



# *Evaluating Your Outside Collection Agency's Performance*

FEDERATION of CREDIT  
and FINANCIAL PROFESSIONALS

## **EXECUTIVE SUMMARY**

*At some point you were responsible for selecting a new outside collection agency (OCA) and started providing them with past due accounts for collection. Now, one of the executives in your company's financial department wants to know how the OCA is doing. He wants you to justify your selection. What factors are you going to consider that will allow you to determine whether the OCA's overall performance is meeting your expectations or they are falling short?*

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## Evaluating Your Outside Collection Agency's (OCA's) Performance

By: AG Adjustments, LTD

At some point you were responsible for selecting a new outside collection agency (OCA) and started providing them with past due accounts for collection. Now, one of the executives in your company's financial department wants to know how the OCA is doing. He wants you to justify your selection. What factors are you going to consider that will allow you to determine whether the OCA's overall performance is meeting your expectations or they are falling short?

### There Are Two Types of Factors to Consider - Objective and Subjective

In evaluating an OCA's operation there are many factors that have to be considered. First you have to determine the period of time that you want to evaluate. Most OCA's would recommend that you use a minimum of 12 months of placements with the review being done 90 days after the last file is placed. Some can be measured directly, like recovery rate and collection fees. Some cannot, like quality of the paper placed due to factors such as age of debt and if it is disputed or not. Other factors like OCA personnel interaction with both you and your accounts. All are vitally important with respect to the OCA's response to your needs and their results. So, let's take a look at both types of factors that we need information on, under the assumption that once the information is gathered and evaluated, you will be able to justify about how well the OCA is performing and how your decision to use them has benefited your company.

### Objective Factors

The prime objective factor that can be easily measured in the collection industry is the recovery percentage. How much you have turned over vs how much the OCA have collected. How is the OCA doing in collecting the accounts you have given them? What can they tell you about how they are doing it? You want complete transparency. Does your OCA have a web based platform that is available 24/7 that can provide you with detailed information? Can you easily obtain overall gross and net recovery rates? Can you view down to the individual account level all the way up to summary information on your total portfolio, over any period of time you require?

Additionally, is the platform easy to access and navigate for you to get this objective information? The web platform should be easy to use and provide you with all if the information you need to evaluate and track your OCA's performance. You should also be able to query your data by account, by date, or range of dates, etc. Can you review all collector notes and communications? Do you have the ability to communicate with the collector if you have questions on an account? Can you export the data into any format you want such as Excel or PDF so that you can perform further analysis or use the data for in-house reporting?

### ***What do you need to know?***

- What is the quality of the paper that you have been sending to your OCA, how old is the debt and is the customer still open and operating? It's almost impossible for an OCA to collect from a company that is out of business or in bankruptcy so strong consideration needs to be placed on the accounts being sent to your OCA and are they remotely collectable.
- For the accounts that are collectable, for the total time you have been doing business with the OCA, and by year and by month, and by account, what is their gross and net recovery returns (net is after adjustment for bankruptcies, uncollectable accounts, etc.)? This is an important number as it allows you to compare their results to published national averages as well as industry averages.
- Where does your OCA stand with your accounts today? You need a status report that lets you know how they are doing right now. What does your current portfolio look like, how much has been collected so far, in total, and by account. To the extent status codes and descriptors are used, what is the status of each account and what future activity anticipated.
- You need a payment history that shows the time to recovery from turnover to your receiving a check. Can you compute average recovery time so that you can do some cash forecasting based on the age of your portfolio?
- For auditing purposes, you need a track record of remittances sent to remittances received. You need to be able to verify that all payments the OCA has sent you have been received and deposited.
- All of the information should be exportable and sortable in to multiple formats. Can you sort a report by field from high to low, from low to high, or alphabetically, or by range of dates or by status code or by a combination of fields?
- You might also want your OCAs to provide any of their reports based on a specific subset of your accounts, such as by period of time the OCA has had the claim, by customer type, or by age past due at the time of placement. Any breakdown for a subset of accounts should be possible as long as you can extract accounts from the portfolio by some defined characteristic and then prepare a specific report just from the extracted accounts. Do they have ad-hoc query capability?
- Can you drill down to the individual account level and see in detail, how any individual account is being handled? Are the collector's notes available and easy to understand? Can you use the account level report to easily access the collector either by email or by phone?
- Can you listen to recording of collectors calls on your files?

This is just some of the objective information you need to properly evaluate an OCA. If they can't give you most of it, you might want to look for somebody that can.

### **Subjective Factors**

These are qualitative items that can't be measured with a number, but are just as important as the objective factors in evaluating an OCA's performance. These are feel good items that measure your comfort level with the OCA, and if you are not comfortable

with the objective factors regardless of how good they are, the OCA may not be sufficient for you to want to continue to do business with them.

### ***What Subjective Factors Are Important?***

- How they treat your accounts is critical. How does the OCA represent your brand? If they are too aggressive they may be making it impossible for you ever to do business with a customer again. Every once in a while an account may suffer a business downturn, so you don't want to let an infrequent problem eliminate your chance of ever doing business with the customer again. And you certainly do not want to hear from the account's lawyer that your OCA may be in violation of fair collection practices.
- Is this a professional outfit? If you do not feel you are being treated with respect, you may have a problem. The OCA needs to respond promptly to your emails or telephone calls. If you need some particular service, do they provide it without a hassle?
- Is the OCA easy to do business with? Are they flexible and do they have the ability to meet your needs, no matter those needs are? Working with an OCA many times is the last thing on your mind, but as you need them to manage a portion of your AR are they easy to work with?
- Do you like doing business with them? Do you like the people at the OCA? After all, collections is a "people business" and personal relationships are very important as they allow for far better communication and it's easier to work with somebody you like than somebody you don't. The chances of an OCA meeting your needs are far better if the parties get along than if they do not.
- Can they provide you with professional advice that can improve your in-house operations? An OCA should be able to give you an independent evaluation of your internal operations. While making you more efficient may cost them some short-term cash flow, it should guarantee your relationship for the long-term.
- Can you utilize advice from your OCA and their alliances to assist in your daily routines? Can you maximize your relationship and obtain information provided to protect your company from unexpected losses?

### **In Summary**

As you can see, the review of your OCA's performance is both objective and subjective. If you place business with your partners, both areas really need to be evaluated and should be on a consistent basis. While write-offs at most companies are insignificant, although expected, every dollar your OCA returns to you puts cash back to the bottom line. This further promotes the fact that the credit department can be more of a profit center, not just a cost center.

### ***About AGA Adjustments, LTD***

***With over four decades of 3rd party debt collections experience, AGA leverages proven debt recovery strategies to secure the highest possible rate of return on your delinquent accounts. AGA helps their clients increase cash flow, while maintaining their public image.***