

THE 411 ON DEBT COLLECTION AGENCIES April 2021

It's a frustration shared by many veterinary practices: the doctors and staff put their skills, knowledge, experience, and heart into taking care of a beloved animal, but now the pet owner is unwilling (or unable) to pay for your services. The front desk staff is doing their absolute best to collect unpaid bills, but they simply do not have the time or the expertise. Doctors want (and should) focus on the animal's health, not the client's wallet.

A veterinary practice is a business. That business must have employees, equipment, medication, and a facility (to list just a few expenses associated with operating a practice), to care for their patients. Even a small amount of overdue accounts receivable can create a cash flow strain on a practice.

You and your staff are busy enough trying to perform a hundred other daily responsibilities. You don't have the time to track down customers who haven't paid their bills! Especially if those unpaid bills add up to a significant dollar amount, you may need a team specializing in veterinary debt collection to help. But where do you begin?

What to look for

Selecting the right agency will make all the difference in the world when it comes to recovering your delinquent debt! The federal and state governments heavily regulate debt collection companies, and these companies are required to follow industry-related laws and to be licensed in all states where they collect.

There are literally thousands of debt collection agencies in the United States, and it's not a one-size-fits-all kind of industry. To narrow your choices, start by looking for a veterinary-specific collection agency with experience working with practices like yours. You want to find an agency whose ethics and integrity match yours, and that doesn't use aggressive or unprofessional techniques. It's important to protect the relationships you have formed with your clients.

From a management perspective, the agency you choose should have a robust online client portal. It should be a quick, seamless process to place new accounts for collection, view a summary of your current placements, and run monthly reports and remittance advisements. Outstanding customer service would be nice, too!

The cost of debt collection

Because there are so many factors to determine the cost of debt collection, it pays to get quotes from several companies. Most collection agencies operate on contingency fees, meaning they are paid a percentage of the debt they collect. That percentage can range from 10% to 95%. Many factors determine what can be charged, including the number of debts in collection, the size and age of the debt portfolio, and the effort required to collect. For example, the fees for debts aged up to 90 days might be 20% to 50% of the collected revenue. Older debts aged 90 to 120 days require more work, thus fees will be higher. An account a year or more overdue might return only 5%, with the debt collection agency keeping 95% for their efforts. But the contingency rate is only one factor in the cost equation.

A contingency-based collection agency should have a very high recovery rate or success rate. Since they only make money if they collect the debt you place with them, the recovery rate is a critical factor. For example, in the table below, you can see that **Agency A** has a higher contingency rate, but their overall higher success rate more than compensates for the higher fee on each dollar collected.

	Agency A	Agency B
Amount owed	\$10,000	\$10,000
Success rate	75%	50%
Amount collected	\$7,500	\$5,000
Fee rate	25%	20%
Fee	\$1,875	\$1,000
Net Recovery	\$5,625	\$4,000

In addition to the contingency fee for service option, there is the flat or fixed-fee model. With these agencies, you pay a flat fee per account or packaged number of accounts. The fee could range from \$10-\$100 per account, based on the number of accounts turned over, and regardless of the type of service required or the results. These also typically come with a hefty "set up" or base account fee that can be \$1,000 or more. Be careful using this method. For it to make sense, make sure that the dollar amount of receivables you turn over will more than pay for all the associated fees. Also, don't continue to pay flat fees if you do not see good results!

Once you have chosen an agency to partner with, setting internal collection criteria is the next step. Sit down with your practice manager and client relations associates and develop a set of conditions for clients to meet before they are placed with the agency. These need to fit your practice's culture as well as the practice's bank account. For instance, a practice with very tight cash flow and struggles to collect payment at the time of service shouldn't wait 90-120 days to start collection efforts!

As soon as you believe a client's account will not be paid, turn it over to collections. The longer you wait, the less chance there is of the money reaching your bank account. If the client hasn't responded to your calls or first and second late notices, the best way to ensure you will be paid in the future is to send the account to a collection agency. As more time elapses, statistics show that it becomes less and less likely the money will be recovered. Once the pet owner understands that a collection agency is involved, the chances of getting payment become significantly higher. More often than not, a client will cooperate with a collection agency, even if they have not cooperated with the practice. Most clients understand that collection agencies may affect their credit history.

Of course, the best thing is to do is not let accounts receivable get too high in the first place. Make it as easy as possible for clients to pay at the time of service. Post signs in the waiting area and remind clients when they book appointments that payment is expected at the time of service. Provide an estimate, when possible, so clients can be better prepared to pay before they leave. Offer many payment options: cash, check (only with driver's license and posted notice that of additional charges for returned checks), credit cards, digital payment networks like PayPal and Venmo, as well as an online bill pay option through your website. For elective procedures, get a deposit before proceeding.