

# Strategies for *Smart Growth*

and what you need to know about each.

by Brian Greenberg, Kaulkin Ginsberg Company

**W**hile it is arguably one of the most important topics for owners of small businesses, most have little experience evaluating the various growth options available to them. They've run their business, hopefully done well for themselves, and continue to go about their activities as they always have. Sometimes that simple formula works and sometimes it does not. To achieve desired growth, it may be necessary to consider other alternatives. And although it sounds basic, success will hinge upon a full understanding of the alternatives and their consequences, proper planning, experience,

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and of course, implementation. If you get them all right, good things should follow.

Given our firm's background in advising owners of collection agencies of all sizes, we have spoken with many owners regarding their ideas and goals. Most owners are entrepreneurial at heart, so it is not unusual for them to have ideas that don't completely take into account the impact their ideas will have on their agency. Good ideas — bad planning. It sounds like a recipe for either quick failure or worse, slow and expensive failure. Occasionally, it also may lead to success.

Let's improve the odds for success by considering some of the alternatives available today:

- Beef Up Sales and Marketing Efforts
- Acquire a Company
- Obtain Outside Financing
- Sell Part the Agency

## Beef Up Sales and Marketing Efforts

Considered an 'organic' (internal) growth method, this is often seen as the low-risk alternative. Talk to some industry friends or executive recruiters to learn about hiring a proven salesperson to boost sales. In concert with this, you may decide to increase your advertising initiatives and attend more industry trade shows.

A key to both of these, however, is to ensure that the rest of your company can support the expected growth. We've all heard stories about sales people who bring

in the business only to find that the company infrastructure couldn't back up his/her sales efforts with performance. As a result, staff could be overloaded with new

responsibilities, they could lose focus and efficiency, and the company's overall performance and reputation could suffer. The last thing you want when you are trying to grow is to lose the clients that got you to your current level!

To avoid this, assess your current operational infrastructure. One difficult question you should ask yourself is, “Does your staff have the experience and skill to handle the growth you want to attain?” After honest consideration, you may determine that you need more than just increased placement volumes.

Rather than focusing strictly on salespeople, you may also consider hiring a senior level manager to guide the growth of your company, as did one owner I spoke with recently. This owner had grown his company nicely over the past ten years to the point where, as he readily admits, he was not qualified to continue managing its growth effectively. He sought and found a

seasoned senior manager who also had great sales expertise. For this owner, the new president is a three-fold coup because now he has expanded his company's ability to grow through the increased sales efforts of a pro, gained the experience and knowledge to make sure the company is positioned to sustain the growth profitably, and, as the owner seeks to sell his business within the next five years, this person allows him to gradually transition out of the daily operation of the business.

## Acquire A Company

Faster than organic growth, acquiring another collection agency (or a company in a strategically related industry) can speed you along the growth and experience curves tremendously. You get the benefit of the acquired company's financial performance, and you also 'acquire' its people who may be experienced in ways that compliment your existing team. They can bring with them client relationships, as well as experience with growing businesses in areas such as operations, hiring/retention, information technology and so on—the areas where most growing businesses experience pain along with way. There are, of course, many reasons for completing acquisitions.

Here are just a few:

- Financial benefits and cost savings
- New clients
- New services
- More effective processes
- Selling services among both client bases
- Adding a strategic office location
- Accessing a lower cost region
- Accessing a new labor pool
- Appeasing an existing or potential client

Keep in mind that your risk increases the further you stray from your current experience. In other words, if your agency

sure your people, or those with the acquired company, can guide you successfully through it. As such, consider

*"If you're moving into a new frontier, make sure your people, or those with the acquired company, can guide you successfully through it."*

specializes in third party collections for hospital clients, you might consider moving a bit further up "the food chain" by acquiring a business that provides related services such as Day One billing or early-out programs for similar clients. Or you may want to offer your current services to a different segment of the health care industry, such as physician groups. While diversification can be a smart move in some cases, the risk is that the company you acquire may be too far outside of your knowledge base and that you could fall flat on your face. (Nothing ventured, nothing gained, right?) That is why the people involved are so important. If you're moving into a new frontier, make

things like retention of the key people post-acquisition, as well as the cultural fit between the organizations. Creative deal structures can also be used by buyers to mitigate financial risk in a transaction. They include things like financial incentives based upon retention of key employees, or key clients, or for achieving certain financial hurdles based on revenue or earnings.

As M&A and strategic advisors, we've seen our share of good and bad acquisitions and acquisition plans. The collection industry saw an example of relative failure with the business known as Compass International. In 1998, the company was formed and simultaneously went public with the acquisition of five companies, all servicing various sectors of the collection industry. While the stock at first did reasonably well and industry

onlookers had high hopes, the eventual failure came because their model was based on cross-selling of services among clients with the hope of providing a 'cradle to grave' continuum of services. In theory, this is a sound idea that has worked for many others, but for Compass, the acquired companies didn't actually cross-sell their services as planned which led to its demise. Another reason for its failure is the senior management that was brought in had no experience running a collection agency. Their experience was with credit grantors, not collection agencies. Lastly, Compass changed the way the acquired companies operated. In essence, they changed the things that made the companies successful in the first place. Put all of this together and you've got a failed acquisition strategy.

### **Obtain Outside Financing**

Bank financing can enable you to fund your expansion and/or acquisition strategy. As you may have already discovered, it can be difficult to obtain because most banks want to loan money against the fixed assets of a business. In the collection agency

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world as with most service business, however, the company's most valuable assets 'walk out the door at the end of each day,' and the fixed assets are nominal, including things like computers, desks and cubicles. In addition, many commercial banks simply have an outdated view of the collection industry. Therefore educating lenders is a process that only sometimes proves successful. Chances are good that your neighborhood bank may lend to you, but only up to a certain point based on your solid relationship with them. As a result, your best bet is to identify lenders that specialize in cash-flow (rather than asset-based) lending, or those that lend to a specific industry.

And while financing can help you achieve your growth goals, it does come at a cost (interest), sometimes an exorbitant one. Ideally, you could initiate discussions with multiple funding sources competing for your business so you can be assured of the best terms. You clearly want to avoid a situation where your business decisions in the future are based *solely* on your ability to repay loans.

**Sell Part the Agency**

Brian must have flipped his lid! Selling in order to grow?!? I realize that this may not sound much like a growth alternative, but let's consider it further. First, we're talking about selling a part of your company, not necessarily all of it (although that's another alternative). By selling part of your company, you can bring on a partner with extensive contacts for new business and one that has experience in helping companies in your situation to grow. If you find/choose the right partner, they can expand your resources tremendously, by providing management expertise as well as access to a significant pool of capital to help fund your growth. In addition, depending on the buyer and your goals, current management may remain with the company, so there wouldn't necessarily be sweeping changes in your team. And in all likelihood, remaining managers would be financially incentivised to continue the agency's

growth. Lastly, you may also gain access to new office locations and services that would be attractive to your clients. Overall, this can be a rewarding alternative that allows you to cash out a portion of your equity, put some money in the bank, and also let someone else take the growth risk along side you.

The type of buyer is mostly going to depend on the size of your company. For agencies with less than \$5 million in annual revenue (commissions or net

fees), buyers will largely be high net worth individuals, individuals with financial backing, or other agencies. Those agencies with \$5 million or more may attract interest from industry players, strategic buyers (companies that operate in allied industries), and perhaps financial buyers like private equity and venture capital firms though many financial buyers seek companies with \$20 million or more.

Before you explore the options of  
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**“First assess your true growth goals and compare them to your risk-tolerance.”**

obtaining outside financing or selling partial equity in your company, you should be equipped with a comprehensive business plan. Your plan ought to explain your company in detail, the industry that it services, the opportunity that it presents to a lender or buyer, and most importantly, it should thoroughly discuss the ‘use of funds’ sought as well as the growth opportunities that lay ahead for the agency. All projections in the plan should be supported by details of the assumptions made and should be conservative. In other words, if you tell a capital source or a buyer that you’re going to make \$1 million in pre-tax operating income this year, you can expect that they are going to hold you to that, either by setting a performance hurdle, by withholding additional funds, or otherwise. This is their way of making sure that the numbers you provide are realistic and attainable. We’ve assisted many owners in taking this route who are pleased with their new relationship, and we have found that up-front homework is clearly the key to finding the right partner.

### **What Do I Do Next?**

First assess your true growth goals and compare them to your risk-tolerance. That will determine your path for the most part. I recommend putting your thoughts down on paper, even if you start with simple notes initially and later form them into a plan. Then surround yourself with experienced professionals who have been there already...and implement.●●

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