

NCBA 2023 EXECUTIVE EXPERIENCE

Ojai, CA | January 11-13



An aerial photograph of a golf course. In the foreground, there's a large green fairway with a sand trap. In the middle ground, a white clubhouse with a red roof is visible. The background features rolling green hills and mountains under a clear blue sky.

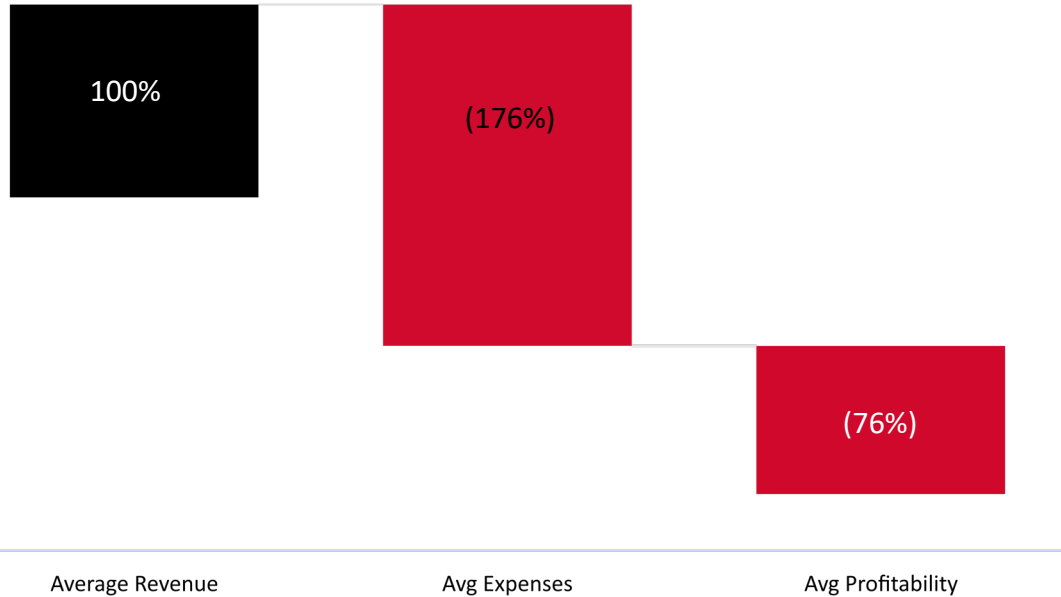
Client Moneyball

Presented by
Todd Gurstel, Gurstel Law, P.C.
Jim Lane, Redbank Advisors

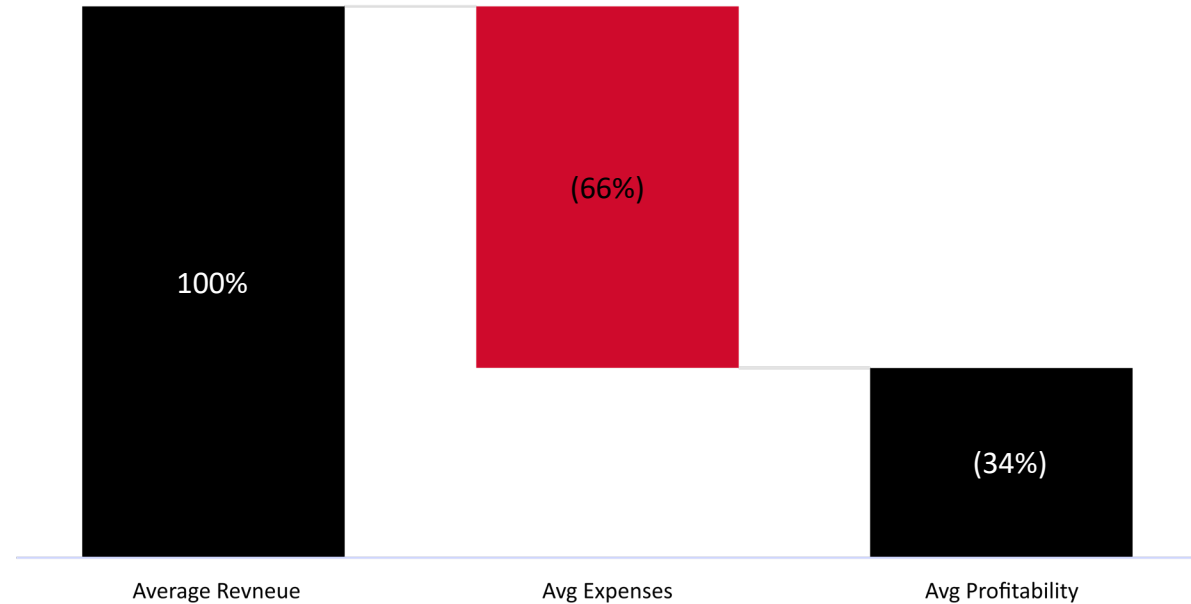
Why play client Moneyball?

Client Differences Matter... A Lot

Bad Client



Good Client



Client Moneyball: How subtle differences in client behavior drive massive swings in profitability

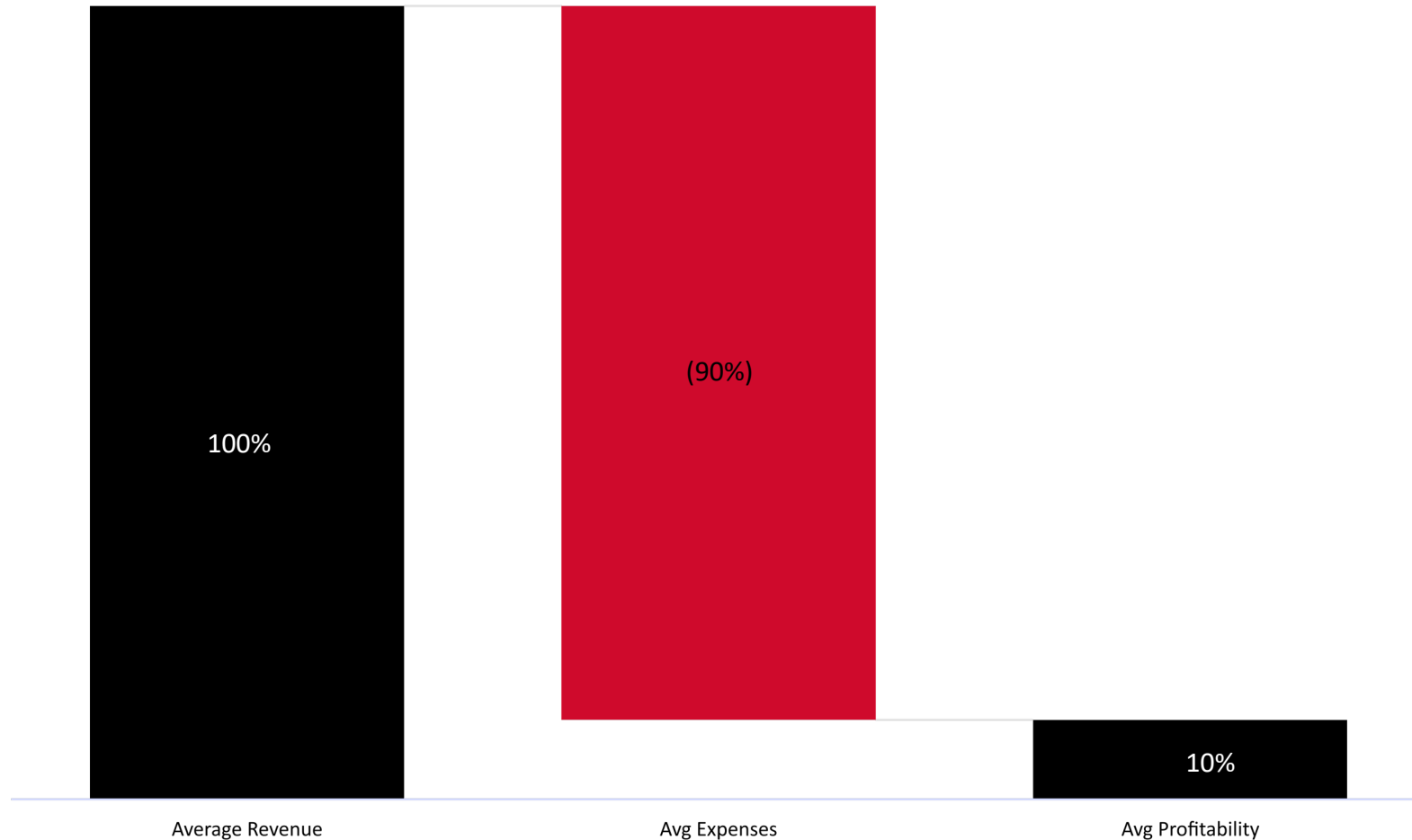
What does a good client look
like?

Ideal Client

- Growth potential for the firm (available or future market share)
 - New states
 - More files
 - More types of debt to expand into
- Does not burden firm with excessive audits & directives
- Margin at or above firm target margin
- Does not burn through staff driving up the costs of recruiting and [re]training staff
- Follows firm standard file formats
- Well papered files

How did you think about
clients, especially the big
logos in May?

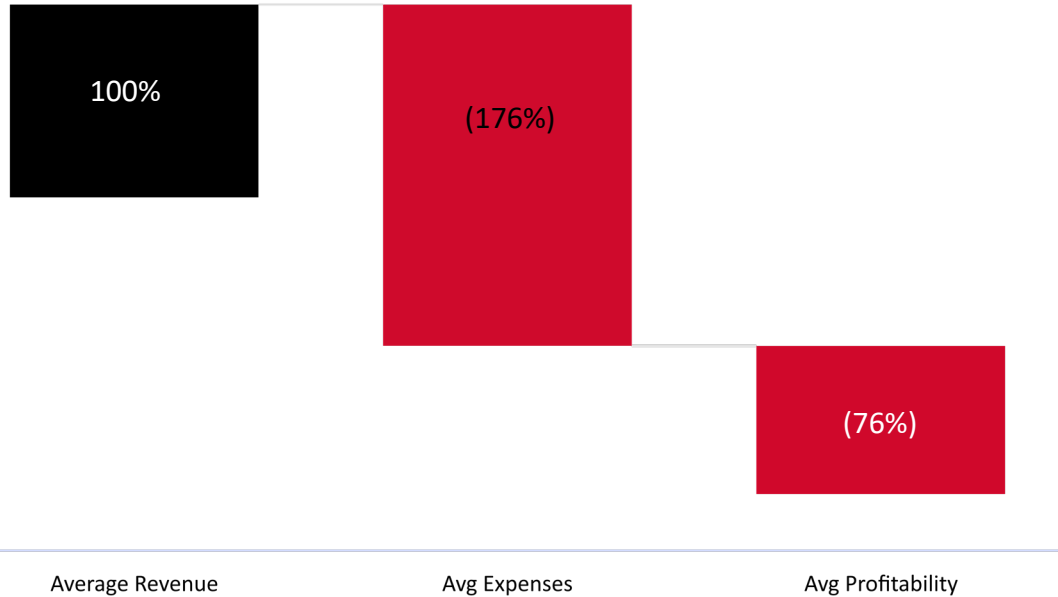
Old Belief About Logo Clients



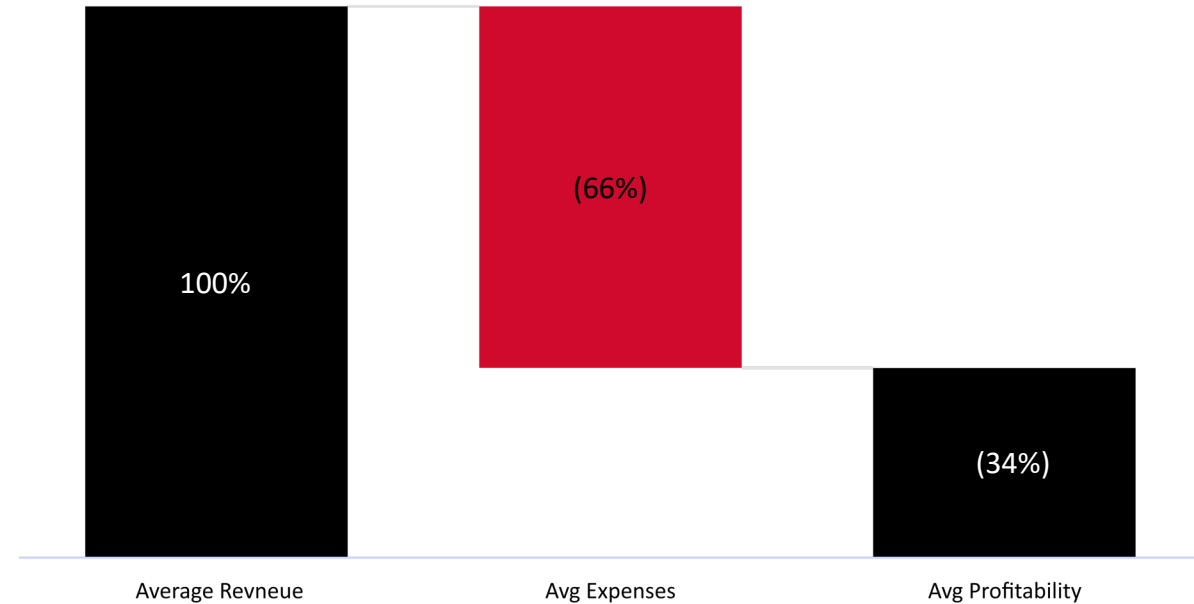
What do you know now?

Client Differences Matter... A Lot

Bad Client



Good Client



How do you think about tiers
of clients?

Tier List & Criteria

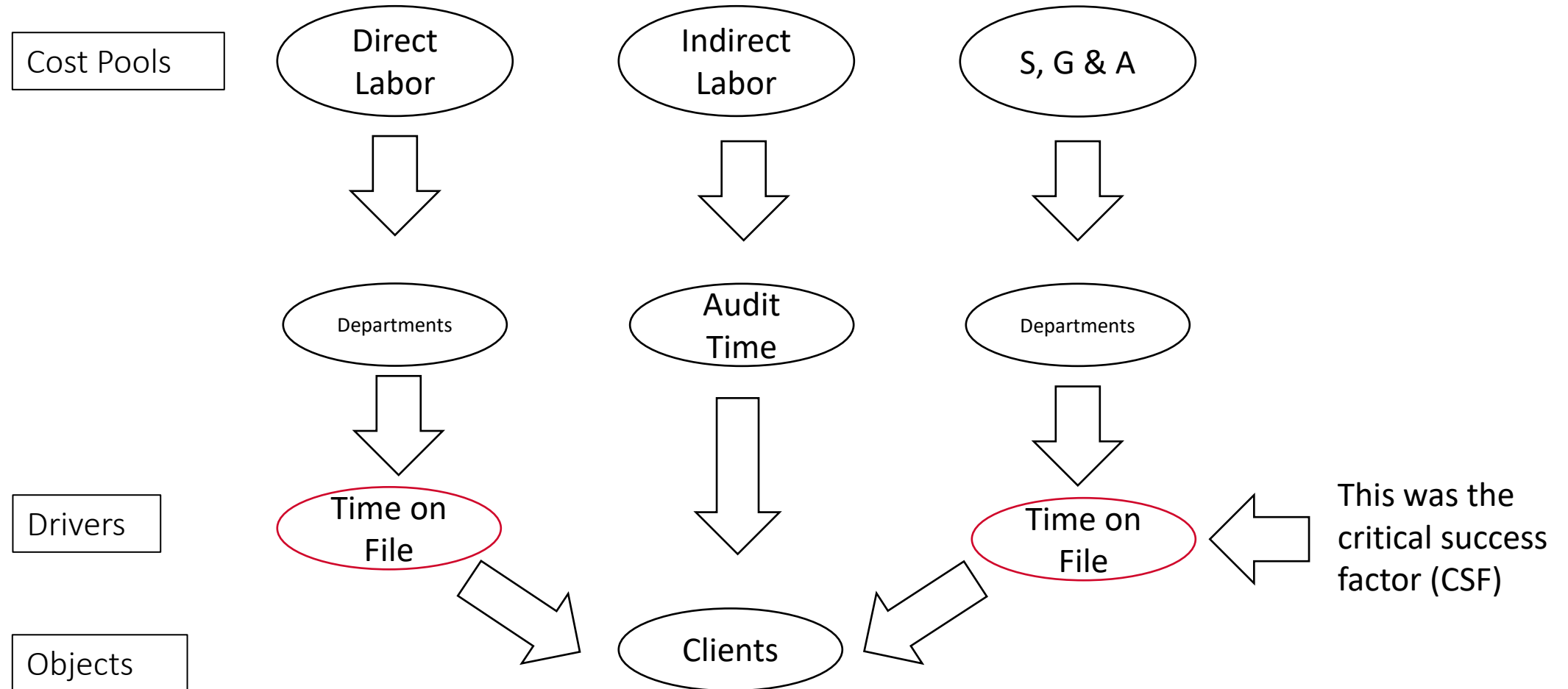
| | | Files | Reporting | Audits | Legal Process |
|--------|-----------------------------|--|---|--|--|
| Tier 1 | Low Maintenance Client | <ul style="list-style-type: none"> Client relies on firm systems and processes Automated file uploads, layouts decided by firm | <ul style="list-style-type: none"> N/A | <ul style="list-style-type: none"> No audit requirements | <ul style="list-style-type: none"> No placed judgments/transfer files per month One product type (e.g., credit card) or clients if a forwarder Placements data matches OALD (original account level documentation with <10% error rate) Communication/request process is 100% coding based (e.g., client drafts own affidavit after being prompted via coding vs. firm drafting and submitting via email) |
| Tier 2 | Slight Maintenance Client | <ul style="list-style-type: none"> Some file modification needed for uploads | <ul style="list-style-type: none"> May require adhoc reporting on complaints and status updates | <ul style="list-style-type: none"> No audit requirements | <ul style="list-style-type: none"> <5 placed judgments/transfer files per month One-three product types (e.g., credit card) or clients if a forwarder Placement data matches OALD (original account level documentation) with 10-20% error rate Communication/request process is 85% coding based (e.g., client drafts own affidavit after being prompted via coding) |
| Tier 3 | Mid Maintenance Client | <ul style="list-style-type: none"> Some elements of standard layout for new files required New placements require some manual intervention by firm staff | <ul style="list-style-type: none"> Requires at least annual reporting, potentially adhoc for client or regulatory complaints | <ul style="list-style-type: none"> Conducts daily audit reports | <ul style="list-style-type: none"> 5-10 placed judgments/transfer files per month One-three product types (e.g., credit card) or clients if a forwarder Placement data matches OALD (original account level documentation) with 20-30% error rate Communication/request process is 70% coding based |
| Tier 4 | Moderate Maintenance Client | <ul style="list-style-type: none"> Requires firm to use clients standard layout for new files Majority of new files require some sort of manual intervention by firm | <ul style="list-style-type: none"> Requires reporting for client or regulatory complaints and requires firm to upload some documentation | <ul style="list-style-type: none"> Conducts, daily plus quarterly, monthly reporting audits | <ul style="list-style-type: none"> 10-20 placed judgments/transfer files per month. Three-five product types (e.g., credit card) or clients if a forwarder Placement data matches OALD (original account level documentation) with 30-40% error rate Communication/request process is 60% coding based |
| Tier 5 | High Maintenance Clients | <ul style="list-style-type: none"> Required to use clients systems & processes Manual data uploads, file uploads layouts directed by clients | <ul style="list-style-type: none"> Daily reporting requirements (complaints, audits, etc) | <ul style="list-style-type: none"> At least 1 large audit per year (On-site or Virtual with an auditor from the client) | <ul style="list-style-type: none"> 20+ placed judgments/transfer files per month Five+ product types (e.g., credit card) or clients if a forwarder Placement data matches OALD (original account level documentation) with 40%+ error rate Communication/request process is <60% coding based |

Was this easy to figure out?

Simple Principle, Complex Tasks

- Data storage challenges
- Mass actions in system v. user generated activity
- Determining drivers of cost
- Can be emotional (favorite client may not be 'ideal')
- Extracting data in usable format
- Turnover can affect cost pools & user data
- New client onboarding
- Placement volume v. time spent working
- How to handle 'unaccounted' time outside the system

Allocation approach



Five Step Approach

Client Fees Collected

1.

Expenses

2.

Direct
Expenses

Indirect
Expenses

SG&A
Expenses

3.

Drivers of cost

4.

Segment Clients

5.

Allocate Costs

Tier 1 Clients

Tier 2 Clients

Tier 3 Clients

Tier 4 Clients

Tier 5 Clients

Critical Success Factors

- Balancing costs of obtaining data with the impact of that data. Put another way, does it cost more to obtain the data than the earnings impact of having the data? In this case, time on file is the true driver. Proxies exist, but time on file is the actual driver.
- Define your terms. For example: Audit means different things to clients. Counting audits as a cost driver makes sense, but not in cases where an audit might be a review of a single file. Audit might need to be defined as an event lasting multiple days etc.
- Get to time as driver.

1. Assess Expenses

- Assess current expenses on P&L Statement
 - Identify opportunities to reduce, consolidate or eliminate vendor expenses
 - Do you have sourcing strategies in place for your largest categories of spend?
 - When is the last time you negotiated pricing with vendors?
 - Opportunities to consolidate vendors? Look at full service offerings

2. Develop Cost Pools

Direct Labor Expenses

- The cost of working files
- Labor
 - Labor overhead (Payroll taxes, benefits)

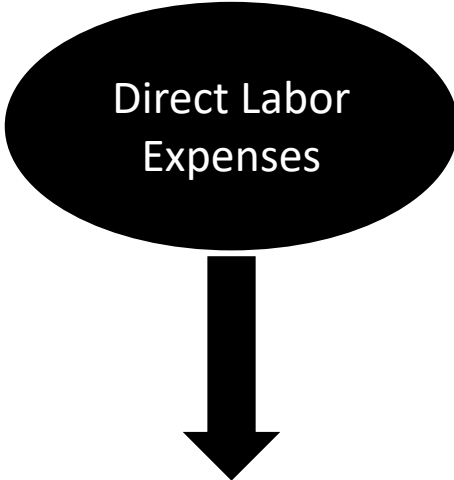
Indirect Labor Expenses

- Costs of working clients that is not directly attributed to a file.
- Audits
 - Training
 - Client IT

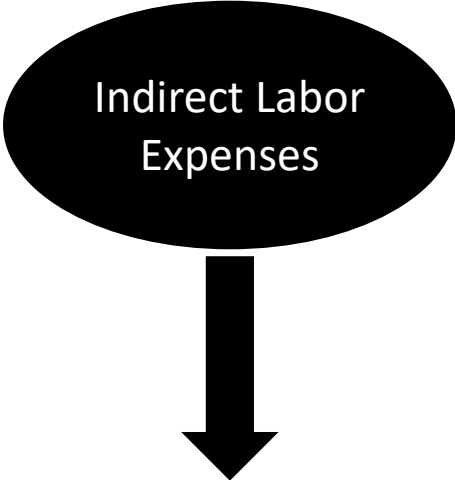
SG&A Expenses

- Selling, General & Administrative Overhead. Examples include
- Rent
 - Internal HR/Accounting
 - Legal (Not client)
 - Firm Officers
 - New Business Development
 - IT (not client)

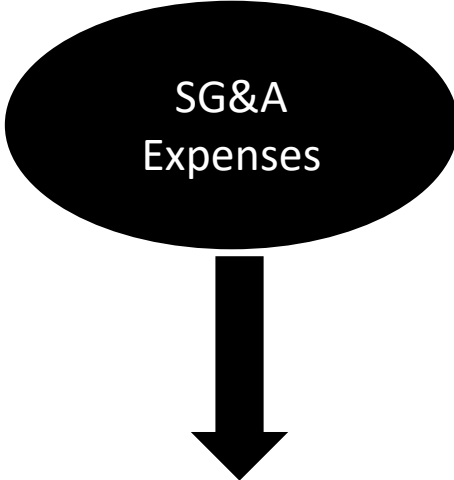
3. Develop Drivers



- Placements (no)
- Files Touched (proxy)
- Files worked (Ideal)
- Time spent (ideal)
- Files in inventory (no)
- # of calls (no)
- Complaint reporting (no)



- # of audits (proxy)
- Time spent on audits (ideal)
- # of procedures updates (proxy)



- Files worked (ideal)
- Files in inventory (proxy)
- Files opened & closed for year assessing (proxy)

4. Segment Clients

- Segment your clients and score them into buckets. What types of attributes can you use to carve up your clients into buckets?
- Frequency of audits?
- Volume of placements?
- Automated v. manual file uploads
- Directives?

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5. Allocate Costs

- Allocate your cost pools using drivers
- Analyze data
 - Do the results make sense?
 - Any surprises?
 - Are there more effective drivers that should be used?

Lessons Learned

- Flexibility – learn, adapt, learn, adapt
- Understanding of how system works
 - When does the clock start/stop?
 - How is historical data retained?
 - What tables have data that can be queried to obtain drivers?
 - Turnover impacts to data
 - User actions
- Identify and define key terms upfront
- Audits are more expensive than you probably think
- We can and should track time against files... you may have this data already and not know it
- We were able to get to a true activity-based cost and profitability by client tier and even individual client in the end

More like this, less like that.....

- Determine “ideal client”
 - What are their attributes?
 - Who is most profitable?
- Can you control the inputs to influence profitability?
- Automate more?
- Standardize file layouts?
- Streamline internal processes on how the file is worked?
- Can you adjust rates? ...or must you disengage from unprofitable clients?

What will you do, now that
you know?

This is like Wall Street: invest in clients with opportunities to grow YOUR earnings

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Case 1 – High Volume Tier 5 Client

- Collaborate with client and discuss:
 - Look for opportunities to avoid findings
 - Automate
 - Expand to other states/products
 - How do we reduce costs of audits etc.?
 - How can we change works standards to better meet your needs?
 - Focus on revenue producing opportunities
 - If none of these work, be honest with yourself about whether this client is a good fit

Case 2 – Static Tier 4 Client

- No opportunity for growth
- Onerous audits
- Demanding Technology Requirements
- Actions
 - Work to decrease audit costs
 - Focus on better recovery performance
 - Decide long term whether they are a good fit
 - Be prepared to replace them with a new client

Case 3 – Growing Tier 1-3 client

- Focus on revenue producing opportunities
- Work to improve process performance
- Expand into more states
- Take on other products
- Expand share in current scope of relationship

Case 4 – Static Tier 1-3 Client

- No prospects for growth
- Decide whether to continue doing business with them
- Maintain fun clients that help you retain your talent
- If client raises onerous requirements, talk with them first.
- Be honest with yourself about whether they are a good fit
- Be prepared to replace them with a new client

How does this change your
new business development
focus?

New Business Development

Focus on prospects that

- Have opportunity to grow with them
 - Other states
 - Other products
 - Share growth within initial scope
- Have few negative cost drivers: onerous audits, technology demands
- Fun clients that help you retain your talent
- Do not approach prospects with yellow flags

What about existing clients?

About Existing Clients

- On-boarding a client is VERY expensive
- It is far more efficient to expand existing clients than to on-board new ones
- Driving into new states, new products and new share is the easiest/most profitable course of action
- Teach your existing clients how to be a better client is also highly profitable... assuming they will apply your lessons
- Focus on the tiers in order: tier ones get the most attention and focus on growth, lower tiers, less so (more like this, less like that)
- Review the top 20 clients for profitability and which tier they are in

Do you wish you knew this
when you were small, just
getting started?

A Note to Small Firms

- This isn't optional for you
- Due to paucity of resources, you cannot afford to make mistakes with tier four & five clients
- As you grow, collect file profitability data in order to avoid having to invest in data all at once

Conclusion

- The process of getting to client profitability is a marathon not a sprint, indeed, one could argue it is a continuous effort
- The process will be iterative, with setbacks, adjustments and new data
- Make a separate work stream to capture low-hanging fruit in order to get the process self-funding

Thank you!

We hope to see you at

2023 NCBA Connect

**The Annual Conference at the
Epicenter of Legal Collections**

May 2-5 | Denver, CO

Help us celebrate 30 years of NCBA!

