



U.S. Commercial Collections Industry Outlook

Author: Michael T. Puckett, President – Euler Hermes UMA



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Introduction

At its highest level, engaging the services of a commercial collection company is about safeguarding the assets of a company. This is imperative for any company's financial well-being, allowing it to support the sales and marketing goals of the organization and, accordingly, to prosper.

Eliminating or reducing a company's bad debts contributes to this safeguarding, and the company achieves this by improving the days sales outstanding (DSO). Effective collection of receivables is crucial to improving the DSO. It condenses the revenue cycle and creates working capital and additional borrowing capacity, hence adding to the value of a company.

Employing an effective strategy for accounts receivable management – with the right commercial collections partner – can protect the cash flow of any company, large or small.

Euler Hermes UMA is a leader in commercial collections and accounts receivable management services. Founded in 1917, the company offers a suite of receivables management services that include commercial third-party collections, receivables management outsourcing, international collections, and other debt-mitigation services. Euler Hermes UMA has an outstanding reputation developed over nine decades in the industry.

Collections Industry: Past to Present

Over the past decade, the commercial collections industry has seen several significant changes. These include:

- **New Players** – The primary providers in B-to-B collections were static for the majority of the three decades prior to the mid-90s. At that time, money began flowing in from two major sources – venture capitalists and consumer collection companies (such as NCO). So, the players are dramatically different today than they were 10 years ago. As evidenced by the recent acquisition of Euler Hermes UMA (formerly United Mercantile Agencies) by the Euler Hermes Group, strategic buyers in more recent years have continued that landscape change.

The changing landscape has been both beneficial and detrimental to customers, though, depending on the situation. Financiers concerned with the bottom line, as opposed to providing good customer service, have caused some difficulty within the industry. However, the addition of new customer-focused companies has expanded the capabilities and menu of services for many customers.

- **New Technology** – The role of technology has prompted a myriad of changes, such as:
 - An expedited placement process by creditors;
 - Real-time status reporting;
 - Status reviews by the creditor available on a 24/7 basis, including online collector notes;
 - Instant documentation production by the creditor;

In addition, the resources available to us in our collector role are dramatically expanded, including skip-tracing, asset searching, and online bankruptcy court information.

- **Collections as a Commodity** – While B-to-B collections is much more consultative with greater intellectual properties involved (communication skills, financial acumen, role of psychology) than consumer collections, the influence of the latter has caused some commoditization of our side of the industry, and therefore impacted commercial collection pricing in a negative way. Therefore, commercial collection companies must constantly educate prospective customers that, at the end of the day, success rate and the net dollars coming back to them are more important than the overt contingency rate. This is a struggle when you are viewed as a commodity.
- **Globalization** – The entrance of global players into the market has created more international sales for our customers and, as a consequence, our international collection capabilities are more visible and important than ever before.

Current State of the Industry

The overall state of the industry is sound. The U.S. credit granting community is a risk oriented one, and where there is credit extended, there will ultimately be collection problems; no commercial enterprise is exempt from same. As U.S. companies expand their receivable portfolios, their collections problems and needs grow proportionately.

However, while the industry can be seen as sound, it currently is not as robust as in the past. The strongest year in terms of dollars assigned to the Commercial Collection Agency Association of the Commercial Law League of America (CLLA) was 2002, as the nation was coming out of the recession early this decade (consistent with historical cycles). At that time, the reported placements reached some \$13 billion. During the past five years the placements have aggregated in the \$10 to \$11 billion range yearly.

For the 12 months ending June 30, 2007, the dollars assigned rose 2.2% from \$10.2 billion in 2006 to \$10.4 billion in 2007. When the second quarter of 2007 is compared to the same quarter of 2006, there was actually a 2.9% decrease in placements from \$2.78 billion in 2006 to \$2.70 billion in 2007. Results varied from firm to firm – Euler Hermes UMA saw a double-digit increase, while some competitors experienced a decrease.

Typically as the economy (or certain sectors) tighten, the industry will see more placements; however, consequently, collections are tougher in a tighter economy. Such has been the case for 2007.

Future Outlook

In regard to the commercial collection industry's future, the marketplace will see a continuing disappearance of the companies who only provide B-to-B collections as stand alones. The trend to consolidating all segments of the accounts receivable management industry under broader umbrellas is likely to continue. On a positive note, this consolidation will be good for commercial collection customers, as new and continued investment in the industry will strengthen and expand the infrastructure. However, the marketplace will continue to dictate the future of the industry, and the stand alone companies will face increasing difficulties in truly competing.

About the Author

Michael T. Puckett began his career at Euler Hermes UMA in 1971 when he joined the company as an inside collector. He was promoted to Assistant Vice President in 1977, Vice President in charge of collections in 1986, and eventually became President of the company in 1989. During his tenure at EulerHermes UMA, he has been actively involved in all aspects of the company.

Puckett holds a B.A. in political science from the University of Louisville.

Euler Hermes UMA
600 South 7th Street
Louisville, KY 40201-1672
Tel 800-237- 9386
Fax 502-584-0443
www.unitedmerc.com

Corporate Office
Louisville, KY 800-237-9386

East Coast Division
White Plains, NY 800-650-3024

West Coast Division
San Francisco, CA 800-899-4862