

Working with a Third Party Collector— Why and When?

Dear Friends:

I hope everyone has had an enjoyable summer season. We at Szabo certainly have, although Atlanta folks always look forward to fall and the relief it brings from our seemingly endless summertime forecast—hot, hazy, and humid!

This month's feature focuses on third-party collection—why savvy companies consider the use of professional collection services essential to maximizing cash flow, and when companies should turn over accounts to ensure the highest rate of success.

Please be sure to check out this issue's Calendar of Events. We look forward to seeing many of our friends in Las Vegas for the AMCEA convention and also in Atlanta for our annual Szabo Holiday Party, where we'll celebrate the close of yet another great year!

Best wishes,



Pete Szabo, President
Szabo Associates, Inc.

“Why should I use a third party to collect my overdue accounts?” “When should I turn them over?”

These are some of the most frequently asked questions of Szabo Associates. Using a third party collector has its rewards, and the best rewards come to those who know the proper time to turn over accounts.

We recognize that turning over accounts to a third party for collection can be difficult. Some people feel that using a third party collection service is equivalent to admitting defeat or admitting to faulty judgment. They ask themselves, “Why did we fail to collect the debt ourselves?” Or perhaps, “Why did we extend credit to this company in the first place?”

While such self-recriminations are understandable, they are often not only counterproductive but also inaccurate. The truth is, all the upfront diligence and internal controls in the world cannot altogether prevent overdue accounts and bad debt. For that reason, many companies consider bad debt simply as another cost of doing business and seek to minimize its bottom-line effects by enlisting a third-party service for assistance at the appropriate time in the collection process.

What are the benefits of using a third party?

1. Professional collectors are often successful when even your most skilled in-house attempts at collection fail.

The simple act of engaging the services of a third party collection service sends a clear message to the debtor that you as a creditor mean business and expect to be paid. The debtor knows it is dealing with a third party whose sole function is to collect the account and realizes that, in all probability, all legal means of collection will be utilized. This “third party psychology” induces many debtors to pay immediately after the first contact from a professional collector.

Secondly, professional collectors have a broad range of specialized resources, skills, and experience. A good “full-service” collection company provides its collectors with a library of information—for example; Is the account being worked for other creditors? Is it known to be in bankruptcy? —to help them determine the best approach for a specific account and to carry the process to completion. Collectors are skilled in accessing information about the debtor's locale that could affect the account's collectibility. If the debtor's whereabouts are unknown, a skilled collec-

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tor will “skip trace” the account to find the “lost” debtor.

Thirdly, at the time when communications between creditors and debtors “heat up,” destroying any chance for future business dealings, a good third party collector can often save the creditor/debtor relationship, resolving disputes and negotiating a favorable outcome.

Finally, a good collection service can help you decide whether or not to pursue a lawsuit against a debtor and can recommend an appropriate attorney if you decide to take legal action. The collector’s desired outcome is to have the client collect its money at minimum expense and in the shortest possible time. A good collection service will help you make the decision on whether or not to sue a debtor by assessing the costs, the possible time involved, and the chance of successfully collecting the judgment. The collector can be most helpful in the last area by researching impediments such as liens, mortgages, prior judgments, and other encumbrances that can affect the collectibility of the account. Prior experience that the collector has had with the debtor can also be valuable in determining whether or not to proceed with legal action. If the end result was successful collection of the account at minimum time and cost, starting legal action may be the best recourse. If, on the other hand, the debtor’s attorney employed every available

What Should the Expectations Be?

To get the best results from third-party collection efforts, know **what you should expect from a collection service** and **what the collection service expects from you!**

Expect your collection service to:

1. be in full compliance with all federal and state laws.
2. be licensed, bonded, and carry “errors and omissions” insurance.
3. discuss disputed accounts with you to determine if the disputes have any validity.
4. begin working on your accounts immediately.
5. keep accurate accounting records, disperse monies on a timely basis according to your agreement, and be willing to submit to audit upon reasonable notice.
6. be willing to give you written progress or “debtor status” reports on accounts at regular monthly intervals. Interim reports, verbal or written, should be submitted immediately upon your request. Reports should include a synopsis of account activity, along with an accurate accounting of any transactions, and any applicable recommendations.
7. consult you prior to taking any action that may compromise the account, unless you choose to give the collector blanket authority to use his or her own judgment.
8. avoid instituting any legal action against a debtor unless state law permits and you authorize it.

Your collection service expects you to:

1. be willing to provide complete information on any placed account, including information on credit apps and knowledge of any disputes, court notices, skips, and previous third-party placements. The more complete profile you provide, the faster the case can move forward.
2. cease all collection activity once the account is placed. If the debtor contacts you, instruct him to deal only with your collector.
3. notify the collector of any payments received by the debtor as well as any conversations the debtor had with anyone in your company after the account was placed. Accepting work-outs or offers by the debtor without keeping your collector “in the loop” can undermine the collector’s efforts to negotiate what is possibly a better deal than the one you may have been pressured into taking by the debtor.
4. promptly respond to any requests from the collector for backup documentation or to discuss any decisions that must be made.

The most important expectation for both parties in a client/collector relationship should be trust. The rapport, understanding, and mutual confidence that naturally grows out of a trustful relationship will, in every respect, reap the greatest rewards!

defensive legal weapon or if attempts to levy on heavily encumbered assets were unsuccessful, negotiating an agreement for installment payments may be the best choice.

2. Professional collectors can save your company time and money.

It costs money to collect, regardless of who does it. When you consider the cost of paper, postage, record-keeping, undelivered mail returns, and labor, even the most basic of collection tools—the past-due notice—can be costly for your company. And . . . the cost is incurred whether or

not you are successful at collecting the account. (Historically, creditors receive payment on approximately 25% of accounts to which past-due notices are sent.)

Add to this the opportunity cost—the cost of the time your personnel no longer have to use in other, more productive, pursuits. Five percent of delinquent accounts can take twenty percent of your credit department's time. When a third party removes the burden of these troublesome accounts, your credit department can use its time more effectively.

Additionally, since the value of an account receivable depreciates daily, the timely use of a third party can substantially reduce your company's aging losses, resulting in fewer write-offs and higher company profits.

Finally, collection services are a recognized and legitimate business expense, which

can substantiate accounting procedures needed for write-off and tax laws.

For these reasons, and because third party collectors ordinarily work on a contingency basis, absorbing the actual costs of collection themselves and receiving a percentage of the collected amount, turning over accounts on a timely basis can be the most cost-effective choice.

When should we turn over accounts to a third party?

Companies that have the most success at recovery are those that identify a potential bad debt and turn over the accounts to a third party relatively early in the collection game. You should look to a third party collector when you experience any of the following:

1. The debtor has "skipped" (moved without informing creditors or leaving a forwarding address) or you anticipate that this will occur.

2. The debtor has broken promises. In other words, the debtor has failed at least twice to make promised payments.

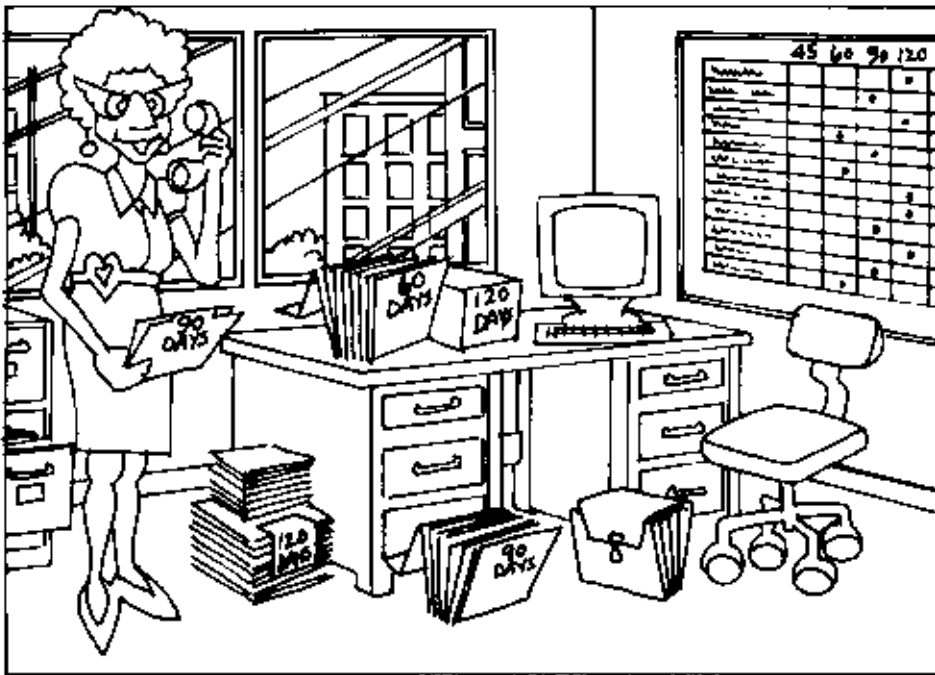
3. The debtor has taken personal offense at being asked for the money.

4. There are unfounded disputes. Any effective contact with the debtor should be considered lost if you know the debtor's claims are unfounded and the debtor refuses to accept the evidence that this is so.

5. The account is 90 days overdue. By this time, any discrepancy should have been resolved or adequate money should have been received to roll the account back into a 60-day or better status.

A credit manager's prime directive is to maximize cash flow for the company. The time spent trying to collect a 90-day \$5,000 account could easily meet or exceed the time needed to make calls to several agencies with 30-day and 60-day accounts—calls that might bring in \$500,000 to the company coffers. And if a 60-day account is neglected while your department pursues the 90-day account, that untended account may itself become a troublesome 90-day account.

In the final analysis, the annual cost for complete professional collection services will seldom equal that of one employee. For the very same cost of using your in-house resources to collect—or for less—you can employ the services of a fully staffed and professionally trained collection service organization whose only objective is to help your company control credit losses and stay profitable! ♦



"YOU WANT ME TO CONSIDER A THIRD PARTY, BOSS? AND JUST HOW DO YOU EXPECT ME TO PLAN A PARTY WHEN I'M TRYING TO COLLECT ALL THESE OVERDUE ACCOUNTS?"

The Szabo Difference: We Make It Easy

When creditors come to us for the first time, they're often astonished that it's so easy (1) to get a claim started, (2) to keep track of it, and (3) to get their cash.

The truth is, no other collection service makes it more convenient and efficient to collect a claim than Szabo Associates.

For example, we believe your first experience with us should show you how easy we are to work with. So we give you a choice of any method you like to file your first claim.

We hope you've already discovered our recently installed Web site at www.szaboassoc.com. It tells you a lot about us. It also gives you an opportunity to submit a claim right there, on line. Communication is encrypted for security.

You can also file a claim by e-mail, by addressing us at info@szaboassoc.com.

Or, if you prefer, you can fax your claim to us at 404/266-2165.

Yet another choice is to mail us either hard copy, tapes, or diskettes to Szabo Associates, Inc., 3355 Lenox Rd., Suite 945, Atlanta, GA 30326.

Finally, you can do what a lot of folks do. Pick up a phone and talk directly to one of our representatives at 404/266-2464.

If you think getting started is easy, wait till you see how we handle your claim. We begin immediately with phone calls—not form letters. Then we send you regular reports that keep you fully informed on every step we take to collect your claim.

When we're successful, you'll see how easy it is to get your cash. Through the Szabo system, you get paid first. Only then do we bill you for our commission.

There are a lot of reasons to

choose Szabo Associates to collect your claim—our proven effectiveness, our wealth of free services, and our media expertise—but first and foremost, we want to make the experience easy and pleasant for you. ♦

CALENDAR OF EVENTS

October 18-20
**ADVERTISING MEDIA
CREDIT EXECUTIVES
ASSOCIATION**
Las Vegas, Nevada

December 5
SZABO HOLIDAY PARTY
Atlanta, Georgia



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