

Show Me the Money

Can your outsourcers and agencies collect more for your organization? The answer is a resounding yes! As difficult as it is to manage your organization's own in-house collections operations, keeping tabs on outsourcers and agencies is a much more complex proposition. However, with potential decreased operating costs and less overhead, outside help can be a viable and attractive option for many organizations.

How, then, to manage and monitor performance and still create a WIN-WIN scenario?

A similar approach can be used for both first and third party collections agencies. This article addresses some of the key components necessary for successful first party collections and/or third party recovery vendor management programs, and the approach is SIMPLE!

· **Be Selective:** Perhaps the most important component of a successful collections/recovery vendor management program is the selection process itself.

When the opportunity presents itself, organizations must be thoughtful and selective when choosing agencies to source to. This means establishing defined criteria. Some things to consider include:

o **Size of the Organization, Branch Locations and Established Licenses** – Is the agency large enough to handle anticipated volumes? Are they licensed to collect in the geographic areas your portfolio encompasses?

o **Site Visit** – Take a site visit to the primary location from which your portfolio will be worked. As silly as it sounds, is it clean, organized, secure, and professional? Would you want to work there? Your accounts/customers will be worked there if you choose to do business with the agency.

o **Capacity to Grow** – Does the agency have capacity to handle more placements?

o **Industry and Product Focus** – Does the agency work accounts in your industry and product lines? Are they familiar with your customer base?

o **Current and Former Clients** – Who are the agency's current and former clients? What percentage of the agency's business comes from each client? Are they tied to one major client or is their business spread across multiple clients? If they are tied to one major client that could mean trouble if that business is lost. Ask for referrals for both existing and former clients. Why did former clients end their relationship with the agency? Ask existing clients about the positive and negatives of their relationship with the agency.

o **Technology/Systems, People, and Processes** – The technology in place at an agency serves as the backbone for all aspects of the work an agency will be performing on your portfolio, including treatment, financial activities, updates, placements, and recalls. The infrastructure must also support reporting and reconciliation capabilities. Get answers to the following questions: What systems and technology are in place? Is there adequate support, particularly IT staff, for the environment and technologies being utilized? Are systems and processes fully leveraged by the center? Is the environment one of continuous improvement and learning or is the center complacent, with a 'this is how we've always done things' mindset? And don't forget to ask about data back-up and recovery procedures. Remember, you will be entrusting a portion of your customer base with this agency. Is the technology and infrastructure sound, secure, and reliable?

Essentially, your goal in evaluating and selecting agencies should be to answer the question – "Does the agency have the infrastructure, systems, people, and processes in place to collect efficiently and effectively on my portfolio to maximize return?"

· **Incent Appropriately:** This component may well be one of the most overlooked components of a successful program. A well-thought out contract is critical! Some of the more common ways to compensate agencies are based on number of accounts placed, dollars collected/recovered, and per transaction (e.g., number of calls made or letters sent).

Whatever compensation structure is used, it should always align with your expectations about the agency's performance. For example, a fixed dollar amount based on the number of accounts placed may seem great, especially when the dollar amount is low; but that may limit the treatment efforts (e.g., outbound dialing, letters) that are applied to your portfolio. And that treatment may not be sufficient to maximize your net-back return. Net-back is a calculation or metric that is used to determine the true return on your collections portfolio. The theory behind using it is that you are looking at cost (agency expense) as well as the return (dollars collected) to maximize your total netback.

Simply put, by optimizing the compensation to your agencies the more overall return you can realize. Although there is no hard and fast rule for determining the best compensation structure to maximize netback return, this concept is important to understand; especially when so much emphasis is placed on negotiating low rates with agencies.

Ask yourself these questions: Are incentives and compensation structures in place to sufficiently motivate your agency? What incentive do your agencies have to go above and beyond? Are tiered incentives in place? How does your contract relate to agency performance and targets? These components should be directly related in order to provide proper incentive.

· **Manage Expectations:** Be sure your agencies know what your expectations and work standards are. After all, how can they be expected to meet them if they are unaware of them or they are not clearly stated? This is more than just setting specific numeric or financial targets.

Some key questions to consider include:

- o What regulatory requirements must be followed?
- o What expectations do you have with regards to how often, and what types, of treatment activities occur on the portfolio?
- o How much product or service knowledge is necessary to work your customer base?
- o Will you allow agencies to transfer calls to your organization?
- o How much information will you provide to agencies to resolve issues (e.g., bill/statement copies)?

Remember that agencies are a customer-facing extension of your organization. Be sure you understand your agencies' approach to collections and have documented work standards, including treatment strategies and timelines for your accounts. Create and document your work standards and guidelines and provide your agencies with copies. Lastly, but certainly not least, be sure to incorporate these standards into your contract(s).

· **Probe and Learn:** In other words, get to know your agencies. Establish relationships with the management, staff, and even the representatives. Check in on a regular basis and make site visits. This sends a clear message that both the relationship and portfolio are important and valued by your organization.

Play an active role in understanding how your portfolio is being treated and worked by assessing your agencies periodically. Assessments are not the same as agency audits.

Assessments focus on determining if your agencies are collecting effectively by reviewing key processes, interviewing management and staff, and reviewing specific account treatment and activities. The goal of an assessment is to 'get to know' your agencies and gain an understanding of how your portfolio is being worked. Typically, action items and areas for improvement are identified upon completion of an assessment. Think of assessments as more of a qualitative review process. Assessments are a great way to establish relationships with new agencies and renew relationships with existing agencies.

By probing and learning you will gain a clearer picture of your agencies' overall collections philosophies, business processes, and actual treatment strategies for your portfolio.

· **Evaluate:** Understand how your agencies are performing by evaluating them on a regular basis. Evaluating performance consists of two primary activities; auditing and reporting.

o Auditing – Perform regularly scheduled audits of your agencies. Generally, once or twice per year is recommended. Audits, different from assessments, focus on compliance with both regulatory (FDCPA, FCRA, state laws) and client-specific work standards. Random account samplings from key process areas are reviewed and ‘scored’ during an audit. Upon completion of an audit, scores are tallied, resulting in a total, combined score for the agency. Using a score-based auditing approach provides an apples-to-apples comparison for multiple agencies. Think of audits as more of a quantitative and measurable review process. In other words, you know what your agencies say they are doing and you also know the defined work standards they have agreed to – audit results help you to gauge actual performance (i.e., what they are actually doing).

Whether you are performing audits, assessments, or both, a structured approach and methodology must be utilized to review your agencies. This will ensure consistency among audits as well as provide a well-documented, thorough audit trail to compare agency results over time.

o Reporting – The second component of evaluating agencies is reporting. Actively evaluate agency performance through reporting and leverage all available data and reporting tools to do so. Treat the agency as you do your own internal centers, and never rely on agencies self-reporting! Some key points:

§ Store and maintain access to historical data including placements, financial transactions, and recalls. This will provide a foundation for reporting and an audit trail of activities.

§ Develop standard and ad-hoc reporting capabilities to evaluate agency performance. Standard reports include batch track and liquidation reports, with a focus on how much was placed and how much collected in a particular month. Ad-hoc capabilities provide the capability to query information ‘on the fly’.

§ Implement a reconciliation process and require agencies to participate in monthly, quarterly, or bi-annual reconciliations. Again, build this into your contract. The reconciliation process should include clean-up procedures and a means for identifying and resolving errors.

Reporting, monitoring, and evaluating are critical! Think in terms of netback, not just dollars collected or collections expense to get a true picture of agency performance. Incrementally, how much return are you getting on your placements?

The SIMPLE approach provides a framework for organizations to understand and develop relationships with outsourcers, with the overall goal of maximizing ROI. However, if you’ve heard the phrases ‘talk the talk’ and ‘walk the walk’, you know that understanding and approach are very different from implementation and management. Implementing and maintaining a successful vendor management program does not happen overnight. It takes time, effort, and resources to successfully manage even one agency, let alone multiple, as is the case with most organizations.

Getting more from your agencies and outsourcers begins with asking the questions: ‘Are my agencies collecting effectively and efficiently on my portfolio?’ and ‘Can my agencies collect more for me?’ If you cannot answer these questions with certainty, using the SIMPLE approach will point you in the right direction.