



The Kaulkin Ginsberg *Bulletin* is sent each month to provide you and others in the Accounts Receivable Management (ARM) industry with valuable insight, access, and information. Each issue contains actionable content designed to assist you in making strategic business decisions.

We hope you enjoy this issue. Comments are always welcome at [hq@kaulkin.com](mailto:hq@kaulkin.com).

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Closing a call center is a painful proposition, often resulting in lay offs, severance, long-term lease obligations, and unrealized profits from underutilized assets.

As strategic advisors focused on growth and exit strategies, we find ourselves assisting many of our clients in this decision making process. If you need to downsize, you should know that you have an option that might be a lot more desirable than closing down a call center. You could sell it.

As you may be aware, we have a successful track record representing clients in the sale of their call centers. We're in constant contact with companies seeking to expand their operations. Just give us a call to confidentially discuss your needs.

The over-riding theme of this month's *Bulletin* is growth. Our industry is growing worldwide, as evidenced by the level of M&A transactions happening across the globe. Kit Ladwig, a special contributor to the *Bulletin*, takes a closer look at this trend. Industry growth among agencies and debt buyers has caused a predictable scarcity in the available talent pool recently, as John Fiumano, CEO of our staffing partner, Executive Alliance, reports. Growth opportunities also exist within certain industry sectors, such as government. Lots of attention has been focused on

the IRS; however, your local municipal government may represent a more viable opportunity. Research Associate Michael Klozotsky examines the growth potential in the municipal collection market.

Also in this issue, Mike Bevel, Associate Editor of *insideARM.com*, celebrates the one year anniversary of the landmark case, *Foti v. NCO Financial Systems*, by taking a closer look at the third-party disclosure issue – and continued ambiguous rulings from the courts.

Lastly, as your company expands, can your enterprise software effortlessly expand along with it? President and CEO of Kaulkin Information Systems, Mike Binko, details the advantages of using software as a service (SaaS) technologies.

What are your firm's growth opportunities? We are constantly looking for ways to provide you with the tools that you need to successfully grow, and ultimately exit, your business. Feel free to give us a call anytime to confidentially discuss your interests. We look forward to hearing from you!

Mike Ginsberg  
President & CEO



**Facing the Budget Crunch: Municipalities Turn to ARM Firms**

By Michael Klozotsky, Associate

While most companies in the ARM industry are well aware of the sizable federal and state contracts available to private collection firms and law offices, competition can be intense. That fact, coupled with the particular challenges of

collecting federal and state receivables – perhaps none more widely publicized than the embattled IRS PCA (Private Collection Agency) pilot program – may deter some ARM industry participants from entering the bid process for large-scale government collections.

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Facing the Budget Crunch: Municipalities Turn to ARM Firms *(Continued)**(Continued from page 1)*

But outside of the federal and state arenas, plentiful opportunities exist for private companies to assist municipal governments in collecting delinquent receivables. According to the U.S. Census, there are more than 35,000 cities and towns in the United States, many of which — in the face of decreasing federal support in the last 25 years — have had to seek innovative strategies to recoup overdue receivables in order to maximize revenue.

The amount of delinquent receivables owed to U.S. municipalities has been estimated at approximately \$40 billion. The deceleration in the housing market, which will undoubtedly put a strain on cities' property tax revenues; and the broader civic resistance to raising local taxes to fund municipal services makes receivables management all the more pressing for America's cities and towns.

Collection agencies and law firms can profit from collaborating with municipal governments to recover a variety of classes of delinquent receivables. Across the country, cities are seeking vital revenue from outstanding parking tickets, fines for overdue library materials, delinquent court fees and fines, and unpaid municipal

taxes: the primary source of cities' revenues. Chicago, Illinois, for example (which outsources a portion of its collections to private ARM companies), had more than \$160 million in parking ticket revenues in 2005. Despite that success, five members of the Chicago Board of Education collectively owed \$45,000 to the city for unpaid parking violations as of January 2007.

Municipal collections are an attractive market for ARM companies as a result of their sheer numbers, the revolving frequency at which bids become available, and the varying scale and geographic distribution of their needs. To learn more about our research on local government collections, read the Kaulkin Ginsberg Executive Brief on municipal receivables that is available for download on [insideARM.com](http://insideARM.com). And stay tuned for details on our spring teleseminar on municipal ARM, coming up May 17, 2007.

*Michael Klozotsky conducts custom research projects and writes publications focusing on the accounts receivable management industry. Contact Michael at [mklozotsky@kaulkin.com](mailto:mklozotsky@kaulkin.com) or call 301-907-0840 ext. 123.*



## Running Thin: The Search for Talented Collection Pros

By John Fiumano  
President, Executive Alliance

The receivables management industry has undergone a transformation over the last five years and the result has been a thinning of the available talent and an abundance of job openings. There are several reasons for this; however, for the most part, it can be attributed to the growth of our industry.

The industry has matured and become more sophisticated due to technology and tightening profit margins. Growing debt levels have caused it to become a growth industry, and there has been a lessening of the negative perception of our industry as a profession. As a result, there has been a slow change in the leadership. The old-school collection professional who hasn't been able to embrace this change has been replaced by new generation of collection executive.

Another factor affecting available talent is the advent of debt purchasing. An alternative to traditional contingency collections, debt buying is another growth industry with a need for individuals with receivable management experience. Although not all debt buyers service their own accounts, the firms that do are pulling talent from the

same pool as traditional collection agencies. If they're not working the accounts in-house, they're either creating a servicing entity or farming the accounts out to a contingency agency or attorney network — again creating the need for receivable management professionals.

**Sales and Marketing**

Sales and marketing professionals drive business. Traditional contingency agencies are now competing with debt buyers for individuals who have existing relationships with creditors who might need their services or have might have debt to sell. This has pushed up compensation levels and made the availability of these connected individuals scarce. Receivable management firms have looked at alternative pools of talent for the right salesperson. Some companies are hiring MBAs and training them on the process; others are looking at salespeople from outside of the receivables management industry who sell to a particular industry, such as telecommunications, healthcare or credit reporting agencies.

There are risks involved in this type of hiring model.

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## Running Thin: The Search for Talented Collection Pros (Continued)

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Receivables management is a long sales cycle, so companies have to be patient with a salesperson who is selling into the industry for the first time. There can also be problems with contingency salespeople entering the debt buying space. Although a salesperson might bring deals to the table, there's no guarantee that the company is going to be the highest bidder for the portfolio. This can cause frustration on the part of the salesperson. We have also seen companies shy away from connected salespeople with multiple job changes. Employers are concerned that if you cannot consistently represent one company for a sustained period of time, creditors will begin to not take your pitch seriously.

One last trend which is worth mentioning and is specific to the debt buying industry: we have seen a lot of experienced and connected salespeople go out on their own and act as debt brokers. If they sell independently, the thinking seems to suggest they can represent numerous companies and not be limited to the services provided solely by their employer.

**Operations Management**

Because receivables management firms are offering a greater variety of solutions to creditors, whether it is traditional contingency collections, debt purchasing, or master servicing agreements, they are all pulling operations expertise from the same pool of talent. We have seen operations professionals become more analytical while not losing any of the traditional "floor general"

capabilities of the past. We have also seen a trend toward client relations, with senior-level operations people needing to have strong presentation and relationship management abilities.

**Analytics and Accounting**

With profit margins tightening, today's accounts receivable management firm must make sure they have the analytics in place to ensure operations are efficient. Accounting, too, has to make sure that the paper is profitable. Forecasting results accurately has never been more important than right now.

As any industry undergoes change it inevitably effects human capital. Evidence of this can be seen on the issuer side of credit. A couple of years ago when all of the major banks were merging, there was an influx of available talent, available positions lessened and compensation for specific skill sets were compressed. The receivable management industry is officially on the other side of the pendulum now. If you have a critical need, you're not alone!

*John Fiumano is CEO of Executive Alliance, a strategic partner of Kaulkin Ginsberg, and a leading national recruitment firm that specializes in the debt collection and accounts receivable management industry. Contact John at [hq@kaulkin.com](mailto:hq@kaulkin.com).*

From *Foti* to *Davis*: Third Party Disclosures in the Answering Machine Age

By Mike Bevel, Associate Editor, [insideARM.com](http://insideARM.com)

As the first anniversary of *Foti v. NCO Financial Systems* comes and goes, collection agencies are no closer to resolving the voice mail third-party disclosure question. And a new class action suit isn't clearing the waters any, either.

*Foti* proved to be a landmark decision, of sorts, finding NCO negligent when pursuing collections against Paul S. Foti, among others. Primarily, the District Court of the Southern District of New York felt that NCO had not done a thorough enough job identifying itself in its message for Foti, a violation of Section 1692e(11) of the FDCPA, commonly known as the "mini-Miranda."

In the wake of *Foti*, collection agencies were eager to identify language that would protect them from FDCPA suits while also allowing them to contact debtors through

voice mail messages. While not taking any official position, or endorsing any kind of official script, the ACA recommended something along the lines of, "This is a message for [debtor]. If you are not [debtor] please hang up or disconnect. If you are [debtor] please continue to listen to this message."

This, it was hoped, would alleviate some of the dangers that the *Foti* case seemed to suggest. Then came *Davis v. Windham Professionals*, however; and now, that reasoning may not hold true.

On February 21 of this year, Russell A. Davis filed a class action complaint against Windham Professionals, a Massachusetts corporation, for a potpourri of FDCPA violations; primarily third-party disclosure. Windham left

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From *Foti* to *Davis*: Third Party Disclosures in the Answering Machine Age (Continued)*(Continued from page 3)*

a message, similar to the one above, for Russell A. Davis. Davis is claiming a third-party disclosure violation of Section 1692c(b) of the FDCPA.

This seems to put collection agencies that leave voice mail messages in an uncomfortable “damned if you do, damned if you don’t” position. On the one hand, as *Foti* proved, leaving a voice mail message that does not adequately identify a company as a collection agency is a violation of the FDCPA. However, it now seems that adequately identifying a company as a collection agency on a voice mail message can easily become another, different FDCPA violation: third-party disclosure. And, with little or no guidance available, most agencies are left to navigate these legal waters on their own. Based on the outcome of *Davis*, this could prove a watershed moment for consumers who make a practice of listening to their voice mail messages in the presence of others.

When seeking clarification, in the days after *Foti*, the ACA wrote to the FTC for an advisory opinion: “Must a debt collector identify a corporate name in order to meaningfully disclose the caller’s identity in a telephone call that results in an electronic voice mail message for the debtor? If a corporate name must be disclosed, what specifically must be disclosed when the corporate name implies the collection of a debt, thereby potentially violating the third-party disclosure prohibition?”

Rather than answering, the FTC instead relied on case law to address the ACA’s question: “[T]here is clear court

precedent for the proposition that a debt collector leaving a voice mail message must reveal the name of his employer, even if the name indicates that the message involves a debt.” They list *Hosseinzadeh v. M.R.S. Associates, Inc.*; *Joseph v. J.J. MacIntyre Cos, L.L.C.*; and, *Wright v. Credit Bureau of Georgia, Inc.* in support of their position.

The FTC went on to say, “Courts also have addressed the issue of whether a debt collector leaving a voice mail message must convey the mini-Miranda disclosure. The decisions are uniform in concluding that a collector failing to do so violates Section 807(11).” They cited *Stinson v. Asset Acceptance, LLC*; *Foti*; *Hozzendiah*; and, *Chlanda v. Wymard*.

What does this mean, then, for collection agencies seeking to use a tool that’s basically risk-free for 99 percent of the rest of the business community? Cynically (and uncharitably), some might say, it means, without having to state so explicitly, that the FTC and the FDCPA are effectively eroding the rights of collection agencies to use voice mail as a means of communicating with debtors. For the FDCPA, there’s power in being vague.

What does appear clear is that collection agencies that utilize voice mail messages as part of their cadre of collection tools, at least for the moment, are doing so with some risk.

*Mike writes for insideARM and produces our daily newsletter, The ARM Insider™. Mike can be contacted at [editor@insidearm.com](mailto:editor@insidearm.com), or at 301-907-0840 ext. 106.*

## Software-as-a-Service (SaaS) and the Emerging Revolution in Enterprise Applications

By: Michael P. Binko, APR  
CEO and President, Kaulkin Information Systems

Enterprise software and application deployments have often been a challenge for growing companies – particularly for small-to-medium enterprises (SMEs). The challenges have been how to reduce total cost of ownership (TCO) while ensuring maximum return on technology investments (ROI).

Until recently, SMEs had few options other than working with off-the-shelf software applications that were primarily developed and packaged in a manner best suited to larger companies with big budgets and properly staffed IT departments.

Enter the revolution: Internet and pervasive broadband networking.

Over the past couple of years, Software-as-a-Service

(SaaS) has been changing the software industry at fundamental levels. The SaaS revolution primarily benefits SMEs, as the basic tenets of the movement include:

- simplicity
- flexibility
- security
- scalability
- predictable costs

**The Ease-of-Use Factors**

Simplicity is a fundamental element of SaaS. In essence, enterprise end-users just need a computer, a web browser, and their username and password to have immediate access to their critical software applications – regardless of whether they’re in the office or on the road.

This mobility is one example where simplicity fuses with  
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Software-as-a-Service (SaaS) and the Emerging Revolution in Enterprise Applications (*Continued*)*(Continued from page 4)*

flexibility. For example, a junior account manager could upload new prospect information at her desk during an initial telephone conversation. A co-worker could immediately access this information while on the road.

SaaS simplicity and flexibility also streamline workflow and business rules. Updates or senior staff approvals are uniformly completed in accordance with pre-described workflow routines. Subsequent changes and workflow routines would then also be managed, reviewed and approved as they occur.

**Safe and Sound**

While ease-of-use and data management benefits are readily apparent, many SMEs seem hesitant to adopt SaaS because of perceived security risks. The fact is that SaaS is just as safe, and often more secure, than traditional client-server or distributed “gold-disk” software. A few reasons for this include continued enhancements in data center security and the fact that updates to SaaS applications can be automated and immediate, with built-in assurance that all users are operating with the most up-to-date versions.

This can be a tremendous time and budget saving aspect of SaaS for bootstrap and growing businesses alike. Furthermore, for companies operating in heavily-regulated industries such as banking/finance, healthcare/medical, legal, government and others, selected SaaS services incorporate baseline compliance factors (such as up-time assurances) and sophisticated search tools as a part of doing business.

Examples include support for NASD and SEC data archiving regulations in banking and finance and eDiscovery on the legal front. (NOTE: Keep an eye on future issues of *The Bulletin* for more in-depth discussions

of these topics.)

**TCO and ROI**

Predictable costs and scalability are also two critical components that make SaaS a no-brainer for SMEs.

No longer does the management team need to schedule an onsite update of users’ computers, as edits to user profiles and upgrades to the applications are all completed automatically and remotely.

This alone can mean a reduction in IT consulting expenses and can free-up internal IT teams to concentrate on addressing other strategic needs. Pricing models for SaaS also typically have low points of entry and only increase as an SME grows or increases their use of the SaaS application.

In short, the SME has little risk in testing the SaaS waters and can manage growth as well as the associated costs in a very scalable manner. In addition, the true TCO and ROI benefits shine through for the SME with the simple fact that hard-costs of application server equipment and data center infrastructure are managed directly by the SaaS provider. Organizations with large, well-staffed IT teams, however, would not enjoy the same return on investment.

So, even though the story of SaaS is in its early chapters, SME companies across a wide variety of industries are realizing that picking up the flag of revolution, in this case, is decidedly in their best interest.

*Mike Binko is President and CEO of Kaulkin Information Systems, provider of secure, affordable document management and workflow systems. Mike can be reached at [mbinko@kaulkin.com](mailto:mbinko@kaulkin.com), or at 301-907-0840 ext. 115.*

## Global Aspirations: International M&amp;A Gains Momentum

By Kit Ladwig

Special for Kaulkin Ginsberg

***International and cross-border M&A activity gains momentum, luring buyers to foreign lands.***

With the U.S. domestic market maturing and competition stiffening in many countries, debt collection and debt purchasing firms are eying foreign shores.

For several years, American firms looking to cut costs have ventured to near-shore and off-shore locations, setting up call centers in Canada, Mexico, and the Caribbean, as well as India and the Philippines, to contact debtors in the

United States. American debt collectors following clients into international markets tended to grow organically or through joint venture relationships, identifying and meeting specific client needs overseas, notes Michael Lamm, Associate at Kaulkin Ginsberg.

However, as interest in doing business with clients based in foreign markets has increased, firms from a variety of countries, including the U.S., Canada, France, Luxembourg, Israel, Australia, and India, have favored an acquisition strategy to gain local expertise and a foothold

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Global Aspirations: International M&A Gains Momentum *(Continued)*

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in foreign markets. Target companies have been located in the U.S., the UK, Germany, Australia, Russia, South Africa, and Malaysia – to name a few. “As the ARM market continues to globalize, investment firms and buyers of ARM companies are becoming more aggressive in locating acquisition opportunities in other geographic markets that support greater growth potential in the coming years,” says Mark Russell, Director at Kaulkin Ginsberg.

**Done Deals**

In 2006, the ARM industry saw 20 international M&A transactions, defined as transactions where either the buyer or seller – or both – are based outside the United States. Twelve, or 60 percent, were cross-border transactions, according to data compiled by Kaulkin Ginsberg. That’s a hefty percentage compared to a nearly 36 percent ratio of cross-border M&A transactions among middle market firms in Europe and 26 percent in NAFTA countries (the U.S, Canada, and Mexico), according to recent data from the International Network of Merger and Acquisition Partners. IMAP’s numbers cover a variety of industry sectors, including automotive, food, life sciences, global energy, I.T., and electronics, as well as outsourcing and logistics.

This year, the pace of international ARM deals in the first quarter is running significantly higher than for the same period last year, when only two such deals were announced. The ratio of cross-border ARM link-ups is also high. In the first quarter of 2007 alone, Lamm reports, seven international deals have been struck – five, or slightly more than 70 percent, with a cross-border bent.

Credit grantors are expanding internationally, and companies providing debt collection and purchasing are being forced to keep up, notes Mike Ginsberg, Kaulkin Ginsberg President and CEO. Cross-border M&A gives agencies and debt buyers access to new clients. However, entering a foreign market can be fraught with pitfalls. Cultural differences, as well as language, legal and regulatory issues, can be vast. Acquiring an established local firm can help ease the way. To be successful, Ginsberg says, buyers need to retain senior management with “skin in the game” for the long – not just the short – term.

Management is key in every transaction. It is even more essential in cross-border deals. Stacey J. Schacter, former EMCC Chief Executive, warns that if a takeover candidate does not have a strong enough team, a buyer faces an execution risk. EMCC backed away from at least one cross-border deal for that reason. “We would have had to invest

a lot of money and it might be a distraction for management to operate so far away,” he explains.

**International Outlook**

“We’re likely to see continued growth in M&A in Europe this year,” predicts Neil A. Wood, Group Managing Director for Global Credit Solutions Ltd., which offers credit management, debt collection, credit reporting, and risk management services in more than 70 countries. “The cross-border activity is capitalizing on the European Union, which in many ways is becoming the United States of Europe.”

As for the attraction of near-shore collection operations, Ginsberg says: “We’ve seen a lot of interest in near-shore M&A. Some firms that expanded there organically have matured and are solid enough to attract interest.”

At the moment, Asia poses special challenges. “It’s a problem for companies, like those in the United States and Germany, that base their approach on a budget-driven model and want to amortize their costs over a three-year period,” Wood says. “Smart players consider amortizing over a longer period. The rewards are greater in such huge potential markets.”

Southeast Asia is a long-term play, agrees Ginsberg. “A small acquisition can provide a presence, but growth in scale will come over time. The patient buyer stands to see a greater return for the dollars spent.”

Merger and acquisition activity tends to come in waves. “After almost four strong years, the fundamentals are in place for M&A activity to continue at this pace in 2007,” Ginsberg says. “There’s no slowdown in sight.” The availability of financing alternatives for the buyer, he notes, as well as strong price and deal structures for the seller, create a favorable environment.

That bodes well for international and cross-border M&A as well. “Now more than ever, buyers are looking outside their borders for acquisition opportunities,” Ginsberg observes. “They are seeing growth opportunities and want to capitalize on them through M&A.”

*This is excerpted from a detailed Market Spotlight article posted on Kaulkin.com. Read the full article online at [www.kaulkin.com/press/articles/global\\_mna.cfm](http://www.kaulkin.com/press/articles/global_mna.cfm).*

*Kit Ladwig, an experienced business writer and former editor of Collections & Credit Risk magazine, has been writing about the credit and collection industries for the past 10 years.*

## Upcoming Events

If you would like to receive Kaulkin Media's quarterly Calendar of Events by mail, please [send us an email](#) with your current mailing address.

We will be on hand at these upcoming shows and would like to meet you. To schedule a confidential discussion, please email [hq@kaulkin.com](mailto:hq@kaulkin.com).

### **March for Success Together – ICSP & HSP**

**April 25-27, 2007 – Las Vegas, NV**

Associates Michael Lamm and Michael Klozotsky will be attending this show – let us know if you would like to meet.

### **Collection and Recovery Solutions 2007**

**May 2-4, 2007 – Las Vegas, NV**

At this year's conference for creditors, our President and CEO Mike Ginsberg will be on hand, along with Founder and Chairman Marvin Kaulkin and Director Jamie Welsh.

### **NARCA Spring Collection Conference**

**May 9-11, Las Vegas, NV**

Director Paul Legrady will be attending the annual Spring show this year.

To review a complete listing, please visit [www.insideARM.com/events](http://www.insideARM.com/events).

## About Kaulkin Ginsberg

We've been helping accounts receivable management (ARM) executives with advice, expertise, and information to make well-informed decisions for over 15 years. We offer a full array of strategic advisory services to support you through almost every stage of your company's lifecycle, from debt purchase and sales advice, to executive-level recruiting, to custom industry research, to company valuation, to buying or selling a business. The Kaulkin Ginsberg family of companies also includes Kaulkin Media, publisher of the most popular sources of

industry information such as [insideARM.com](http://insideARM.com)<sup>TM</sup> and *The ARM Insider*<sup>TM</sup>. Kaulkin Information Systems creates secure and affordable document and business process management technology ([www.kistrack.com](http://www.kistrack.com)). Read more about Kaulkin Ginsberg at [www.kaulkin.com](http://www.kaulkin.com).

### **What can we do for you?**

To discuss your business needs in confidence, send an email to [hq@kaulkin.com](mailto:hq@kaulkin.com) or call us at 301.907.0840.