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# How An Outside Collection Agency Can Improve Your Subscription Conversions

by Bob Graham

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**By Bob Graham**



# Pocketing Past-Dues *the Agency Way*

**I**f there was an easy way to improve your direct mail results, boost profits, and retain more subscribers longer, would you be interested? Of course. Yet many circulation directors pay little attention to external collections, a technique that can easily and rapidly achieve all these benefits—with minimal cost and virtually no risk to the publisher.

External collections refers to those accounts turned over to an outside agency for collection. And with the popularity of free-issue, bill-me and other soft offers, circulation directors today have more unpaid invoices to collect than ever.

Magazine publishers typically have a 5 to 35 percent nonpayment rate. Experience shows that a good external collection program will convert 21 to 25 percent of those delinquent accounts into paid subscribers.

The benefit? Aside from higher net recovery rates, good collections make your subscription promotion efforts more productive. After all, publishers judge a bill-me offer by the number of *paid* subscribers it produces, not by total response. Another benefit is that you retain more subscribers, which in turn boosts renewal revenue, audit circulation figures, list rental income and (indirectly) ad rates.

So let's say you're interested in implementing an external collection effort to achieve all of these benefits. Following are some specific techniques that will help you set up the most effective system possible.

## ***Bring the collection agency in early.***

As you know, the older a bill gets the more difficult it is to collect.

How long should you try to collect the money yourself? For publishers, the internal dunning cycle should consist of at least four efforts sent at 30-day inter-

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## Collection Agencies

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vals. And you should keep sending dunning letters until the response rate drops off, which usually occurs prior to the sixth effort. At this point, it's time to refer the account to an outside agency.

Getting a third party involved creates a greater sense of obligation and urgency. When the collection letters suddenly start appearing on the official-looking letterhead of a third party instead of your publication letterhead, the bill suddenly becomes a "real" debt to the subscriber—one he perceives he is obligated to pay.

### Third party or contingency arrangement?

Collection agencies typically work with publishers on two different fee arrangements: third-party letters and contingency.

In a third-party arrangement, you pay a fixed fee per collection letter mailed. This is typically \$400 to \$480 per thousand, but can be more or less depending on volume. Keep in mind that there may be minimum volume requirements for the agency to work on such a fixed-fee basis.

In a contingency arrangement, the agency's compensation is a percentage of the money recovered for you. This is typically 40 to 50 percent. You pay only for results, not for pieces mailed.

What are the pros and cons of each method? With the contingency method, there is no initial investment, no risk, and indeed, no out-of-pocket cost of any kind. You can initiate this type of program at any time, because it does not require you to have a budget for back-end collections. The agency assumes all cost risks, and the program generates the agency's fee.

The third-party arrangement offers you a low fixed cost per letter, enabling you to budget accurately and to predict returns based on projected response rates.

Whether it is better for you to use contingency or third-party collections on your first effort in the external cycle depends on your situation. The contingency arrangement reduces risk, because there's no out-of-pocket exposure, and it al-

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Your agency will get first-hand information about why subscribers are not paying. (Fulfillment delays? Unclear offer?) Make sure they share it with you.



### Third-Party Vs. Contingency Back-End Collections

#### Third-party effort

*Cost: \$400 - \$480/M.*

*Agency is paid for each letter mailed.*

*Involves up-front investment.*

*Moderate risk.*

*Publisher has opportunity to make more money if recovery rates are high.*

*Must be budgeted for.*

#### Contingency effort

*Cost: 40 - 50% of money collected.*

*Agency is paid from funds recovered.*

*No initial investment.*

*Lowest possible risk.*

*Publisher has no loss if recovery rates are low.*

*Requires no budget since there is no out-of-pocket expense.*



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lows you to "test" a new collection agency for free.

On the other hand, if you have reason to think that response to the first external effort will be high, the third-party arrangement can net you more cash. You can determine the return on investment at different response rates through a simple break-even analysis based on the agency's fee and the average dollar balance of the accounts. Traditionally, the first external effort generates the highest recovery rate in the series, so it's where you are most likely to recoup your investment in a third-party mailing.

You can test how well a collection agency will work for you at no cost or risk, by giving them a portion of your referrals on a contingency basis.

### **A change in letterhead lifts response.**

Experience proves that a change in letterhead in either an internal or external dunning letter series will lift responses virtually every time.

One situation where such a letter works well is as a replacement for the third or fourth effort in your *internal* cycle—typically after you have sent a bill and two notices and have suspended shipment of the publication. Although there is a slight increase in mailing cost of the third-party letter versus your internal billing letter, it is usually more than offset by the lift in response the third-party letter generates.

### **Don't give up too early.**

Most outside collection agencies use one or two letters to collect subscription payments. But they may be giving up too early.

You want an agency that isn't just content to collect the "easy" receivables, but also goes after those hard-to-collect delinquent accounts. Testing by the agency may suggest that additional efforts are beneficial. For instance, while a one- or two-letter external series is traditional in publishing, some progressive agencies are achieving profitable recoveries with an extended letter series.

### **Response-boosting tips. . .**

Here are some techniques that successful collection agencies use to further boost external response:

- Vary the dunning cycle. To extend the billing series and increase net recovery rates, progressive agencies vary the timing between efforts, typically from 14 to 28 days. This is a proven response-booster.
- Vary the text of each letter in the series. Tone should increase from soft or mild to more severe and insistent.
- Change the color of the letter and the outer envelope. Switching from white to red or blue changes the whole tone of the effort—and can significantly increase recoveries.
- As in a renewal series, vary the size, shape, and appearance of the outer envelope.

The key is to keep each mailing fresh so the subscriber does not think it's the same notice he received before. Remember, even the most powerfully written collection effort will get no response if the envelope is not opened.

### **Learn from direct marketers in other fields.**

Direct marketers in other industries are typically more aggressive than magazine and newsletter publishers when it comes to external collections. Learn from their experience and apply their proven techniques to your own efforts.

For instance, many direct marketers break their database of delinquent accounts into subgroups. These subgroups have different levels of responsiveness, and the agency's collection efforts can be tailored and targeted to these specific segments to improve recovery rates.

In subscription collections, publishers most frequently segment their debtor database by source—direct mail, free-standing inserts, TV, etc. The debtor database can also be segmented by new subscribers versus renewals, zip code (some



areas of the U.S. respond to dunning better than others) and dollar amount (larger balances can justify extra effort).

Subscription conversion rates can be tracked by any of these variables. For example, experience shows that TV-generated subscriptions usually have the lowest conversion rate.

Another lesson direct marketers in other fields have learned is the importance of testing.

Improving your collection program is an ongoing process of testing and learning. Ideally, you should test several external letter approaches at a minimum of three dunning levels. From this testing you gain knowledge to increase response to subsequent efforts.

Also, remember that collection agencies themselves can be tested at no cost or risk. Just give the test agency a portion of your referrals on a contingency basis. Measure their performance versus your current agency. The winner is your new agency.

### **Approve collection letter copy.**

Review all agency letters before they are mailed. Question any language you find inappropriate for any reason.

The tone of your collection letters should be consistent with the philosophical or editorial approach of your publisher. Since most publishers are concerned with image, your collection letters shape your subscribers' perception of your organization as much as your publication does. So what works for *Hustler* in a billing series may not necessarily work for *Family Circle*.

At the same time, don't err on the side of being too soft or conservative in tone. Remember, your subscriber has placed an order and then not paid, despite repeated requests to do so. Firmness is required. And remember that the first effort in the external dunning cycle must be *at least* as firm as the last effort of your internal cycle.

Many publishers worry that the external collection cycle will upset or "turn  
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## **The Fair Debt Collection Practices Act**

***The Fair Debt Collection Practices Act requires that consumers are notified of their rights. A disclosure of these rights must be included with a third-party or contingency dunning letter.***

***The disclosure copy follows:***

This is an attempt to collect a debt. Any information obtained will be used for that purpose.

This debt will be assumed to be valid by the collector unless the consumer, within thirty days after receipt of this notice, disputes the validity of the debt or any portion thereof.

If the consumer notifies the collector in writing within the thirty-day period that the debt, or any

portion thereof, is disputed, the collector will obtain verification of the debt against the consumer and a copy of such verification will be mailed to the consumer by the collector.

Upon written request within the thirty-day period, the collector will provide the consumer with the name and address of the original creditor, if different from the current creditor.





## Collection Agencies

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off" unpaid subscribers, alienating them from responding to future mailings. But experience shows this fear is largely unwarranted.

First, any level of subscriber sensitivity can be dealt with, and if the agency carefully tailors the collection letters to your product, offer, company and readership in a professional manner, complaints will be few and far between. Properly written external collection letters are never offensive. And they always protect the subscriber's right to dispute the invoice. (See box on page 29.)

Second, orders from chronic no-pays rarely convert to paid subscriptions. So for the subscriber name to have value, you need them to pay you *now*.

There exists a core group of "deadbeats" who never pay invoices but maintain almost uninterrupted subscription service by accepting free trial offers. One way to combat this is to screen responses from new-business mailings against a database of bad debt prospects. If the name shows up on the bad debt file, you can always refuse to fulfill until payment is received.

Some publishers worry that external collection efforts may alienate unpaid subscribers. But experience shows this fear to be largely unwarranted.



### **Practice customer retention, not just collection.**

The goal of your external dunning cycle is not just to collect the money owed you, but to retain the subscriber—and his good will. Your agency is not just a collector but a problem-resolver and a customer service representative for your firm. And the by-product of good service is payment.

Here are some ideas on how your collection agency can help you improve customer service:

- The external letter copy must acknowledge that not every customer the agency duns actually owes you money. Letters should not only seek payment, but also encourage subscribers to call or write and explain why they have not paid or feel they do not owe the money.
- Once the subscriber pays, it's your responsibility to start shipping his subscription to him promptly. Make sure your agency can transfer payment information to your fulfillment house on a timely basis and in a convenient format so pay-ups can be quickly fulfilled. Magnetic tape is the ideal medium for exchanging data.
- Promptly acknowledge and resolve every nonpayment and partial payment response. Your collection agency should have a Special Correspondence Response Department whose job it is to communicate with subscribers who dispute invoices, make partial payments, or have other responses out of the ordinary.
- Make sure your agency employs a courteous and professional staff that treats your subscribers with dignity and respect at all times.

### **Have your agency share information with you.**

Is information gathered by your agency's Customer Service and Special Correspondence Response departments shared with you? It should be, because such information alerts you to problems.

For example, are there fulfillment delays? Does your direct mail package make the offer unclear or mislead subscribers about their obligation? Are your collection efforts evoking any ill-will? Is your fulfillment house responding to white mail properly? In the external dunning cycle, your agency gets this information first-hand from dealing with your no-pay subscribers. Make sure they share it with you.

Find out the reason why subscribers are not paying. Some will tell your agency they never ordered the magazine, never received it, or received it but wrote "cancel" on the bill. Other excuses range from "I paid already" to "I don't like your product." Be sure to discuss with your agency how you want them to react to nonpayment responses.

### **More efforts might make sense.**

Many circulation directors end their dunning effort early because they fear the



cost will outweigh the revenue. But testing proves that dunning can be profitable for longer cycles than you might think.

For instance, contrary to what you'd expect, external collections can be profitable with a one or two-letter series for balances as small as \$5 to \$10. And telephone collections can be beneficial on some subscription recovery programs, although the dollar balance per account should ideally be \$50 or more to justify the additional expense.

What about legal action? The small dollar balances for subscription invoices make going to court impractical in most cases. However, an attorney demand letter (collection letter on law firm stationery) may prove profitable on hard offers.

### **Keep on top of collection results.**

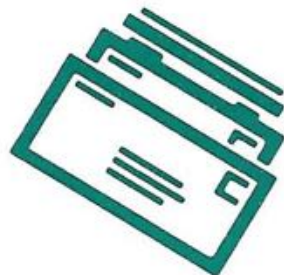
An external collection cycle proceeds quickly, with only two to four weeks between efforts. So it's important to keep on top of results on a timely basis.

Your agency should provide statistical reports on external collection recoveries in an easy-to-read format. The agency should also have the ability to check the status of any account on an on-line basis. The purpose of the report is to track external collection results and monitor agency performance.

A collection agency report should show, for each month's referrals, the following information:

- number of accounts referred to the agency
- beginning total amount to be collected for these accounts
- average dollar balance (*continued*)

The agency must acknowledge that not every customer dunned actually owes you money.



### **How to Keep the Channels of Communication Open Between Publisher and Collection Agency**

Consider these five points:

1. Does the agency have a field representative who can work with you at your site?
2. Is your account representative easy to contact?
3. Is the agency known in the industry for good client support? Check references.
4. Listen to the agency's recommendations concerning the tone of your copy. They will know when you are getting too soft.
5. Are there good lines of communication between you and the agency? For instance, if the agency is not local, do they provide an 800 number so you can call them toll-free?

## **YOURS FREE!** **15 Ways to Improve Your Subscription Collection Efforts- GUARANTEED!**

Don't give up on those hard-to-collect past-due invoices! Instead, send for our new free booklet, "15 Ways to Improve Your Collections." It will give you some great new ideas on how to recover your delinquent accounts. And, it's written by Retrieval-Masters Creditors Bureau... a company with over 10 years proven experience in direct marketing collections.

To get your copy of "15 Ways to Improve Your Collections," clip this ad and mail with your business card to RMCB. Or, for a free, no-obligation analysis of your internal collection procedures, call Russell Fuchs toll-free at 800-843-8097.



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## Collection Agencies

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- payments made, both directly to the publisher (or fulfillment house) and to the collection agency; both full and partial
- number and percentage of bad addresses (nixies)
- credits and adjustments
- remaining number of accounts to be collected and total dollars owed.

Ideally, your agency should also be able to provide not only a summary of the above information for each month but also a detailed report showing the activity for each account, sorted by zip code, source, or any other variable you desire.

### Choose the right agency for the job.

Finally, here are some questions you need to ask when evaluating outside collection agencies:

- How many years has the agency been in business? You want an agency with at least 5 to 10 years experience in the large volume, low dollar balance referrals typical of direct marketing collections.
- Check references. Find out what clients say about the agency. Are they successful? Are they easy to work with?
- Look at sample reports. Are they clear and easy to read? Do they provide the information you need?
- Is the agency bonded? And are they a member of the American Collectors Association or the American Commercial Collectors?
- Are the agency's data processing systems compatible with yours and those of your fulfillment house?
- Fees are important. But beware: The lowest-priced agency may actually cost you more if they don't perform. By the same token, the agency generating the highest gross recovery rates may not make you the most money if their fee is too high. You want the agency that can generate the highest *net* recovery rates. ■

Tele-collection should start early for high balances, but by law, the agency's first effort must be made in writing.



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## Tele-Collections: Tips and Techniques

Newsletter publishers and others with average past-due balances of \$50 or more can profit from a telephone call to the delinquent subscriber. A few observations:

- The publisher should review and approve the collection agency's script before calls are made.
- The purpose of the call is to inquire and find out why the bill hasn't been paid, not coerce or badger the subscriber over the phone. Tone and manner should be similar to a publisher's telemarketing effort.
- Tele-collections are about three times as expensive as direct

mail dunning efforts.

- A tele-collection effort is not as controllable as a direct mail dunning effort, and you cannot predict people's response to your call.
- A tele-collection effort will usually yield a higher gross recovery rate than a direct mail effort. However, this is not always enough to offset the higher cost.
- The higher the dollar balance, the earlier in the external cycle tele-collections should be started. However, by law, the first contact from an outside collection agency must be made in writing.