

Used Car News

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OTHER VOICES

(Nicholas Levenstein is president of Mongoose Capital Inc.)

Buy-here, pay-here dealerships, related finance companies and finance companies should consider the advantages of off-shoring. I speak from personal experience managing a finance company, which has some buy-here, pay-here clientele. Mongoose Capital Inc. is a secured lender based in San Francisco. Our staff is located here and in St. Petersburg, Russia. We had always planned to off-shore staff, but our overseas staff increased dramatically over the last 12 months.

On one level Mongoose seems like an unlikely candidate for off-shoring. Off-shoring is supposed to be for huge corporations like Citibank, General Motors and Microsoft, who are thinking of the marginal costs of 20,000 employees, not 20. But, in fact, off-shoring has always been part of our strategy and the benefits we derive are fundamentally important to our business.

We have to do a lot to keep our buy-here, pay-here customers happy and protect our security interest in their businesses. Our yields are significantly higher

than most companies in finance, but so are the marginal labor costs.

Many employees spend their whole day issuing starter interrupt codes, talking to state agencies and doing other things to facilitate relations with our dealership customers. In short, we are pretty labor intensive for a finance company.

This problem of labor intensiveness was addressed the year after we started by a field study team at the University of California, Los Angeles, Anderson School of Business. The field-study team (correctly) predicted that our yields would be good and attract the capital that we needed.

They also predicted problems with occupancy and labor costs in San Francisco, which is the second most expensive city in the U.S., after New York.

Our first use of off-shore labor was a data-entry employee in March 2005. Her name was Oliya and she spoke English well enough to enter payments and retail installment contracts into our system.

She could chat over the Internet

or talk on the phone with us to ask directions. She worked in a cyber-cafe I had visited as a tourist.

We had an all-night staff, a computer, and high-speed Internet connection for \$100 a month. We had to pay her and we had to build a virtual private network for her to use in the U.S., but it still was a pretty cheap experiment.

We started using an off-shore collector in August 2005. At that point we also had to rent an office and pay for some more telecom and computer equipment. Collections is labor intensive, detail-oriented work that is really hard to justify in San Francisco. At the salaries and rent we have to pay to attract top labor here, we cannot have people spend time negotiating the payment of a \$300 bill.

Nevertheless, there is no way to automate collections work. Community knowledge and relations are really important to the collector.

At first I thought that people in rural American areas might detect a foreign accent and act prejudicially towards foreigners on our staff. But as far as I can tell, nobody cares. Customers have a

U.S. phone number to call and a person who is familiar with their account and listens to their problems. No retail customers have complained so far.

While data entry and collections might seem like an intuitively obvious use of off-shore labor, dealership account management probably does not. Our collector was put on commission and soon she was earning much more than most Russians and even more than many Americans. As Genghis Kahn found out, plunder creates the appetite for more plunder, and that is to a business' advantage.

I had numerous inquiries from staff in St. Petersburg about how they could make as much money as Oksana the collector. While this effort is only a few months old, the Russians are doing well at it.

I have written about specific things our off-shore staff is doing without trying to generally articulate why off-shore staff is advantageous. The general themes are, of course, cost savings. But I'd have to list 'cost' as number three in importance at this point. Labor was always a distant second in terms of our costs (20 percent of what we pay is interest).

More important is access to labor outside of the U.S. Only 5 percent of the world's population lives in the U.S. now. Additionally, having labor available at odd hours has allowed us to be open for 12-hour days with no strain and also puts less strain on resources such as computer systems. We literally work through the night on data processing, data entry and other account issues. In summary, access to labor, time advantages and labor cost savings are the main advantages of off-shoring, in that order.

The elements of success in dealing with an off-shore staff are much the same as a U.S. staff. Technology continues to play an extensive role. Personal communications through phone (lately voice-over-IP) and video conference have to be seamless every day. Additionally data communications have to be such that our foreign staff is privy to almost all of the same information to which our U.S. staff is privy.

Education is also important. You have to care about the foreign staff.