCHIVES



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Comparing Collection Agencies with Different Fee Structures

The question often arises, "How can you compare the results of two collection agencies that have different ways of charging for their services?" You can do this by calculating the net back percentage.

To begin, there must be significant statistical samples and you must have similar accounts in the samples. A statistically significant sample for this comparison should be 100 or more accounts for each agency, the time frame for the samples must be the same and the accounts should be assigned periodically for at least one year. To compare two agencies split the alphabet from A to M and N to Z.

There are three values that are needed to do the comparison. First, is the total dollars assigned to each agency over the same period of time. Second is the total dollars collected and finally, the total fees and other charges (suit fees, upfront charges, skip tracing fees, etc.).

Subtract the total fees and other charges paid to the agency from the total dollars collected to get the net dollars returned to the practice. Divide that number by the total dollars assigned to get the percent net back to the practice.

Example: Assume \$200,000 was assigned to agency #1. They collected \$56,000 and their fee cost to the practice was \$20,000. Subtracting that from the \$56,000 collected means the practice received \$36,000 net back. Dividing the \$36,000 by the \$200,000 assigned gives a net back percentage of 18%.

Example: Assume \$250,000 was given to agency #2. They collected \$57,000 and their fee costs were \$16,000 plus additional charges of \$1,000 or a total of \$17,000. When subtracted from the \$57,000 in collections the net back to the practice is \$40,000. By dividing the \$40,000 by the \$250,000 assigned gives the practice a net back percentage of 16%.

This calculation shows that agency #1 returned a higher percentage of money to the practice than did agency #2 even though their fee charges were higher. Net back percentage calculation is the only way to compare apples to oranges.