

## Bill Collecting with Steven Gann

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Gan grew up in Chicago, a trained CPA who honed his credit management and debt collection skills working for the family company. But he eventually sought a bigger challenge by moving to Japan in 1989, pursuing his ongoing fascination with the country he glimpsed during a college internship in Tokyo.

Gan found work as a finance controller for a large U.S. company in Tokyo. A couple of years later his uncle, head of a Chicago collection agency for 75 years, asked for help collecting from a Tokyo book store that owed money to a publisher client. Similar requests followed, and in spite of advice from friends and colleagues that debtors would never respond to a non-Japanese "outsider," let alone discuss and negotiate repayment schedules, Gan found his sympathetic yet business-like approach effective. He enjoyed giving debtors the rare chance to tell their story, even if he didn't understand everything due to his limited Japanese, and he considered collections a valuable function in an economy paralyzed by debt problems.

Gradually Gan became fascinated with the problems and opportunities in Japan's highly regulated debt collection sector. According to Japanese law, only attorneys are authorized to collect commercial accounts receivable, the debts owed to companies by individuals or by other companies for goods delivered or services performed. Since Japan has relatively few lawyers, and even fewer with debt collection expertise, some recovery activity falls into the hands of the Japanese underworld.

It often makes sense for clients to employ the yakuza rather than attorneys. Not only do the criminals have more professional expertise collecting debt, they can actually be cheaper, since they work on a performance-only basis, unlike lawyers, who charge a fixed fee regardless of outcome. But their presence means the debt collection sector presents dual barriers to entry: the lawyers' cartel and the danger of dealing with criminals.

Gan nonetheless resolved to start his own debt collection service. He found a loophole in the system, exploited by a few others before him, that allowed non-lawyers to perform above-board collection activities. Companies that join together in a loose alliance called a kumiai are authorized to represent each other in certain business matters, including debt collection. Gan set up shop as one of about 200 such kumiai, most of the others being small, static local organizations of a few cooperating companies. Gan pushed the kumiai concept in an aggressive, entrepreneurial way, actively marketing his services and soliciting prospective customers to join the kumiai specifically so he could legally represent them as a debt collector. Today he counts about 700 companies as customers and is bullish on future prospects.

But success didn't come easy. Gan's first big break came in 1993 when the American Chamber of

Commerce in Japan hired him to collect unpaid bills for ads placed in the Chamber's magazine by American and Japanese companies. Japanese customers were slower to come on board, due more to poor visibility rather than to weak demand. For example, more than 400 Japanese chambers of commerce turned down Gan's offer to provide free debt collection seminars, with gatekeepers telling him that "our members have no need for such information." But when he finally landed his first Japanese chamber of commerce speaking engagement, the room was packed with enthusiastic businesspeople, despite weak publicity marked by the sponsor's failure to mention his seminar in its newsletter.

The floodgates opened after he landed the account of a major Japanese bank's credit card subsidiary, giving him a powerful reference client. Higher visibility led to exciting and unusual assignments, including becoming the agency of choice for Las Vegas and Atlantic City casinos collecting from Japanese high-rollers who skip town without settling their tabs.

Gan's burgeoning success posed a new problem: he was now on the radar screens of Japan's bar associations. Japanese attorneys had always challenged the loophole that permits kumiai and threatens their monopoly on the commercial collection business. Unable to stop the kumiai in either civil or criminal court, the bar associations saw Gan as a looming challenger effectively exploiting a grey area in the law that endangered their monopoly. Over the years the bar associations have subjected Gan to various "inquisitions," including public pressure and veiled threats to shut down his operation.

While less personally threatening than a gangster wielding an imaginary pistol, the lawyers' tactics nonetheless filled Gan with even firmer resolve to stand his ground.

"I believe what I am doing is right and good for Japan's economy," said Gan. "I am not intimidated by the bar associations, who have no authority whatsoever over me or what I do, and whose members egregiously underserve the very business segment over which they claim exclusive authority." Being a foreigner perhaps makes Gan less subject to the cultural web of obligation and shame that tends to stifle Japan's advocates for change.

Gan has used the media to expose his rivals' tactics. In a thinly-veiled attempt to intimidate the American, Tokyo's three bar associations sent a questionnaire to member lawyers in 2003, soliciting information about negative experiences with Advance & Associates, Gan's company. That action alone would have been enough to cause most Japanese small firm owners to capitulate, but Gan refused to be bullied. He showed the questionnaire to editors at several newspapers and magazines, who in turn contacted the main lawyer association's surprised chairman. The attorneys haven't bothered Gan since.

Still, the media can be a mixed blessing. Fixated on the image of debt collectors as gangsters, reporters tend to ignore what Gan actually says in interviews and to instead depict his collection agency as a kind of "Japanese mafia group run by a foreigner," when in fact, says Gan, "nothing could be further from the truth."

"Expert collectors like us know that unless a debtor has both the will and some means to pay, the effort to collect is futile. The typical Japanese collections call is like a parody--shouting at debtors, slamming down the phone, trying to humiliate them. We find that most debtors respond better to a sympathetic ear and a practical, solution-oriented approach," he says. Meanwhile, Gan finds that the law firms' approach to collections in Japan is largely ineffective.

"They charge their client a fee regardless of the result. Yet in many cases all they do is write a demand letter. There is none of the telephone and personal follow-up essential to achieving a good, sustained success rate. Again, it's a kind of parody--merely going through the motions of collecting," Gan says.

Gan takes a modern, rational approach to collections, offering 100 percent contingency-based terms and assurance that his company will actively engage his client's customers without abusing them. He also strives to change customer perception of debt collection from an after-the-fact salvaging of revenue to a strategic part of the credit cycle. His toolbox of services includes trade information data, invoicing and payment management, accounts receivable financing, credit insurance, and outright purchase of debt obligations.

"The goal goes beyond collection; it includes bad debt prevention and management," he explains. Gan's credit database, unique in Japan in that it allows users to see a company's payment performance on specific invoices, including amounts, days outstanding, and date paid, is a particularly attractive service feature. Uptake of these ancillary services has been slower than forecast, yet he remains confident that continuing efforts to educate clients will pay off.

Gan started the Japan Credit Risk Management Group, an industry organization for those working in the credit risk management profession. He hosts bimonthly meetings of over 40 people, hoping to promote modern business practices and industry standards. Perhaps it's no surprise that an outsider is taking a leadership role in redefining the collection industry in Japan, where traditional aversion to conflict--and inadequate official oversight and enforcement--makes the work something only gangsters pursue with enthusiasm. With U.S. \$800 billion in unpaid bills, the stakes are too high to leave debt collection to disinterested monopolists and criminals.