

How do we survive the Recession?

General Motors followed Chrysler in bankruptcy this month. What does that mean to us as members of the credit and collections industry, as consumers, and as Americans?

The Credit and Collections industry is riding a rocky boat, as most businesses are these days. The perception is that our industry is recession proof. If you were to only judge the collections numbers, you would be correct. The volume coming into the collections industry is staggering. Just this week, credit card delinquencies were announced that they increased 11% in the first quarter. Mortgage delinquencies have risen to their highest level in decades and the trend on mortgages is to go even higher. Once artificial restraints are removed (foreclosure moratoriums) you will see more foreclosures hit the marketplace, thus driving housing prices down and keeping us in a negative cycle. GM is just another corporation who needed to update their business model and bankruptcy was the logical business choice. As the airline business had a few years ago, and retailers as well, it is a natural course for businesses. In a true free economy, you will find only the strongest survive and the weak ones disappear. Did GM need so many different brands and styles of cars? When was the last time you were excited to drive in an Oldsmobile, a 77 Cutlass? The list grows longer each day as more and more companies file for bankruptcy. It is estimate that business bankruptcies will rise 40% this year. Take a portion of your expected revenue and prepare to charge it off due to bankruptcy. This year our own company experienced a dramatic increase in late payments and charge offs.

As consumers we face an even tougher road; layoffs, business closings and reduced demand. In a reverse economic cycle, we are constantly heading in the wrong direct. GM declares bankruptcy, announces auto business closings, write off to their suppliers and reduction in GM demand, which leads to higher unemployment. Retailers see less demand and thus are forced to close more stores. Circuit City eliminated their sales force to save money and basically eliminated sales, thus they went bankrupt. Property management companies who own retail areas see their big chains leave like Circuit City, thus reducing mall traffic, hurting smaller stores leading to more closing. You get the picture (and it is not pretty). The government tries to help by throwing money at the problem, Neither Democrat, nor Republican can escape blame for this. It was years ago when the government pushed the "everyone should own a home" program. They guaranteed loans, even the 3% down, or better yet the 120% loan to value loans. Come on people, would you loan anyone your own money, at 120% of the value of the original loan. Do the mirror test for credit, if you can fog it, then you get it. Not exactly the smartest business deals.

As Americans where do we go. We have seen the real transformation to a global economy. As Americans, we are great consumers but not necessarily to best builders of everything. We were the big four auto builders, maybe now we will be the big 2 or big one. We have seen half our major banks get swallowed up by other financial institutions. Wachovia, Washington Mutual and World Savings are now trivial pursuit questions. Outsourcing call centers to India, the Philippines and Pakistan are much more common. There is a place for these types of services to be outsourced, and there is a place for business

to be placed in the US. In a true global economy we will find we will be competing on all levels. We cannot rely on the government to protect us and our business. If outsourced business is less expensive, we need to increase our productivity. If our clients perceive value in our higher prices, than we will get the business. If a company is basing the business on price alone, time to move on to another client. There will always be a less expensive provider. Even outsourcing to India, Pakistan and the Philippines is being challenged by outsourcing to China. China can offer an even lower cost basis than other countries. However the language barrier of China is still a drawback today, but prepare for tomorrow as the language barrier declines. Understand our strengths and focus on them, determine our weaknesses and outsource them.

Eventually the economic conditions will improve and we will come out of this recession. What is likely to follow is a period of inflationary times. It is up to us as business manager to understand the economic climate, prepare for the next phase and take our business through the perils of the economy. By understanding our business strengths and weaknesses, we can prepare as best we can for the uncertain economic times ahead. It is either that or add bankruptcy as our next business plan. Chrysler, GM, Circuit City, Lehman Brothers, World Com, Enron, and Consecro are just a few names that in the future will only be remembered as business failures and the answer to name that large corporation that went bankrupt back in the recession of 09.

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