



Selecting a Collection Agency for Delinquent Monthly Billing

by Carole Oat

The typical club averages three to seven percent returns on their monthly EFT and credit card billing file. This means they're really receiving 93 to 97 percent of the projected gross billing. Thus, if the projected billing is \$50,000 per month and billing actually received is 95 percent, that's \$47,500. That leaves \$2500 of revenue uncollected for the month, which adds up to \$30,000 annually. Let's see now, I'd say that's equivalent to about seven brand new treadmills.

The uncollected revenue is usually due to one of two reasons: 1) There are bad accounts on the billing file that have returned in prior months and administratively have not been removed from billing, or 2) the accounts are genuinely delinquent. Following up on both of these items is critical to overall revenue management. Leaving money on the table is not healthy for any business.

Get started by determining the issue. Most software will generate a problem report letting you know if you've submitted accounts for billing that have returned in the past or if valid account information is missing. And although, pre-noting is no longer required by the federal government, if you're experiencing a large problem with invalid accounts, it's a good idea to process a pre-note file periodically.

Delinquent accounts should be handled differently, and unless you can do the job effectively in-house, you should seek out a company that specializes in membership collections, ideally truly-integrated with your software. It is extremely helpful when billing returns as well as credit card declines can be directly downloaded into the software. This avoids numerous hours spent inputting them manually. An integrated solution also allows for payments that come in from the collections company to be uploaded directly into the software.

Shop around. There are wide variations

in quality among collections agencies. Ask for references such as the other clubs they work with. Make some reference calls and ask the tough questions about satisfaction. You can go as far as putting yourself into the collections process to see if you're contacted and find out how diligent an agency is. The agency should be licensed and bonded, ask for proof.

The solution should be simple, inexpensive, and effective. A series of mailed letters sent out, the first one within 48 hours of notice of delinquency to ensure the best response. The letter should contain a return envelope, an 800-number to call, and the option to pay online. Mailers should be accompanied with phone calls, or they're just not as effective. The old adage in collections is "the older they get, the colder they get."

Ideally, to treat your members right, the agency should either specialize in membership collections or should have designated collectors handling only membership items. Make sure they understand the goal is not just to collect the money owed, but also to get new billing information useable to get the member back on the main method of payment and restore them to good standing. Have a designated point person as your "gatekeeper," the "go-to" person for follow-up and communicating with members on questions. Failure to do so results in confusion and bad will.

Results reports are very important. Make sure you can tell what percentage of dollars submitted are actually collected. Ask for a sample report. If your agency can't do this for you, leave immediately. A bad agency will hide its poor performance hoping you won't notice. A true integrated system will recapture 40 to 60 percent of your returned items. Be sure to update your software regularly to clear member balances and avoid any embarrassing situations at the front desk.

Costs, if any, should be reasonable. Never pay "activator" or contingency fees. There should be no upfront cost or obligation

on the club's part to put accounts into collections. This is the first indication of an unworthy company. Any service fees that do get assessed should be assessed to the delinquent member, at least during the first 60 days. The service fee is what pays the collector. Beyond sixty days, 28 to 33 percent of what's collected is typical, never pay more than that.

Finally, stay in compliance with the Fair Debt Collections Practice Act. To do this, the club membership agreement should clearly state who the billing processor is, and the fee for returned items (typically \$20 to \$25, just like the bank charges for bounced checks). Post your return policy in clear sight near the front door. The penalty for non-compliance can be stiff - a \$5000 statutory fine. The membership agreement should also state that it is the member's responsibility to provide updated billing information when/if it changes.

KEY QUESTIONS TO ASK A PROSPECTIVE COLLECTION AGENCY:

- **How long has the agency been in business?**
Look for experience, and ask for references.
- **How many collectors are on staff?**
These are your spokespeople. You want trained, courteous, professionals.
- **Is a toll free number available and is website payment an option?**
The primary means of obtaining payment. Test both.
- **Who else does the agency collect for?**
Look for health club specialists with scripts and letters designed for the industry.

Carole Oat is the National Sales Manager of Twin Oaks Software. She can be contacted at 860.829.6000, or by email at coat@tosd.com, or visit www.tosd.com.