



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.

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I'm pleased to announce that the seventh edition of *The Kaulkin Report* is due to be published later this summer. This publication will not only take an in-depth look at the current state of the industry, but will also look ahead, sharing our predictions of what current trends will do to shape the future.

In this issue of the *Bulletin*, Michael Klozotsky shares some research findings on the current evolution of the telecommunications industry. As you analyze potential market opportunities for your business, industries like telecom that are undergoing major changes are ripe for opportunity.

The efficient use of available technologies is helping many businesses lower their operating expenses. One technology trend among businesses today is the increased use of Software as a Service (SaaS). Mike Binko shares a case study of how a

company saved an estimated \$10,000 in one audit by using SaaS technology.

Finally, there has recently been increased demand for objective, third-party business valuations – especially from courts in dispute resolution cases. David Lavine shares insight on how client concentration can impact how a company is valued.

If you have any questions about how current trends or changes might affect your business, do not hesitate to call me or a member of our advisory team. We look forward to speaking with you.

Mike Ginsberg
President & CEO



ARM Companies Dial-in on the Changing Telecommunications Industry

By Michael Klozotsky, Associate

Changes in creditor markets affect the way receivables management companies do business. Successful ARM companies must adapt to these changes in order to continue to meet the needs of their clients. The forthcoming seventh edition of *The Kaulkin Report* offers analysis of five creditor industries that are evolving rapidly – credit cards, telecommunications, electric utilities, health-care, and government – and shows how their changing internal dynamics will likely come to affect the ARM companies that serve them.

To follow one example, the telecommunications industry had roughly

97 million cell phone subscribers in the U.S in 2000. By mid-year 2006, U.S. subscriptions had increased more than 225 percent to 219.4 million, according to CTIA, a Washington-based wireless trade association. This growth has come at the expense of land-based (wireline) telephone service which is increasingly becoming a smaller share of telecommunication companies' revenues. In order to market wireline telephone service, many major providers now offer a bundled suite of products – commonly phone, internet, and cable television – as a way to bolster decreasing landline

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ARM Companies Dial-in on the Changing Telecommunications Industry *(Continued)**(Continued from page 1)*

sales. Most industry experts are not yet ready to declare landlines entirely a thing of the past; wireline services will continue to exist, but for how long – and as what percentage of industry revenues – remains unanswered. Even as wireline units continue to weaken, expansion in other segments – especially wireless and data – will provide avenues for growth to integrated telecommunications providers.

Such industry-wide transitions put pressure on telecommunications services. Effective receivables management strategies must anticipate these changes and prepare to handle diverse, often bundled, revenue streams. A company like Verizon, for example, may have a customer that subscribes to a wireline-cable TV-internet “bundle” as well as a separate wireless package; if that customer fails to pay his wireless bill but keeps his bundle account current, Verizon will be challenged to contend with the delinquency of one part of the account while retaining the customer (and the revenue he brings) as a whole.

These circumstances will make ARM industry vendors increasingly attractive to the telecommunications industry to help manage their receivables. If you manage an experienced first-party firm, you can work to bring parts

of a customer’s account current, reminding him of a past due bill. If the debt reaches a particular stage, you, as a contingency agency owner or executive, may be contracted to recover bad debt. And as the debt purchase market continues to specialize in specific asset classes, some telecommunications creditors may sell off portfolios of distressed receivables to debt buyers that work telecom accounts.

The seventh edition of *The Kaulkin Report*, Kaulkin Ginsberg Company’s biennial industry overview to be released in late summer 2007, explores emerging creditor-vendor relationships like these in order to help ARM companies like yours look to the future of the business. In addition, this comprehensive report will forecast trends in various market segments based on qualitative research drawn from scores of interviews with industry experts and quantitative analysis of economic factors that will shape the ARM industry in coming years.

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



Valuing Your Business: Clients Make all the Difference

By David Lavine, CPA, Director

At some point, every entrepreneur will want to know the value of his business, whether it might be for strategic planning, estate planning, or preparing for the sale of the enterprise.

There are many key factors in a company’s valuation assessment, including financial performance, industry dynamics, management strengths and weaknesses, competition, and technology. The most important factor, and the one most relevant to any collection business, is its makeup of clients. After all, that is where the revenues are derived!

For collection agencies in particular, the quality of earnings is impacted most heavily by the quality of its customers. A valuation assessment will look at the risk factors associated with the continuing patronage of the firm’s customers. Are they credit worthy? Do they remit payment within terms? Is there reasonable retention of customers relative to industry standards? Are they a

diverse array of organizations or are they a narrow type of customer? These are all key factors in assessing risk.

For many firms, the biggest risk component of their current business model is a concentrated clientele. The assessment of concentration always takes into account the specific organization and industry of the entity being valued. It can be universally applied that the more diverse and voluminous the clientele, the less the risk; the loss of no one client would be material, no one client can dictate unreasonable terms and conditions, and the payments of no one client materially affect the financial condition of the company.

Of course, business operators loathe turning down business – especially from their largest client. The difficult balance is in expanding the enterprise with the broadest possible mix of clients/customers given the realities of the marketplace for that business/industry. There are many successful firms that grew by the benefits of a small cadre

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The Clients Make all the Difference *(Continued)*

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of clients; conversely there are many instances of growing firms destroyed by the loss of a key client. When assessing value, the determination of risk associated with a concentrated client-/customer-base takes into account the specific market realities.

Valuation theory is highly subjective, but with respect to client concentration, the actual risk associated with too few clients providing too much of the revenue mirrors closely the negative valuation impact of that concentrated clientele. Potential buyers would similarly assess the risk, and modify their value assessment accordingly. After all, the most important asset of an ongoing enterprise is the revenue stream.

There are no automatic formulas to apply globally to determine a potential value reduction; each case needs its

own analysis. In strategic planning for your business, development of the client/customer base is clearly a crucial issue. If you are building your exit strategy, keep this in mind and take a close look at your client list as if you were a potential buyer. If you have a major client who represents a large percentage of your revenue, a focused effort now to expand your client base may make your firm more attractive to potential buyers in the future.

David Lavine is the leading valuation expert in the credit and collection industry. He provides business valuation and advisory services to select clients. For more information about valuation services from Kaulkin Ginsberg, contact us at hq@kaulkin.com.



IT Best-Practices Don't Have to Involve Big Dollar Budgets

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

In recent issues of *The Bulletin*, we've taken a look at how federal, state, and industry-mandated regulations are changing the way business needs to be done for the majority of small and medium sized businesses – no matter what industry they operate in ([see the May 2007 issue](#)).

We've also taken a "100,000-foot view" of the changing landscape for enterprise software. The emergence of "Software as a Service" (SaaS) technologies, which are accessed through the Internet, is opening a window of opportunity for mid-sized businesses ([see the April 2007 issue](#)).

This shift to Web-based, outsourced software allows management to quickly and efficiently deploy applications and capabilities that were traditionally only available from "big iron" providers at price levels that usually started at six figures per year.

This month, we're going to take a closer look at an example of how SaaS technology is directly benefiting owners, CEOs, COOs, and IT professionals in the middle-market.

The case study comes out of the financial services sector; however, the business issues – business process management, document archiving/retrieval, workflow, compliance, and best-practices – are exactly the same for just about any industry segment, including collections.

Alan Pransky is principal, partner, and the Chief Compliance Officer for Patriot Financial. Located in Boston, MA, Patriot is a branch Office of Supervisory Jurisdiction (OSJ) for Jefferson Pilot Securities – a securities broker-dealer company with more than 400 branch offices similar to Patriot.

Being an OSJ, Patriot is regularly audited by Jefferson Pilot's internal compliance officers, auditors from the National Association of Securities Dealers (NASD), and audit teams from the Securities Exchange Commission (SEC). During a typical audit, Alan and his team have less than 24 hours to turn around answers or information that relate to specific questions asked by auditors – and the clock begins running as soon as the office is notified of the impending audit. As a result, Alan and his team usually budget for between eight and 24 hours of down-time per audit.

In 2006, Jefferson Pilot's corporate IT teams reviewed and approved various technologies, including SaaS technologies, for use at their branch and OSJ offices for audit response and risk mitigation. Collection agencies should do exactly the same thing. Patriot, which is one of their largest OSJ offices, quickly deployed our SaaS technology offering called KIS Track – a comprehensive suite of business process management, document management, workflow, and compliance tools.

To use the technology, Patriot first converted any hard-copy account records into digital data using optical character recognition (OCR) scanning, and then simply

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IT Best-Practices Don't Have to Involve Big Dollar Budgets (Continued)

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uploaded all their electronic information to the SaaS platform. Beyond simple electronic storage, KIS Track incorporates complex search and retrieval functions and a full workflow capability that allows team members and management to share records in a secure environment with an audit trail of accountability baked-in.

In March 2007, Alan was on a business trip when he was contacted by his office manager. An auditor had arrived at their Boston offices and wanted to begin an audit of Patriot's new account activation and records retention processes. Alan simply asked the office manager to walk the auditor through the KIS Track database and instructed her to also create a temporary user account that the auditor could use to access and review Patriot records via the Internet.

To make a long story short, the audit was concluded in less than an hour, and the auditor left thoroughly impressed with Patriot's organization. Alan estimated the hard-dollar savings during that single audit to be more than \$10,000. To put that into perspective, Alan's full SaaS software costs for a year are less than \$10,000. Beyond the audit preparation and response, Patriot has also tallied considerable savings on a daily basis through greater productivity and by being able to put client investment dollars to work quicker.

The ability to allow selected users to have instant, secure access to specified documents can substantially improve efficiency and compliance in a number of business situations, from audits, to legal actions, to client communications.

In summary, mid-market businesses should take a closer look at their business processes and the new landscape of outsourced enterprise applications. The total cost of ownership is often very low, security is maintained, and the return on investment is usually realized in a very short period of time.

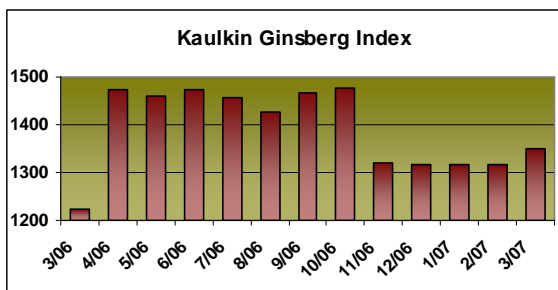
Also, adoption of SaaS/outsourced applications can begin small and scale infinitely. So, go ahead, pick a pilot program, develop some tangible metrics for success, and execute. You might be surprised how easy and effective these technologies can be.

Mike Binko is President and CEO of Kaulkin Information Systems (KIS), a leading provider of secure, affordable document management, workflow, and compliance technologies and solutions services. Mike can be reached at mbinko@kaulkin.com, or at 301-907-0840 ext. 115.



Increased Charge-Off Rates Spur Increase in Kaulkin Ginsberg Index

The Kaulkin Ginsberg Index (KGI), the leading indicator of economic conditions affecting the accounts receivable management (ARM) industry, has increased 2.5% to 1349.8 during the first quarter of 2007. The KGI is up 10.4% from 1222.4 at the same time a year ago. While the significant annual increase in the index is explained by events that occurred in the ARM industry in 2006, modest 1Q growth is largely attributed to only minor changes in six of the seven variables used to calculate the index.



The KGI's most significant fluctuation in 1Q 2007 is the increase in the charge-off rate for all loans and leases, which rose from 0.42 percent to 0.51 percent during the first quarter of 2007. This surge marks an encouraging sign for ARM companies. As creditors charge-off more

delinquent accounts, demand rises for collection agencies to assist in converting those receivables into cash, or for the debt-buying market to capitalize on a greater supply of distressed debt portfolios available for purchase.

The Index's changes in Q1 2007 were caused by the following factors:

| Variable | March 2007* | Q1 Change* | Effect on KGI* |
|--------------------------------|-------------|------------|----------------|
| Unemployment Rate | 4.4% | 2.9% | Up |
| Federal Funds Rate | 5.26% | 0.4% | Up |
| Charge-off Rate | 0.51% | 21.4% | Up |
| Outstanding Consumer Credit | \$2.425T | 1.0% | Up |
| Total Market Cap of ARM Stocks | \$2.19B | 1.2% | Up |
| Bankruptcy Filings | 177,599 | -1.4% | Down |
| Consumer Price Index | 205.4 | 1.8% | Up |

* See "How is the KGI Calculated,"

www.kaulkin.com/research/kgi/calculate.cfm

For more information about the Kaulkin Ginsberg Index, see www.kaulkin.com/research/kgi or call Michael Klozotsky at 301-907-0840 ext. 123.

Upcoming Events

Watch your mail for the 3rd Quarter Calendar of Events from Kaulkin Media!



If you aren't on our mailing list but would like to be, please [send us an email](#) with your current mailing address.

To review a complete listing online, please visit www.insideARM.com/events.

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.

DBA International Executive Retreat **June 26-28, 2007 – Montréal, Canada**

If you are a DBA member planning on attending this member-only event, be sure to meet with Director Mark Russell, who will also be attending the conference.

Annual National Institute of the HFMA **June 24-27, San Diego, CA**

Director Paul Legrady and Associate Michael Klozotsky are attending this annual event for healthcare financial managers.

ACA Int'l's 68th Annual Convention & Expo **July 25-28, 2007 – Chicago, IL**

National Sales Director Patrick Jeanty and Associate Michael Lamm will be on hand at this annual event.

About Kaulkin Ginsberg

We've been helping 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 strategic analysis, to growth and exit strategies. The Kaulkin Ginsberg family of companies also includes Kaulkin Media, publisher of the most popular sources of industry information such as insideARM.comTM and *The ARM Insider*TM. Kaulkin Information Systems creates secure and affordable workflow, document, and business process management technologies (www.kistrack.com). Read more about Kaulkin Ginsberg at www.kaulkin.com.

What can we do for you?

To discuss your business needs in confidence, send an email to hq@kaulkin.com or call us at 301.907.0840.