

GEARING YOUR OPERATION FOR GROWTH

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Rising levels of UK debt mean an increase in business volumes for the collections industry, but it needs to grow rapidly and cost effectively to meet the demand.

Of the UK's £1.4tn personal debt, around 20% is in the form of unsecured loans. Delinquency rates are already rising as the economy begins to slow, and may suddenly spike when the full effects of the economic downturn are felt.

If the anticipated growth in delinquency occurs, the UK collections industry stands to benefit from a significant upturn in business volumes – but only if it can ramp up its capacity rapidly and cost-effectively.

The coming boom in debt collection opportunities may well be a double edged sword for the typical UK collection business, which will face major organisational challenges in growing to meet demand.

Of course, the credit crunch is not the only factor driving business expansion in the UK collections industry. The sector has seen significant merger and acquisition activity, with many of the biggest names – including Gothia Holding and Cabot Financial – buying smaller businesses in 2007.

Equally, Credit Services Association (CSA) research shows that creditors are consolidating their debt collection agency (DCA) portfolios, aiming to work with a smaller number of larger agencies.

This naturally encourages expansion, since DCAs want to have the scale to take on, and not be overwhelmed by, the larger consolidated contracts that may be offered to them.

Most collections agencies in the UK are relatively small businesses. According to Plimsol research, only a quarter of agencies employ more than 225 people, and more than half employ fewer than 75.

Given capital limitations and the probable lack of formalised training programmes among such businesses, they would probably struggle to take on larger volumes without damaging their own profitability.

Scaling up

The challenges of scalability are by no means confined to the lower end of the collections industry. In fact, larger businesses may find it even harder to scale up.

While they may have the capital – or at least easy access to lines of credit – to fund expansion, larger organisations may be less flexible and entrepreneurial when it comes to growing their operations.

Equally, many large-scale collection businesses are simply groupings of small-scale acquisitions, each with their own distinct set of small clients, with little or no corporate structure on top.

The apparent size of a DCA business may therefore not be a reliable indicator of its ability even to handle a large contract, much less to scale up rapidly.

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Scalability criteria

For agencies considering how to ramp up their business, or for creditors considering where to place large new contracts, there is a simple set of scalability criteria to bear in mind.

Access to working capital is clearly a vital element, while on the operational side the watchword is standardisation.

Standardisation

The larger the business grows, the more important it is to have a standard tool kit of working practices and methodologies.

Not only does such a tool kit ensure a consistent approach across all divisions and locations, it also ensures cost-efficiency, since there is no need to 'reinvent the wheel' each time the business expands.

As a first step, recruitment and training should be standardised, and should feed into a standard operations model for each new location. All working processes should be rigorously defined and documented, and continually reviewed and refined.

Naturally, successfully scaling a DCA is not simply a question of adding more call center seats – a growing business must also consider standardised methodologies to develop middle and upper management.

The style and quality of management for a 1,000-person business will differ markedly from that required for a 100-person business.

Scalable IT

Beyond creating a consistent, proven set of best-practice approaches to recruitment, training, operations and management, a growing DCA must invest in robust and scalable IT systems that are designed for multi-location operations.

The need to 'rip and replace' IT systems is very commonly a brake on business growth. Equally, winning larger contracts from larger clients may expose the growing business to more

stringent standards for data protection and business continuity. These may require the development of robust disaster recovery procedures and the capability to move work seamlessly from one site to another.

Outsourcing

Outsourcing the collections work to a specialist service provider can provide a low-cost, low-risk shortcut to scalability for any DCAs challenged by the above list of requirements.

Indeed, even DCAs that have both the will and the skills to gear their business for growth are unlikely to be able to scale as rapidly and cost-effectively as an experienced outsourcer – particularly if that outsourcer has access to skilled human resources in numerous countries around the globe.

As an established outsourcer, Firstsource's business was built with scalability in mind, combining standardised training and operational methodologies with robust, integrated multi-site IT systems capable of expanding with no disruption to business.

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Rigorous training methodologies enable new staff to be productive within very short timeframes, and a global footprint gives us the opportunity to tap into new catchment areas.

For example, when we needed to put together a team of more than 800 staff in less than 12 months to meet a client's requirements, locating the new operational site in Northern Ireland was the answer.

Outsourcers should have a proven history of successfully establishing new business processes that allow operations to be scaled up quickly. Within a couple of months of starting collections work for a major UK retail bank, we increased the funds collected by around £1m a month.

Conclusion

The changing global economic climate will present significant opportunities for the UK collections industry – but many DCAs are ill-prepared to benefit from the potential boom.

Outsourcing providers that have built their operations to be scalable from the outset can meet the coming demand in the collections industry both by partnering with existing DCAs and by directly servicing lenders.

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About Firstsource

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