



R3 (Research Request Response) Report
On
Collection Agencies and Debt Collectors Industry

For

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TABLE OF CONTENTS

DESCRIPTION..... 3

 CLIENT..... 3

 REPORT TYPE..... 3

 REQUEST DESCRIPTION..... 3

HIGHLIGHTS 4

 COLLECTION AGENCIES 4

 DEBT BUYERS..... 4

MAJOR PLAYERS 5

 TOP 10 COLLECTIONS COMPANIES* 5

 TOP DEBT BUYERS* 5

TRENDS 7

 COLLECTIONS AGENCIES 7

 DEBT BUYERS..... 7

RECOMMENDED NEXT STEPS 9

SOURCE OVERVIEW 9

 SOURCES CITED 9

 RECOMMENDED SOURCES..... 10



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DESCRIPTION

Client

ABC Company

Report Type

Industry Report

Request Description

You requested information on collection agencies and companies that purchase “old paper” (bad debt collectors). You would like the top players in this industry as well as market share. In addition, you requested highlights of articles, websites and reports that discuss market overviews and trends.

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HIGHLIGHTS

Collection Agencies

- ▶ The debt collection industry is a \$13 billion market and is growing not only in revenue but also in importance to corporate America. Various businesses and industries are coming to rely upon collection agencies and debt buyers for outsourced business services. Many collection agencies are increasingly extending their reach and interests into other parts of the debt collection industry. They are becoming more active in debt buying and other business services such as credit management (Demby, *Credit & Collections World*).

Debt Buyers

- ▶ The debt buying market is attracting new interest and new players as well. Consumer debt is at a record high, veteran players have become more knowledgeable and credit grantors are making debt sales a part of their outsourcing strategy. The rise of consumer debt, the prevalence of veteran buyers and the increase in debt sales as part of outsourcing strategies have all contributed to the luring of new money (Waggoner, *Credit & Collections World*).
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MAJOR PLAYERS

Top 10 Collections Companies*

While the chart below ranks the top 10 collections companies using revenue from the year 2000, little seems to have changed at the top of the ranking.

- ▶ Company A's sales in 2002 were \$602 million.
- ▶ Company B's sales for 2001 were \$514 million.
- ▶ Most of the other companies listed in the top 10 are private companies thus their current revenues and sales are not as readily available.

TOP 10 COLLECTIONS COMPANIES* (Ranked by 2000 revenue)				
Rank	Company	2000 \$ Revenue	1999 \$ Revenue	% Change
1	Company A	\$555,000,000	\$546,000,000	2%
2	Company B	\$510,000,000	\$508,500,000	3%
3	Company C	\$312,000,000	212,000,000	47%
4	Company D	\$233,000,000	\$220,000,000	6%
5	Company E	\$122,500,000	\$112,000,000	9%
6	Company F	\$100,000,000	\$85,000,000	18%
7	Company G	\$100,000,000	\$101,000,000	-1%
8	Company H	\$67,000,000	\$55,000,000	22%
9	Company I	\$57,000,000	\$59,000,000	-3%
10	Company J	\$48,000,000	\$47,500,000	1%

Top Debt Buyers*

- ▶ While Company A is ranked number one on the list from 2000, in 2002 it pulled out of debt purchasing while its parent company works to refinance its debt load. Industry observers believe that Company A is just taking a step back and has not abandoned its debt-buying unit.
- ▶ In 2002 some of the top players included Company B that reported purchases of \$7 billion face value, Company C that bought \$4 billion face value and Company D, with \$2.9 billion face value. Other top buyers include Company E, Company F, and Company G.

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Listed below are the top debt buyers* as ranked by face value of the debt they purchased in 2000.

Top Debt Buyers* (face value bought in 2000)	
Company	Total \$
Company A	5,000,000,000
Company B	4,700,000,000
Company C	3,800,000,000
Company D	2,000,000,000
Company E	1,750,000,000
Company F	1,700,000,000
Company G	1,600,000,000
Company H	1,570,000,000
Company I	1,540,000,000
Company J	875,000,000

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TRENDS

Collections Agencies

- ▶ According to a survey by Kaulkin Ginsberg, unpaid credit card bills are the fastest-growing part of the debt collection industry. Due to an overall decline in check usage, bad checks are not a major factor in debt collection as they were in the past.
- ▶ Privacy laws have made skip tracing and asset location more difficult despite web-based applications. Skip tracers have been limited by the Gramm-Leach-Bliley Financial Services Modernization Act in their ability to quickly and inexpensively find core information on debtors contained in the header of a credit report, such as a consumer's Social Security number.
- ▶ Skip tracers can no longer contact creditors to locate assets nor are they allowed to contact utilities to find financial data. When skip tracers do find reliable sources for information, they do not talk about their sources due to competitive reasons.
- ▶ Cost and the "freshness" of data are two of the most important attributes of asset-location tools. Many agencies are small and cost becomes their foremost concern. Skip tracers often complain that data is out of date by the time it is made available to them (Lucas, *Collections & Credit Risk*).
- ▶ Many creditors are performing the first steps of skip tracing themselves before farming it out to collection agencies. They are using skip tracing and asset location tools to get preliminary data in order to cut costs in a softening economy.
- ▶ In other cases, collection agencies are handling accounts earlier than ever. Other agencies have evolved from pure third party collections into multi-service organizations, "handling everything from taking orders to complaint resolutions to bringing in cash and reconciling bank accounts" (Demby, *Collections & Credit Risk*).
- ▶ Collections firms are focusing on consumers earlier in the cycle to prevent collections problems from happening in the first place.
- ▶ Outsourcing Solutions Inc. classifies itself as a business process outsourcing firm due to their involvement in so many components of the credit process.
- ▶ Creditors are seeing the advantages in outsourcing with a 15% to 20% savings. They also free up corporate resources since the outsourcing firms are large enough to shift employees during downtimes and peak times. Wall Street is also placing more value on companies that are outsourcing their non-core functions and concentrating on their core businesses.
- ▶ Obstacles to outsourcing do remain. The transition to outsourcing can be difficult for employees if they lose corporate perks or even their jobs. Even if the company is not satisfied with the outsourcing relationship, it may be too complex to change to another vendor. Decentralized companies would be unlikely to outsource since it would involve a massive corporate effort to centralize those functions (Demby, *Credit & Collections World*).
- ▶ While some collections agencies are extending their business processes as outsourcing firms, others are becoming involved in the debt buying market. Some collection agencies are even purchasing their own debt now ("Debt Purchasing," *CollectionIndustry.com*).

Debt Buyers

- ▶ As noted above, more collection agencies are entering the debt-purchasing arena of the collections industry. There is a lot more availability of paper and paper is available from different industries, not just retail ("Debt Purchasing," *CollectionIndustry.com*).

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- ▶ Investors are also putting money into the debt-buying market. The rise of consumer debt, the prevalence of veteran buyers and the increase in debt sales as part of outsourcing strategies have all contributed to the luring in new money.
- ▶ OSI Portfolio Services pulled out of debt purchasing in 2002 due to its parent company's efforts to refinance its debt load. Industry observers believe OSI has not completely abandoned the debt-buying unit but has just taken a step back for the moment.
- ▶ Portfolio Recovery Associates (PRA) brought in \$45 million in an IPO in 2002 while Arrow Financial Services gained \$45 million from a private equity investment (Waggoner, *Credit & Collections World*).
- ▶ Actual collections have improved according to Mike Ginsberg, chief executive officer of Kaulkin Ginsberg. "Every year debt buyers are getting better at what they do. The debt-buying industry is not old. The industry is evolving some efficiencies" ("Collection Firms See Card Debt as Fastest Growing Piece of Business", *Credit & Collections World*).
- ▶ "Confidence in the market's prospects for 2003 is generally favorable, according to a recent CCR (*Collections & Credit Risk*) survey. Asked whether the hot debt-buying market is in danger of over-heating, 60% of more than 250 respondents say they do not believe so" (Waggoner, *Credit & Collections World*).
- ▶ Stacy Schacter of EMCC, Inc. sees three areas of growth for debt purchasing. First, specialty type papers have been increasing with growth in utilities and health care types of paper. Second, large deals involving hundreds of millions of dollars are becoming more common. These deals will require joint ventures, groups of companies coming together. Third, as discussed previously, there is growth in vertical integration. More companies will consider themselves full-service firms.
- ▶ Among the threats seen for the industry is more regulatory activity, especially in the privacy area, higher prices that squeeze margins and the growing sophistication of major sellers in deciding which accounts to sell ("Debt Purchasing," *CollectionIndustry.com*).



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RECOMMENDED NEXT STEPS

This R³ report is the product of cg-research.com's review of available online sources. During the research process we uncovered other sources that we recommend for a more in-depth look at your query.

In order to find more specific information on the collections industry, cg-research.com recommends the purchase of research reports from sources such as MarketData, Kaulkin Ginsberg and First Detroit Corporation Publishers.

The report from MarketData, titled "U.S. Credit Bureaus and Collections Agencies: An Industry Analysis – Collection Agencies Industry, Total Industry Structure and Operating Ratios, Competitor Profiles and Reference Directory of Industry Information Sources" is available in two parts, one focusing on credit bureaus and the other on collection agencies. The report may be purchased as a series (comprising both parts), as a part (either the credit bureaus or collection agencies) or in smaller slices. A full table of contents with pricing can be provided upon request.

Further research would help pinpoint more specific information such as the market share and size for the top players within the industry. It would also provide more in-depth detail on the collection agency industry as well as the debt purchasing industry. Please contact cg-research.com for more details.

SOURCE OVERVIEW

Sources Cited

- ▶ "Debt Purchasing." *CollectionIndustry.com*, March 2003. http://www.collectionindustry.com/leaders/panels/debt_purchasing.cfm.
- ▶ Waggoner, Darren. "Debt Merchants: From Main Street to Wall Street." *Credit & Collections World*, June 2003. <http://www.creditcollectionsworld.com/cgi-bin/readstory2.pl?story=20030602CCRU692.xml>.
- ▶ "Banks Outsource Collections Activities." *Credit & Collections World*, August 2003. <http://www.creditcollectionsworld.com/cgi-bin/readstory2.pl?story=20030801CCRB581.xml>.
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- ▶ Lucas, Peter. "Sleuths' Top Tools." *Credit & Collections World*, January 2002. <http://www.collectionsworld.com/01sr02.htm>.

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Recommended Sources

- ▶ “U.S. Credit Bureaus and Collections Agencies: An Industry Analysis – Collection Agencies Industry, Total Industry Structure and Operating Ratios, Competitor Profiles and Reference Directory of Industry Information Sources.” MarketData Enterprises.
Full Report: \$1687.00
Major Industry Trends: \$116.20
Market Size & Growth: \$37.10
Challenges Facing the Debt Collection Industry: \$31.15
The Leading Collection Agencies: Competitor Profiles: \$278.95
- ▶ Kaulkin Report – “The most comprehensive information available on the debt collection industry.” \$495.00 (plus \$5.00 shipping & handling).
- ▶ First Detroit Corporation – various publications:
Collection Agency Report
Collection Agency Directory
Collection Agency Mergers & Acquisitions
- ▶ Collections Source 1 – a compilation of debt-collections and recovery data covering collections agencies, collections attorneys, debt buyers and sellers, lenders and creditors and leading-edge suppliers to the industry. Subscribers will find in-depth data on the nation’s largest collections agencies and law firms and debt buyers and sellers, including revenue and volume of debt worked, broken down by type. <http://www.collectionssource1.com>

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