The Collector Chronicle

North American Recovery | June 2022 | America's Collection Authority

Last Month's Lucky Winner

The lucky winner of our client prize for May is Skin Science Institute. They have been using our agency for four years now! We will be sending them a gift basket from the Chocolate Covered Wagon. Enjoy!

SKIN SCIENCE
INSTITUTE

This Month's Prize

This month we will be giving away a gift basket from the Chocolate Covered Wagon. Each client who sends new accounts during the month of June will have their name entered into a drawing. At the end of the month, we'll draw a name, and if it's yours, you'll win the gift basket!

Don't miss out on your chance to win!
Send new accounts before the end of the month!
Good luck!!

CHOCOLATE
COVERED
WAGON

Netback Recovery

By David J. Saxton
President, North American Recovery

"You get what you pay for." One of my favorite phrases, but even so, I still have to remind myself of this philosophy on a regular basis. It usually happens when I try to save a few dollars on a large purchase. It's frustrating because I'm a stickler for quality, so when I spend a lot of money, I expect the best. But just like everyone else, I don't want to pay too much.

When it's all said and done, I've found the price I pay for something usually has a direct connection to the quality: the lower the price, the lower the quality. So when I'm faced with a large purchase, if I choose the lowest-priced item, I regret it.

Over the years, I've learned that instead of focusing on the purchase price, I should instead assess the overall value of the item or service. If I end up spending more, I usually get better results and I'm happier with my purchase. Thus, confirming my belief that "you get what you pay for."

By now, I'm sure you're wondering how this relates to debt collections. I assure you it does in a very direct way. Most people who use a collection agency think the "price" they pay is equal to the commission rate an agency charges—but nothing could be further from the truth. This month I wanted to discuss why.

When someone first considers using an agency, it would seem that a 20 percent commission rate would be a better deal than a 33 percent rate. However, that's not the case for several reasons. First, a collection agency doesn't make any money unless they collect your account, so each account must be analyzed to determine the potential return. The higher the return, the more time, resources, and effort they can devote to the account. A collector can't justify spending an enormous amount of time on an account only to earn a 20 percent commission when they could spend the same amount of time on accounts where they will earn a 35 percent commission instead. It's simple economics. And it's the same in every successful business. You spend the most time and provide the highest level of service for your best (most profitable) customers. Accounts with higher commission rates will receive more attention and resources because the agency will make more money. This is good news for clients that assign accounts at a 35 percent rate because they will receive the best possible service and larger checks every month due to more accounts being collected. On the flip side, clients that negotiate the lowest rate assume they are getting a better deal when, in fact, they are essentially guaranteeing poor results—as well as smaller monthly checks. These accounts will receive less attention, making the recovery rate for those clients dramatically lower.

The best way for clients to determine if they are receiving the maximum return from their agency is to look at the "*netback recovery amount*." Netback recovery is an evaluation method that focuses on the actual amount of money returned to a client, not the commission rate the agency charged. Here's how you determine netback recovery: Let's assume a client places $100,000 with an agency at a commission rate of 35 percent. The agency's recovery rate for that client has been 37 percent and is expected to continue. To figure the netback recovery amount, you take the placement amount of $100,000 and multiply that by the recovery rate of 37 percent to get $37,000. You then take out the 35 percent agency commission (37,000 - 12,950) to get a netback recovery amount of $24,050.

There are many factors that determine the netback recovery amount, but the most important factor is the agency's recovery model. Any client considering one agency over another should take the time to understand both models, not just the commission rate.

When you analyze a netback recovery amount, you will find an interesting correlation between the recovery rate and the commission rate: they tend to be similar for most clients. If an agency is earning a 35 percent commission, it will generally collect around 35 percent of the assigned business. This varies from client to client, but it's usually very close.

The following chart illustrates how this works. Note that even though the agency is charging a higher commission, the client is actually getting more money! It's because the agency spends more time and resources on those accounts and, therefore, collects more!

Placement Amount:	$100,000	$100,000	$100,000	$100,000
Recovery Rate:	32%	28%	24%	20%
Gross Collected:	$ 32,000	$ 28,000	$ 24,000	$ 20,000
Less Commission	32%	28%	24%	20%
NETBACK	*$ 21,760*	*$ 20,160*	*$ 18,240*	*$ 16,000*
Client Gain Loss	***$ 5,760***	***$ 4,160***	***$ 2,240***	***EVEN***

The average recovery rate for the intermountain region is just under 20 percent, so I used that as the breakeven point. N.A.R.'s average recovery rate has been over 35 percent for the last 23 years! The table shows us how both the client and the agency make more money when the commission rate is higher.

Now, don't worry. I'm not telling you this because I'm going to raise your rates. I truly believe N.A.R. provides the best services in the industry at competitive prices. I did, however, want to arm you with some knowledge. So when a sales representative from another agency tells you they will collect your accounts at a lower rate, you will know that the lower rate will surely mean a lower net return.

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North American Recovery
Professional Debt Collection Services

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