

the Paper



A PUBLICATION OF ACA INTERNATIONAL'S ASSET BUYERS DIVISION

[Winning Strategies for Challenging Times](#)

the Paper - September 2009

By Emily Finstuen, Communications Specialist

Published: Thursday, September 10, 2009

Declining liquidation rates, slimmer profit margins and tight financing have many accounts receivables management (ARM) executives looking for ways to better position their companies in order to survive and even thrive in this market.

When Mike Ginsberg, president and CEO of Kaulkin Ginsberg Company in Rockville, Md., spoke at ACA International's Annual Convention in 2008, the ARM industry was in great shape.

"The industry was in super duper shape," said Ginsberg at this year's convention in Las Vegas. "Recoveries were high, we were coming off a year's growth and expansion was apparent. My what a difference a year makes."

The ARM industry has been said to be somewhat recession resistant and the economic effects on the industry tend to lag behind most of the major indicators. While some of the economic indicators impacting recovery (unemployment and average home price) are seeing improvement, it may take longer for the ARM industry to feel the impact.

"Not so good news, we're not there yet," said Ginsberg when speaking of recovery at the 2009 convention. "Good news, like everything else, this too shall pass."

While Ginsberg believes there is no silver bullet for surviving in this challenging economic climate, there are strategies companies can deploy in order to not only stay profitable but continue to get stronger and grow.

"There's no substitute for hard work," Ginsberg stated. "You need to get yourself in the trenches and look at the issues. You need to confront them head on and work them into your business philosophies and goals."

One of the major issues debt buyers have to face in this economic climate is the tightening credit market. While earlier this year President Obama stated credit markets were beginning to thaw, especially for small business owners, many in the industry – where a vast majority are comprised of small to mid-sized companies – say the market remains very tight.

An area where debt buyers are seeing change is in decreasing liquidation rates. According to Ginsberg, through the first quarter of 2009, liquidation rates were down between 10 – 50 percent across all market segments. The higher estimates of decline are being driven by fresh, prime, and large balance accounts.

Many of the fresh and prime portfolios consist of consumers who have only recently come under distress in their lives. Companies working with later-stage portfolios are seeing smaller decreases in their liquidation rates. Their portfolios consist of consumers who have typically been under distress or come in and out of distressed situations.

The combination of lower liquidation rates and the lack of financing have caused decreased debt buying volume. Many debt buyers have large legacy portfolios which based on today's economic conditions, they have overpaid for. Some say significantly overpaid.

"And that's not in their review mirror yet and fading fast," said Ginsberg. "Because of this, they're severely under-capitalized and can't purchase the available inventories at this point."

Decreased portfolio pricing is one positive impact of the economic climate. Portfolio pricing has decreased between 20 – 50 percent in the past year, according to Ginsberg. Issuers have responded to the decline in liquidation performance, ongoing uncertainty of economic performance, and decreased availability of capital.

Another factor impacting portfolio pricing is the diminishing resale market. Ginsberg believes it has all but disappeared. He stated a strong resale market used to be necessary because companies were purchasing debt at a high dollar value, partially because they knew they could sell some of their portfolios to later-stage buyers.

Ginsberg believes there are inventories for debt buyers to purchase and there are opportunities out there for companies to get stronger and not only survive but thrive in this economy. The companies taking advantage of those opportunities can position themselves well for when the economy recovers.

Start with your current clients. "You already have a foot in the door, ask if there is anything else you can do for them," said Ginsberg. "The issuers are only strained by their own capacity."

Ginsberg stated most businesses die of ingestion, not starvation. Debt buyers with the capability, capacity and infrastructure to support more work can significantly improve their existing relationships.

Another strategy can be to establish partnerships with collection agencies. Ginsberg believes you should take advantage of their access to clients. You could go to their clients and tell them how your partnership can benefit them.

Giving up unprofitable clients is another decision Ginsberg believes companies need to look into. "It's like creaming your accounts," he said. "Put your best resources toward the clients you ultimately think you will profit from and then prioritize them."

Ginsberg also suggests ripping apart your own P&L. "If you look at your own organizations, you probably have a lot of fat."

Downsizing to a lower cost facility could dramatically affect your bottom line. Ginsberg suggests approaching your landlord. They might be receptive of change. They might have another building in another location they could move you into in order to free up your current space.

Seeking new market segment opportunities (credit card, health care, telecom) in your local area can be fruitful. "Even though you might not currently do work in that segment, if they're in your local area, you might have pull," said Ginsberg. "See what their needs are. If you're a community figure, they might know you."

"We're in business to stay in business," said Ginsberg. "In a recession you have to either move forward or back, you can't stand still. You can't park in neutral." Trying to implement different strategies can help to ensure you move forward.
