

Kaulkin Ginsberg sends *INSIGHT* each month to provide you and others in the Accounts Receivable Management (ARM) industry with valuable 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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There are two recent developments that I wanted to make you aware of – one bad and one good.

First the bad: business scams are nothing new, but there has been a rash of attempted “advance fee” scams recently on several commercial collection agencies in the U.S. and in Canada.

You can read excellent [coverage on this scam on insideARM.com](#), but essentially, the scammer poses as a new client trying to collect a large commercial debt. The agency contacts the debtor – who is part of the scam – and the debtor agrees to pay the debt and sends a check. The agency deposits the check, deducts its fee and sends the balance to the client, drawn on the agency’s account. Weeks later, when the check turns out to be fraudulent, both the client and the debtor are long gone and the agency is defrauded out of the money it sent.

If you suspect that scammers have targeted your company, please [contact your local FBI office](#). For more information on how to avoid being taken, check out this [guest editorial blog on insideARM.com](#).

Now for a good development; in early April, we conducted our first teleseminar focused on M&A activity and valuation trends in the industry. Based on responses from the participants, we’ve decided to make this a quarterly event. We’ll recap recent M&A transactions, and then shed light on topics related to the sale of a business. The next teleseminar will take place in July and we plan to focus on common pitfalls that can jeopardize a transaction. If you’d like an invitation to attend, please contact Anne Strong at 240-499-3816 or email anne@kaulkin.com.

In the meantime, please enjoy this issue of *Insight*, and as always, don’t hesitate to contact any member of our team to confidentially discuss your business developments.

Sincerely,



Mike Ginsberg
President & CEO
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Preparing for a Sale - Getting Your Financial House in Order

By Michael Lamm, Associate

We have seen it happen; a buyer walks away from a deal because a collection agency’s “financial house” was not in order. Before considering a sale of one of – if not *the* – most significant assets you have, it’s absolutely critical to take a step back and put yourself in a buyer’s shoes. Regardless of whether you’re one year or five years away from the sale of your company, spending the time and money to get your company’s financials in order

now can save you a lot of grief later. Here are a few tips:

Prepare reviewed or audited financial statements – Agencies that have roughly \$5M or more in annual revenue (net fees) should consider this. A review or audit done for the past one or two fiscal years would likely suffice, but it is important for a buyer to see that you are committed to having that level of

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financial evaluation for current and future fiscal years too. This level of financial examination will save the buyers time in their review of the agency prior to and during due diligence, providing a degree of comfort that the figures that you are showing them are accurate.

Hire a chief financial officer or controller – Agencies that have \$5M or more in annual revenue should consider having a full-time person responsible for day-to-day financial management of the business. It demonstrates to a buyer that direct financial oversight exists, which provides comfort with overall reporting and quality assurance. Not having someone in this role may raise a red flag to a buyer. This new hire does not need to have direct ARM industry experience, but you should allow enough time before a sale for the person to become acclimated to the nuances of the industry. An added plus is having an individual who has previous experience going through a sale of a company – even better if it was with a collection agency.

Create an internal month by month budget and forecast model – Being able to predict placement volumes and net fees by client from typical performance-based 30 day contingency contracts poses many challenges. However, buyers still like to be able to see that management has the ability to create a month to month budget based on historical placement volumes, liquidation, net fees and sales pipeline for the current fiscal year, and a detailed (bottom's up) forecast with defined assumptions for at least the next fiscal year.

Track profitability by client – Many agencies as they grow and scale develop significant client concentration, where a few clients may make up a good portion of revenue and profit. This is especially apparent within the financial services and telecom sectors. Aside from being able to budget revenue by client (see above), it is important to understand how profitable your key clients or streams of business are, so buyers can see which clients drive your profit margin. This will be one of the primary drivers to determining the multiple applied to adjusted EBITDA, the proposed cash at closing, and deal structure (if any). One way to look at your key clients or streams of business is by determining a contribution margin by client. This is a cost accounting concept that allows a company to determine the profitability by individual clients. A simple calculation is as follows:

Client Net Fees – Direct Collection Costs
Client Net Fees

On July 16, our strategic advisory group will be conducting a recap of M&A activity in the industry in a live teleseminar, and we plan to talk in more detail about our tips for preparing for a company sale. **This is an invitation-only event.** If you would like to attend, please contact Anne Strong at 240-499-3816 or email anne@kaulkin.com.

Michael Lamm manages M&A transactions and Valuations for Kaulkin Ginsberg. Michael can be reached at 240-499-3808 or at mlamm@kaulkin.com.



Hot Marketing Tactics for a Cool Economy

By Stephanie Eidelman, Publisher and COO

It may seem counter-intuitive, but a slow economy may be the best time to ramp up your marketing efforts. Faced with declining revenues, many firms opt to scale back or eliminate their advertising and marketing efforts, and that creates an opportunity for other companies to step in and fill the void.

Prospective clients today are very likely to rely on the Internet for research when they need a product or a service. If you have a company website and you advertise on selected websites and in electronic publications, you already have an excellent start.

To build on this position, there are online tools available to establish your company as an industry expert. If a prospective client perceives you as a resource now, it's

likely you'll be top-of-mind when they need your services in the future.

There are many cost-effective platforms available for demonstrating your expertise. Here are some quick ideas:

- ✓ Publish or sponsor a whitepaper
- ✓ Write guest articles in local or industry publications
- ✓ Host or sponsor a Webinar
- ✓ Respond to or write a blog

To help determine the right vehicle for your company, start with your firm's unique selling proposition. What does your company do for its clients better than anyone else? What you do best is probably a reflection of what you know
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Hot Marketing Tactics for a Cool Economy

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best, and that can be the basis for your “thought leadership.”

Next, think about the best way to convey this knowledge to your prospects. For example, a company that specializes in collecting for small physician groups might provide specific tips on collections for small practices in a white paper or article. A firm that provides services to large credit issuers might convey leadership by participating in a webinar on current trends in collection practices.

Naturally, you want to strike a balance between demonstrating expertise and “giving away the store,” but it’s unlikely that the knowledge you share in these mar-

keting platforms would be a complete substitute for hiring you! The rule of thumb to follow is to provide as much information as possible.

To find out more about thought leadership opportunities on insideARM.com, please contact Stephanie at 240-499-3806 or publisher@insidearm.com. She also welcomes any feedback you have about any of the editorial coverage or services offered through insideARM.com.

Stephanie oversees operations for Kaulkin Ginsberg, and as Publisher of insideARM.com, she directs the growth of the website and its related publications.



InsideARM.com’s Credit and Collections Executive Confidence Survey

We know that consumer payment patterns tend to change with the economy, and this has an obvious impact on creditors, their collection service providers, and firms that provide products and services to support recovery efforts. insideARM.com is launching a new study to help you understand how your colleagues, partners, and vendors are faring.

Recovery managers are the first to see changes in consumer behavior. What is their outlook for the future, and are they planning to alter their collection strategies?

There is an interesting correlation between the third party debt collection market and the broader US economy. When times are bad, debt collectors tend to be in demand; but debts may not be as collectible as they are during good times. Are debt collectors able to compensate for lower recovery rates with higher account volumes? How quickly does a shift in the economy affect the performance of collection agencies? Are collection executives planning to adjust their business or operating strategies in order to accommodate changing consumer or creditor conditions?

Finally, how are service and technology firms that offer collection solution products such as skip tracers, dialers, mail houses, scoring, and software platforms faring, and what are their plans and expectations for the future of their businesses?

Our Credit and Collections Executive Confidence Survey is a 12 question online survey that will take only two minutes to complete. If you are a recovery professional or executive of a debt collection agency, law firm, debt buyer, or a service provider to the industry, we suggest that you participate. Your response to this survey is completely anonymous. To participate in the survey, please visit:

<http://tinyurl.com/5h84ac>

We look forward to sharing the results of this survey in an upcoming issue of *Insight*.

For information about this survey, or to provide other news and comments to insideARM.com, contact Patrick Lunsford, Senior Editor, at editor@insidearm.com, or call 240-499-3828.



Upcoming Events

Kaulkin Media mails out a Calendar of Events for the industry four times per year, and the 3Q listing is coming soon! If you aren’t on our mailing list but would like to be, please send an email to hq@kaulkin.com with your current mailing address.

In addition, you can review a complete listing of industry events online at www.insideARM.com/events.

If you would like to meet with us in person at one of these upcoming shows, please email hq@kaulkin.com to schedule a confidential discussion.

[Consumer Bankers’ Association Collections Conference](#)

June 4-6, Scottsdale, AZ

Jamie Welsh and Dimitri Michaud from Kaulkin Ginsberg will be on hand at this conference, open to CBA members.

[DBA International 2008 Executive Retreat](#)

June 17-19, Charleston, SC

Mark Russell will moderate a breakout session to discuss Business Succession, and more specifically, exit planning and valuation.

About Kaulkin Ginsberg

We've been providing ARM professionals, owners, and investors worldwide with value-add advice, expertise, and information to make well-informed decisions for over 16 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 – including M&A. The Kaulkin Ginsberg family of companies also includes Kaulkin Media, the leader in providing timely news, analysis and information on the recovery of debt in all industries and publisher of the most

popular sources of industry information such as insideARM.com[®] (formerly CollectionIndustry.com) and *The ARM Insider*[™]. 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.