



# Key Considerations for Evaluating Payment Assurance Systems

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## Introduction: The Jury Is Still Out

The jury is still out on **Total Cost of Ownership (TCO)** for Payment Assurance Systems. Most systems are generic track and trace hardware based...not solution based. Time and time again, analysts warn that lien holders considering using systems or changing systems may discover that these generic hardware based systems are still much too costly—and risky—(*have a higher TCO*) to invest in heavily today...even though the price is ‘cheaper’ going in.

Some products appear as darlings in the media while focusing on price, and some users focus on secrecy. *{Open and compliant use leads to productivity}* BUT! Crossbow Solution software has been hailed as a way for large companies to reduce costs and provide “vendor lock-in” in different industries, think of those processes dominated by ‘office’ type solutions.

Yet, as third-party evidence shows, many industry authorities today recognize that **cheap is not the panacea some wish it to be**. Industry analysts and customers have found through comprehensive TCO analysis that they must look beyond sticker price. Customers must consider all hard and soft costs tied to migrating to new or using generic applications, interfaces and protocols—including training, maintenance, support, productivity, and security. This paper provides a more complete view of the subject.

## The High Costs of “Cheap” per the Giga Group

*“History indicates cost avoidance strategies rarely work... changing to less expensive offerings [often results in] a reduction in productivity and capability over time.”*

**At first glance, cheap upfront cost seems appealing. But data actually shows that an inverse relationship exists between price and TCO: the lower the price, the higher the TCO.**

## The “Cheap” Myth

No matter how many industry analysts agree that lower prices affect TCO, the appeal of low acquisition cost alone continues to be a stimulus for some lien holders (*dealers, banks, credit unions, and finance companies*) considering these products.

## The Migration Headache

Studies have found that the lack of available, easy-to-use tools for deploying or migrating away from generic products can create significant unforeseen labor costs. Among other more obvious issues, staffs are likely to be faced with rewrites of database files, and in some instances converting data from existing documents, continuing the headache. However, since their inception, Crossbow’s ReCaP solutions offer automotive and finance professionals the tools and processes to deploy and manage a book of business or even a single customer from its internet environment; the lack of sophistication in some low cost generic alternatives creates significant deployment barriers for the users.

## Evidence...

Comparing the costs of moving from current generics—(*between migrating to a full source platform versus hardware only options*), it was found that: **upgrading to Crossbow Extreme is significantly less expensive than the alternative.**

It is clear that price is negligible when exploring a migration alternative to a complete management/contact system, because hidden costs such as document-customer conversion, training, and lost productivity can add up to five times the expense of upgrading.

## **Training: What You Don't Know Can Cost You**

A critical element of productivity can be directly attributed to the familiarity operators have with the tools they use to perform their tasks. Whether they are in sales, cashiers, or folks authoring and creating documents; when faced with new, unfamiliar applications and interfaces users need to be either fully trained or retrained...or an organization faces the risk of significantly less productivity. That is why, when introducing a new process, analysts find that training costs alone may exceed the "savings" cheaper initial costs. Not to mention increased daily performance.

### **Evidence...**

A cost/benefit study done by a leading research analyst shows that upgrading to a familiar, easy-to-use web interface requires minimal user training. In contrast, "an enterprise migrating to a new vendor's 'stuff' faces twice the 'per user' training costs than it would experience in using Extreme.

## **Support and Maintenance**

To paraphrase The Aberdeen Group, "*Users unprepared to fix vulnerabilities themselves are not ready to deploy freeware.*" *Interpretation...cheap is cheap.*

**FACT:** a homogeneous environment is easier to support and maintain. Fred Langa of *InformationWeek* when discussing computer operating systems said, Linux Has Bugs: Get Over It, "*the open source community has fragmented into myriad competing segments, each with its own different, and increasingly quasi-proprietary, distribution of software.*" In this paper think of equating IT Open Source with generic track and trace hardware in the credit environment.

The adage of "*too many cooks spoil the stew*" holds true here. The more commodity like generic hardware you add to a market, the more you create an environment of dissimilar applications cobbled together from multiple vendors—exactly **the tangled web that anyone responsible for Collections Management tries to avoid.**

Further, lack of solution expertise from the vendor can present a problem. According to a Forrester Research Report '*if companies can find cheaper hardware, they will have to pay more for first-rate results.*'

### **Evidence...**

Interestingly, a recent study to explore the efficacy of using Collections Management Solutions shows a majority of companies reported that these systems reduce their company's losses.

These companies were also asked about their companies' formal policies related to open source software. A large percent said they don't have formal policies.

While the promise of Payment Assurance technology may sound appealing, more and more companies have anxieties about disclosing and/or using it. Their main fear stems from the support and security risks they would likely face if the system was subjected to "free-for-all" attorneys manipulating statutes with no guidelines as to what they could and could not do with that a system. That fear is quelled with Compliance consciousness driving all development and usage.

## **Lost Productivity is an Unfortunate Reality**

According to recent information, "*generic environments negatively impact an enterprise's ability...it results in higher costs...and lower worker productivity.*" Lack of collections specific software often results in significant productivity losses and incremental costs resulting from erroneous data exchange...and reduced productivity. Productivity, though an intangible measure to some degree, can be quantified and its impact can be significant.

For example, 10 minutes of lost productivity per day for workers at various pay levels can add up to a significant cost per annum. The costs are far more than the price difference between a generic hardware based process and a productivity suite like Crossbow's ReCaP Extreme.

Pay Scale (\$ per hour)	Annual Lost Productivity Cost
\$2	\$733
\$7	\$2,567
\$15	\$5,500

### Cost of Inaccurate Data

Lien holders, whether they are dealers or other, operate in a complex network of interconnected partners—from their customers and distributors to their bankers and attorneys. Each interaction requires rapid and accurate internal and external exchange of information. And each partner relies on efficient information exchange—without fear of data loss, corruption, or formatting errors.\*

Countless such interactions take place smoothly every day. But daily tasks—such as taking payments and effectively communicating with customers—are much riskier to attempt with generic track and trace.

### Evidence... Extreme Increases Worker Productivity

Auto Financing Source Objectives	Extreme Benefits	Benefits Measure	Productivity Measure
<b>BUYING</b> Buy deeper with no increased risk Increase business with new and existing dealerships	<b>Increase in the Capture Ratio of Marginal Deals using the Extreme System.</b>	Incremental Application and Underwritten Deals by Credit Tier New Business Volume by Dealer	<b>Staffing Requirements</b> <b>Gross Retention Per Sale</b> <b>Gross/Net Profit</b> <b>Dealer Satisfaction</b> <b>Customer Satisfaction</b>
<b>REVIEW, BOOKING &amp; FUNDING</b> Reduce booking and follow-up time for new deals			
<b>COLLECTIONS</b> Minimize delinquencies while strengthening collection efforts Minimize losses by identifying problem accounts as early as possible	Ability for collectors to work additional deals or have fewer FTE to handle collection activities Elimination of past due reminder notices	Unit Delinquency Dollar Delinquency	
<b>RECOVERY</b> Significantly reduce number of repos Reduce average repossession loss Increase likelihood of reinstatement while minimizing risk	Decreased depreciation on repo'd vehicles Quick ID of accounts in jeopardy Shortened repossession timeline Greater capacity for customer to pay past due amount on repo'd vehicle	Number of Repossessions Average Loss per Unit	
<b>CHARGE-OFFS</b> Obtain higher resale value after repossession Minimize charge-off rate	Earlier sale of repo'd vehicle at auction Reduction of risk in failed collection efforts or potential skip	Gross/Net Charge-off Dollars Collected	

### Compliance Risks:

According to the Compliance Community, systems without or not using Disclosures including the generic track and trace offerings, are the new “poster child” for security and legal problems.

**Additionally:** Today, more and more ‘hackers’ are trying—and succeeding—in their attempt to crack and uninstall the generic hardware. For enterprises exposed to these vulnerabilities and looking to understand how to orchestrate a response to these security breaches, Crossbow addressed that issue openly and is likely to have clear advantages over a generic product because of its commitment to compliance and a new built-in hardware safety precursors.

## Evidence...

## Extreme's Value Process

To achieve the highest level of productivity at the lowest total cost and to drive true corporate value, an enterprise must look to fully-integrated applications and common architectures.

### Familiarity and Ease of Use

Research consistently demonstrates that UI and application familiarity, coupled with a seamless integration of applications, drives higher user satisfaction and productivity while reducing costs.

Extreme provides a complete "360-degree" connection via the internet. With a simple user interface the product feels familiar and is easier to learn and use.

To match this breadth of functionality in the vehicle finance environment, customers do not have to license and integrate an array of dissociated applications from different vendors. If customers would want more capabilities, they will have to purchase additional vendor solutions and splice them together. The result?

Multiple interfaces in a disparate environment that cannot match the seamless Crossbow Extreme experience.

Values Delivered by Crossbow Extreme
Ease of Use
Tailored Solutions
Training and Support When Needed
Better and Faster Work
Seamless Exchange
Easier Deployment and Maintenance
Security
An Investment You Can Trust

### Tailored Solutions for Greater Flexibility

Over the last decade, Crossbow has enlisted communities of partners, developers and integrated service providers who have dedicated resources to developing, supporting and augmenting the Extreme technology with Collections Management specific applications.

With the choice of generic track and trace applications available today, customers have come to expect cost driven solutions. Those dedicated to portfolio profitability, want applications that run a feature-rich back-end giving high performance. They also want tailored and integrated solutions—not just for their vertical market—but for the unique requirements of the tasks at hand.

## Evidence...

With its partners and developers, Crossbow is at the center of the largest Payment Assurance community in the world. Customers can rest assured that wherever they are, whatever their needs, there are Crossbow partners available fulfill specific and unique requests.

### World-Class Support and Training

In our ever more complex environment, where technology is being offered to support the myriad of user needs, the marketplace consistently makes it very clear: customers need reliable and easy access to support. The customer requirements for support must be carefully analyzed when exploring the difference between open source software and a commercial software product. In the open source arena, organizations will rely primarily on Web access and a community of developers to deliver support. But in a commercial model, support is readily available from a variety of sources.

## Evidence...

Crossbow products are among the most successful in the market. Crossbow and its manufacturing partners have the expansive infrastructure to support users worldwide in more than one language. Options are available for Extreme users for live customer support, training and information. In addition, free assistance is available through our knowledge base of articles, Web-based help, alerts, FAQ's, and the distributor resources.

## **ReCaP Extreme: A True Productivity Collections Solution**

Having pioneered integrated desktop, internet, and hardware productivity from a generic architecture to its current applications, ReCaP Extreme's creators demonstrate and deliver significant productivity advantages over generic track and trace options.

### **Evidence...**

See Next Page.

## Net Profit Potential Scenario with Non-Prime Auto Financing Sources

In the Non-Prime scenario, using an average repossession loss of \$4,965 (Source: 2005 BenchMark Non-Prime Auto Financing Survey) and an average remarketing/selling cost per vehicle of \$615 (Source: NAF Non-Prime Auto Financing Survey), the additional profit with the installation of the RECAP System was \$22,300 for the first two years and \$28,550 for the third and fourth years. The average incremental profit per unit was \$892 in the first two years and \$1,142 in Year 3 and Year 4. The additional profit in the latter years is because the number of purchased units would be minimal in the third and fourth year.

	Without ReCaP™ System	With ReCaP™ Payment Reminder Assurance System			
		Year 1	Year 2	Year 3	Year 4
AVG Monthly New Sales (Units)	25	25	25	25	25
AVG Monthly Auto Payment	\$310	\$310	\$310	\$310	\$310
AVG Loan Term (Months)	24	24	24	24	24
Monthly Income (A/R)	\$7,750	\$7,750	\$7,750	\$7,750	\$7,750
Total A/R Full-Term	\$186,000	\$186,000	\$186,000	\$186,000	\$186,000
Average Repo Rate*	7.3%	2.1%	2.1%	2.1%	2.1%
Average Repo Loss**	\$4,221	\$2,730	\$2,730	\$2,730	\$2,730
Average Remarketing Cost***	\$615	\$415	\$415	\$415	\$415
AVG Repo Loss + Remarketing	\$4,836	\$3,145	\$3,145	\$3,145	\$3,145
Total Repo Loss	\$35,158	\$6,605	\$6,605	\$6,605	\$6,605
Receipts less Repos	\$150,842	\$179,396	\$179,396	\$179,396	\$179,396
Gross Profit with RECAP System		\$28,553	\$28,553	\$28,553	\$28,553
# of Purchased RECAP Systems****		25	25	0	0
Cost per RECAP System		\$250	\$250	\$250	\$250
Total Cost for RECAP System		\$6,250	\$6,250	\$0	\$0
Incremental Profit with RECAP System		\$22,303	\$22,303	\$28,553	\$28,553
Incremental Profit/Unit with RECAP System		\$892	\$892	\$1,142	\$1,142

\* An average of 71% reduction of repos with the use of payment protection systems (Source: NIADA 2005 Used Car Report)

\*\* Average Repo Loss = Charge-off less Recovery Average Repo Loss  
 - Average Repo Loss per NABD is \$4,965 less 15% Recovery without RECAP System  
 - Average Repo Loss per NABD is \$4,965 less 45% Recovery without RECAP System

\*\*\* Average Remarketing costs are \$200 lower with RECAP System

\*\*\*\* Systems can be re-used, therefore no new purchases would be required in Year 3 and Year 4

## **Seamless and Accurate Data Exchange**

Personnel can use Extreme for more than creating and authoring accounts. To our users worldwide, Extreme is an essential tool they use every day to communicate and collaborate with each customer. With integration across this robust productivity solution, organizations know their employees can easily access information, take payments, and track account viability. They can efficiently and effectively collaborate with co-workers, customers, distributors, partners...all of the people with whom they interface every day.

### **Evidence...**

Research required a tool for management of collection accounts, not just track and trace.

It is likely that while an organization may have elected to work with generic products, the network of business partners and customers using Extreme will continue to grow. The findings of our research serve as a warning to such generic enterprises: evaluate the risks to your business in terms of Collections, not just acquisition costs.

## **Easier and Faster Deployment and Maintenance with Extreme**

**Another critical element in the TCO equation is the demand made on an IT department to deliver and deploy upgraded applications. In the case of a generic track and trace piece, replicating the functionality of Extreme requires a number of applications from disparate third party vendors—not all of which are “free.” To ensure they all work together, a company with this tangle of applications would spend significant additional budget on integration, installation, and maintenance.**

### **Evidence...**

Research and experience showed that the level of experience and labor required to migrate to a new system is substantially less than that required with repairing or upgrading existing generics...even when given a generous limit.

## **Enhanced Data Security**

At the core of Crossbow's drive is the requirement to produce increasingly secure products. For example, Extreme provides a range of advanced security features and available alerts at multiple levels...asset security at the application level, security at the data level, and security in vehicle/asset control.

### **Evidence...is Indicated in the Previous Exhibits**

While these statistics might seem surprising, the reason is logical. The experience Crossbow has gained in the “*device wars*” gives it the ingenuity and maturity to produce increasingly more saleable products. On the other hand, generic track and trace product vulnerabilities are probably only beginning to be exposed and are becoming increasingly visible to hackers and users.

Unfortunately, generic products with a lack of a cohesive support structure leave generic products increasingly more vulnerable as time goes on.

## **ReCaP Extreme is a Safe Investment**

It comes as no surprise that more customers continue to embrace the ReCaP Extreme solutions over generic alternatives when all the elements of a TCO and resulting values are taken into consideration. Over the past decade, Crossbow's ReCaP has evolved from a simple starter interrupt application to a complete Collections Management & productivity solutions platform. Extreme is a core business of Crossbow. The company continues to invest heavily in the product and introduce innovations in powerful upgrades. Crossbow continues to deliver proof of its commitment with this offering.

### **Evidence...**

By comparison, generic track and trace systems face a less certain future. For example, many observers feel and write that price driven decisions are too costly to even consider. It is not unthinkable, should the current economic situation continue to tighten, that other vendors may jettison low revenue items.

## **CONCLUSION**

### **Is "Cheap" Too Expensive and Risky?**

Most users agree it is more cost effective to migrate to a complete solution than to continue with a generic alternative. **Using Extreme as the de-facto productivity tool delivers the most value to the financing enterprise.**

Productivity based on generic and openly available hardware may have a lower sticker price, but the inherent costs and risks associated with a generic source clearly outweigh any "perceived savings" achieved.

\*Microsoft Corporation