

A Positive Change in the Debt Collection Business: Profit Recovery

One of the oldest business services available is experiencing a quiet revolution. The debt collection industry is going through a transition away from the traditional contingency model and towards a more progressive approach called "profit recovery".



Historically, collection agents have charged a contingency commission of anywhere between 25 and 50% depending on many variables including the amount of the debt, the age of the account and whether it was a commercial or retail debt. The upside to this approach was that the client would only pay the collector if the account were successfully recovered. The downside had always been that the high commission fees kept clients from placing accounts for collection until they were virtually uncollectable.

Critics of the collection industry have always been quick to point out that most businesses have profit margins of between 5 and 20%. In almost all cases traditional collection agencies charge commissions in excess of this typical businesses profit margin. Paying 33% to collect an amount where your margin for profit is 10% does not make much sense. At best, a business is simply cutting their losses.

The Profit Recovery solution is based on charging a fixed fee per account placed for collection (TSI's is typically around \$10.00 and fluctuates based on account volume). By paying a fixed fee, rather than a sizable percentage of the whole amount, Profit Recovery clients are experiencing some real advantages. They are:

- The fixed fee encourages businesses to place accounts earlier, when they are far more collectable.
- Paying a fixed fee allows a client to maintain a profit on collected accounts, so that businesses can utilize a collection agency and still complete a profitable transaction.
- In the case of TSI, a "diplomatic" approach is offered for clients who do want to get the agency involved early in the process. Many of TSI's 50,000-plus clients place accounts as early as 60-120 days delinquent.
- Because of fixed fee nature of the Profit Recovery concept, debtors are encouraged to pay the clients (creditors) directly. This is possible because the agency is not claiming their 25-50% contingency fee.

All things considered, the Profit Recovery concept is a giant step forward for a very conservative industry. If you have delinquent or slow paying accounts in your business it would certainly make sense to look into this new and progressive way of managing debt.

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