

OWNING YOUR ACCOUNTS: THE FUTURE OF THE INDUSTRY

BY THOMAS F. FERRIS



The History Channel recently aired a fascinating program titled “Gold! Cold Hard Cash,” which documented how gold was used for thousands of years to control the global economy. The program’s surprising conclusion asserted that in today’s “brave new world,” gold reserves for banks and nations have become insignificant because they have been replaced. Today, civilization conducts financial transactions both large and small by exchanging not bullion, but electronic digits.

Growing up in the 1960s, my middle-class family, like many others, had one credit card that was used only when money was tight, and perhaps for holiday purchases. The card, I remember, was called a “community charge plate.” We lived in a primarily cash-and-carry society, with the exception of house and car payments. Now, fast forward to 2002. Eighteen-year-old high school seniors get indiscriminate offers for four and five credit cards, each with \$2,500 limits and a student loan. All this credit, and most have not yet held their first full-time job, or even left their parents’ homes.

With such increasing availability of credit comes an increase in the credit default rate. At one point in the 1980s, lenders considered an acceptable default rate on the credit they extended to be between 2.5 percent and 3.5 percent. Today, depending on a lender’s marketing plan, it could be twice that amount. There is a glut of delinquent consumer accounts on the market as a result of a fierce 30-year competition between lenders and issuers for market share.

As the “back end” of the lending business started to get out of control and recovery departments became increasingly overwhelmed—even with outsourcing to agencies—lenders chose the strategy of selling their nonperforming accounts. In 1989, that was innovative leadership. Today it is standard operating procedure for most lenders. Many of my contingency agency friends have told me that fee-based business is becoming increasingly more difficult to attract and keep. Yet, buyers of accounts are seeing more and more product on the market. It appears in 2002 there is more

product on the market than there is money ready to chase it.

Bad debt purchasing

The finance (non-collection) entrepreneurs were the first to enter this market, followed by the collection law firms that knew how to raise investment capital, and most recently, some forward-thinking collection agencies. Why are there so few fee-based agencies participating in a market they have traditionally dominated?

Resistance to change in our industry was illustrated at a recent state chapter meeting. The subject of an organizational name change was tabled. Immediately, there was a spirited discussion with a longtime member who said, "I am proud of being a bill collector. I have always been a bill collector, and I do not want to hide behind a new name and pretend that I am something else."

Since then, ACA members elected to take on a new association name and to position the association as a viable entity for the next few decades. ACA will provide services to a growing international market and potentially expand its influence and membership.

Most industries are going through similar introspection and reinvention. Take, for example, the newspaper executives who debated the challenges of a rapidly changing world. Their issue was whether to remain "print only" or to evolve into an "information provider," including Internet, television, radio and cable outlets to report events.

Today, these "information providers" keep us updated through many sources and continue to produce solid profits, even as newspaper sales decrease. Is it possible that the collection industry is ready for a similar paradigm shift? The same information revolution that changed Wall Street and Main Street has laid opportunity at our feet. How will our industry respond to this challenge?

Perhaps the "change leader" is reading this magazine and incorporating this information into his or her business plan. If the contingency agencies don't fill the need and lead the change, someone else will. When it comes to consumer debt purchasing,

traditional agencies have been slow to change throughout the 1990s. The industry has been reacting to the market as opposed to taking action in the market. The result has been lost opportunity and lost market share, starting at the local level and moving right up to the international level.

Why are we and our associates so slow to lead change in our own industry? Is it fear? Fear of the unknown, fear of failure? Certainly no group other than the contingency agencies is more capable of liquidating delinquent accounts. ACA International's Asset Buyers Program is rapidly becoming the largest organization of debt purchasers in the world. There is obviously no lack of interest by ACA members.

Perhaps the slow entry of the fee-only agencies into the market is due to a lack of financial resources, or perhaps it might be a lack of creative thinking and bold leadership. Imagine telling a potential investor, "I have successfully managed a company that collects delinquent accounts for more than X years and now, due to a changing market, I want to own them and share the profit with you." Tell that story to 10 "qualified" investors and you should find yourself with at least one new venture capital partner.

Familiarity breeds complacency

There is a tendency to follow people who have been our contemporaries and who have had a degree of success in the contingency sector. Following leaders who have "been there and done that" means we are missing out on the energy and enthusiasm that comes from new leaders who have a burning desire to prove themselves. New talent can bring along innovation and a sense of fun and passion that veterans sometimes cannot provide.

In order to lead the change and direct it, we must get outside the four walls of our companies and expose ourselves to the industry at large. We must continually educate ourselves so that we are of better service to our group. The most progressive growth ideas will likely come from exposure

to other industries and businesses. There are numerous organizations that provide local roundtables and support to key people, presidents and CEOs. These support groups of local business people can help you, the leader, challenge your thought processes in a way that only comes from sharing experiences. If you find yourself hesitant or indecisive because of the perceived risk, then consider the risk of remaining contingency only:

1. Living from one client to the next.
2. Clients negotiating your rates down.
3. No control over product supply.
4. Clients who limit your settlement authority.

Can you afford to *not* buy your own accounts?

Although true leadership goes beyond simply making yourself and your company less supply (client) dependent, it certainly could be a significant next step in your company's self-determination. Longtime ACA members tell me that we only come together when we are threatened by legislative challenges. If you look at our association and its strengths today, you may agree that this is true that we are a reactive group. Wouldn't it be great if in 2010 we could say that our strength was in building people, leaders and market share for our members through innovative thinking and proactivity?

Enlightened and active leadership will empower agency owners and debt buyers to expand our marketplace beyond the scope of our current vision. Then, at that ACA annual meeting in 2010, we may be able to overhear several members saying, "I am proud of being a bill collector. I have always been a bill collector. I own many of my own accounts. I am of service to my customers and community, and I am proud of the part I have played in this industry's evolution." **CM**

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