

# Finding Value in Past Due Active and Inactive Accounts

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# Topic #1: Outsourcing Collection Activities of Active Accounts

# Outsourcing Collection Activities in General

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- Goals of outsourcing
  - Increase a utility's collections on active, but past due accounts
  - Achieve measurable cost reduction
  - Educate the customer
  - Reduce repeat offenders
  - Reduce opportunity costs

# Is Outsourcing Right for our Company? Sometimes “absolutely” and sometimes “absolutely not”.

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- Outsourcing collection efforts on active accounts is a good business decision when:
  - Internal staff cannot meet your company’s needs
  - Customer Service Representatives have little or no telephone collection training
  - No internal technical resources
  - Majority of collection efforts do not involve making personal telephone calls to every past due customer
  - Management has little experience in developing collection strategy
  - Expenses related to achieving points 1-5 are cost prohibitive

# Is Outsourcing Right for our Company? Sometimes “absolutely” and sometimes “absolutely not”.

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- Outsourcing collection efforts on active accounts may be a poor business decision when:
  - Internal staffing is sufficient
  - Customer representatives have been trained
  - A company has existing technology
  - A company regularly uses effective telephone calls to contact past due customers
  - Management is successfully implementing internal collection strategies

# Benefits & Factors to Outsourcing

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- The top five benefits of a successful outsourcing project include:
  - Significant revenue increases
  - Measurable cost savings
  - Allowing customer representatives to concentrate on providing a higher level of customer service
  - Customer education
  - Reduction of opportunity costs

# Factors to consider when selecting an outsourcing vendor

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- Vendor's reputation, ethics and experience
- Internal security of customers' confidential information
- The need and ability to achieve two-way connectivity
- Ability to evaluate success through measurable results

# Measurements used to evaluate success

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- The following key elements of success or failure should be measured
  - Revenue from past due accounts should increase
  - Internal collections cost should decrease
  - The net back (the amount of money collected by the vendor, less outsourcing fees, while considering the realized internal cost savings) should exceed a utility's existing net return on collection revenue

# Formula for evaluating success

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- IF YOU CAN'T MEASURE IT YOU CAN'T MANAGE IT!!!!!!
- Basic formula to evaluate success
  - Total Collections (TC) – Vendor Fees (VF) – Internal Cost of Collection (ICC) = Gross Return on Revenue (GRR)
  - $TC - VF - ICC = GRR$

# Assumptions of the Sample Outsourcing Project

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- Existing monthly delinquencies of the total active accounts receivable are \$3,000,000
- \$1,200,000 is currently being collected on that \$3,000,000
- \$1,800,000 becomes disconnected and inactive and
- Internal collection costs exist of \$306,000 for truck rolls, employee/human resource expense, mailing expense, door tags, expenses relating to disconnection, etc
- Internal collection costs, including those of disconnection are 17% of the \$1,800,000 that becomes inactive, including all cost factors
- The outsourcing vendor's fee is 7% of amounts collected.
- Vendor's efforts result in a 20% increase in revenue from delinquent accounts
- A 20% increase in revenue typically results in a corresponding percentage decrease in internal collection costs

# Assumptions of the Sample Outsourcing Project

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- Prior to Outsourcing Implementation:
  - $\$1,200,000$  (TC) -  $\$0$  (VF) -  $\$306,000$  (ICC) =  $\$894,000$  (GRR)
  
- After Outsourcing Implementation:
  - $\$1,440,000$  (TC) -  $\$100,800$  (VF) -  $\$244,800$  (ICC) =  $\$1,094,000$  (GRR)

\* The above example's GRR will vary based upon the actual TC and ICC values, although a 20%-45% increase in collections and a corresponding decrease in costs of collections is typically realized. The above example was based upon very conservative numbers.

# General Sample Implementation Plan

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- Make sure your vendor is experienced
- Negotiate a mutually beneficial contract
- Establish system connectivity
- Train your vendor on procedures and methodologies
- Establish a go live date only when comfortable
- Send vendor daily data files
- Report payments on a daily basis
- Inform vendor when moving customers from active to inactive status
- Work inactive accounts internally
- Continuously monitor results by use of the formula

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## Topic #2: Implementing a Debt Sale as Part of a Utility's Recovery Strategy

# Selling Utility Debt in General

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- Net returns of 18%-40% over existing practices by implementing a bad debt sale
- Untapped asset – Uncollected bad debt
- A debt sale is a transaction through which all right title and interest is conveyed to a debt buyer
- Debt buyers are companies that focus on the purchase, management, and collection of charged off bad debt portfolios
- Immediate value can be realized through a debt sale

# The Current Marketplace for Utility Debt

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- Fresh (no collection agency efforts): 8%-13%
- Primary (one agency): 4%-8%
- Secondary (two agencies): 2.5%-5.5%
- Out of Statute (past statute of limitations): 30 to 40 basis points or .003% to .008%

# Pricing Considerations

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- Age of accounts from disconnection or final bill date
- Agency placement level (Fresh, Primary, Secondary, etc.)
- % of accounts that are skips
- Size of bad debt portfolio to be sold
- Have the accounts been scored?
- Have the accounts been adversely selected?
- Is there a “forward flow” opportunity?

# Benefits of Selling Utility Debt

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- Immediate 18%-40% increase in net return
- Immediate cash infusion
- Reduction in administrative expenses
- A known value is achieved at the sale
- Separation reduces inherent risk if a traditional collection agency violates the law

# Is Selling Debt Right for Us?

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- Does the price exceed the current yield from current collection efforts?
- Does the debt buyer have experience?
- Does the utility have ultimate recall or repurchase authority of any account?
- **PRICE IS NOT THE ONLY CONSIDERATION! DO NOT SELL TO THE HIGHEST BIDDER!!**
- Remember the 3 D's of selling:  
**Do, Due, Diligence!**

# Debt Sales as Part of a Utilities Recovery Strategy

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- Three key concepts to remember:
  - Unfortunately, people may lie, but the numbers don't
  - If you can't measure it, you can't manage it
  - “Bad debt is unlike fine wine. It does not age well” – *Ryan E. Boettcher*

# Assumptions

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- There is a \$5,000,000 portfolio that a utility agency assigns to a traditional collection agency
- The utility's collection agency currently collects 15% of what it is assigned
- The collection agency earns a commission of 25% of every dollar it collects
- After the collection agency works the accounts there is a \$4,250,000 left to be collected
- The remaining uncollected accounts are valued at 4%

# Consider the Following:

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- \$5,000,000 is assigned to collections
- \$750,000 is collected
- \$187,500 are agency fees
- \$562,500 is the gross return to the utility

# Consider the Following

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- The remaining unpaid balance is \$4,250,000 and is purchased for \$170,000, or 4%
- $\$170,000$  (Sale Price) /  $\$562,500$  (Existing Gross Return) = 30.22% increase in revenue from a debt sale

# Outcome

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- The remaining unpaid balance is \$4,250,000 and is purchased for \$170,000 or 4%
  - 30.22% increase in revenue from a debt sale
  - It is a mistake to think of the 4% market value as 4%. In light of the above, that 4% represents an immediate 30.44% revenue increase with an immediate cash infusion

*Thank you for attending!*



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