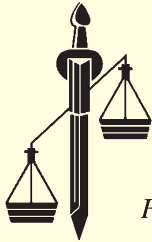


FECMA*Newsletter*

Federation of European Credit Management Associations

Number 12 Summer 2004

EU enlarged - opportunities increase

Full marks to Finland, Germany, Malta, the Netherlands and Ireland who are reliable and consistent contributors to your FECMA Newsletter. Full marks should also go to the UK - just in case you have not noticed I am a regular contributor. No points to those who have failed yet again to come up with any meaningful input to the voice of European credit management - shame on you. At a time when the European Union has just expanded to a large family of 25 nations, it is a sorry state of affairs to note that vocal chords only exist in four or five FECMA family members. What I want are words of advice, assistance, encouragement, support, information and interest to all credit managers across the continent. I will not ease off the pressure, colleagues. If you really want the voice of credit management to be heard, and to be taken seriously, you really have to cut short your infamous siestas and get those articles flooding in to me.

Your silence is all the more disappointing, as we now welcome back Sweden into the fold. I know that the Swedish association has always been keen to see real progress in FECMA and European matters and I look forward with great interest to the dynamism that they can bring both to this Newsletter in particular and to the FECMA deliberations as a whole. I know too that France has shown interest in this newly regenerated organisation, and I hope that they too will rejoin and add their unique voice to the chorus.

Across Europe we have many issues which are having an impact upon the credit manager. This is going to gather pace rapidly for the new 10 who have joined in May, as their Governments attempt to catch up on implementing a number of EU Directives pertinent to credit managers - late payment, data protection, audit threshold, competition, fraud, money laundering, to mention but a few. There is heated debate already about the "free movement" of labour, the much enlarged single market and the need for easy access to risk analysis information. It seems to me that within the FECMA family, there is a great opportunity for credit managers to cross those international boundaries within the EU and find assistance and co-operation with colleagues from all countries. Though English remains the prime business language, it should not be beyond the wit and talent of all of us to contribute regular articles and ideas to each others' national journals, so let's get at it.

I could not close this time without expressing the deepest sympathy to all friends in Spain following the Madrid outrage in March. September 11, and now March 11. It may yet be that by the time this is in print, something else will have happened, though let us pray not. It also reminds us of the most difficult circumstances under which our colleagues work in strife torn Israel. There is possibly no such thing as a normal day for any of us any more - all the more reason for us really to work together throughout Europe.

Glen Bullivant
Editor, FECMA Newsletter

Credit Management in a European Context

A review of the European Congress

The first European congress organised by the Verein fur Credit Management e.V. in co-operation with FECMA was an enormous success.

More than 200 credit managers attended the event, which covered such important areas as the effects, threats and opportunities of EU enlargement, the information available on potential clients in these new markets and the possible changes in the role of the credit manager.

Jan Schneider-Maessen, Chairman of the VfCM e.V. highlighted both the cultural differences and the regional distances as important factors and potential risks of enlargement.

As well as other talks on the growing number of insolvencies, the economic relationships between Europe, Japan and the USA, the balanced scorecard and individual scoring systems, delegates were given the opportunity to ask questions of the speakers who participated in smaller discussion groups.

The congress was a terrific platform for international credit managers to meet each other and to network and to discuss their experiences and tips on best practice. The VfCM e.V is a very young organisation and everyone involved in the congress must be congratulated on delivering a highly professional, thought-provoking and successful event.

Lutz Tönnissen

Motivation and internal relationship are the secret to success

Credit managers from all over Europe complain that the commercial scenario is marred by a late payment culture, defaults in credit facilities, bartering, and mismanagement of finance and cash flow. This scenario gets worse as one moves to the South of Europe. An example is the Parmalat case in Italy, which is being compared to the collapse of the US energy giant Enron.

Long-standing worries about Parmalat's habit of tying up its steady cash flow in complex investments exploded on Friday 19 December 2003, when it revealed a EUR 4bn hole in its accounts. The Italian Prime Minister, Silvio Berlusconi, called this "almost incredible".

Newspaper *Corriere della Sera* said Parmalat's former chairman had told potential investors in the group that Parmalat had not bought back EUR 2.9bn in bonds, as detailed on its books. That would push total debt to almost EUR 9bn, up from EUR 6bn on its September 30 balance sheet.

The Italian Prime Minister, Silvio Berlusconi, called this "almost incredible".

A published leaflet of the Directorate-General for Enterprise of the European Commission on late payment revealed that in Europe, one out of four insolvencies was due to late payment, leading to a loss of 450,000 jobs each year! The payment delays in commercial transactions across the EU were quantified at EUR 90bn a year and they accounted for EUR 10.8bn in terms of lost interest. In addition, outstanding debts worth EUR 23.6bn were lost every year through insolvencies caused by late payment.

This slow payment and non-payment culture is seriously hindering the cash flow of many organisations leading to more distressed businesses and even bankruptcies. This creates a ripple effect because "Businesses that are not paid on time may find it hard to pay on time themselves". Malta has suffered from such a 'domino effect' in the fast moving consumer goods sector following late payment and bankruptcies in the supermarket industry.

Being aware of this commercial scenario, every trade creditor should take a proactive approach in the market to help avoid any financial losses. One way of being proactive is by motivating all the staff, especially the front line sales people, who are in direct contact with the clients, to give the necessary continuous feedback to the credit department.

... close ties between the two departments are essential in today's market turbulence.

Some senior managers argue that the sales department should work independently from the credit department to ensure that one does not influence the other and thus they achieve their objectives without bias. Others argue that if the two departments work closely together, the organisation would suffer from a loss in sales because there would be too many conservative decisions about which businesses it should sell to.

However, close ties between the two departments are essential in today's market turbulence.

Synergy between the two departments is becoming of key importance. It has to be mutually understood that both departments are vital for the success of any business organisation. The sales department triggers and makes the sale, and the credit department completes the process by agreeing competitive credit terms with the client, thus securing long-term customer-relationship, and realising payments and profits from the sales department's efforts.

Where internal conflicts between the credit and the sales departments exist, internal politics are inevitable and may take time to resolve. However, if both departments understand each other's role and objectives, a more co-ordinated approach would be possible, and this co-operation is important to enhance the effectiveness and efficiency of the operational activities of both the credit and the sales department alike.

Very often, the decision about which supplier is awarded a purchase order is more about the relationship between the buyer and the salesperson than about the supplier's brand name, terms and conditions of the sale, or the quality of the supplier's product. Therefore, besides meeting sales targets, the sales people should be in a position to help the credit manager both by understanding the needs of the clients, and by knowing the ongoing financial position of the clients. Any early visible decline in the business of a client would be easily noted by the salesperson and this would be an opportune time for the credit manager to intervene.

Salespeople are therefore the proper intermediaries between the credit manager and the client, but they should not as a rule serve as mediators nor as arbitrators in a credit dispute with the client. Hence, the role of salespeople and sales clerks should be given more weight by employers - recruiting the right people, and providing continuing sales training should be seriously considered.

Co-operation between the two departments is not impossible to achieve if the right personnel are employed and professionally trained. Differences in opinion may only be about how a particular order or account should be handled, and very often both parties have their own good reasons for coming to their own particular conclusions.

The secret of better internal relationship, which should also motivate the employees to work for the common organisational goal, lies in developing and implementing an internal programme consisting of the following activities:

❖ Sales personnel should be provided with the necessary training to help them understand and appreciate the role of the credit department within the organisation, and the risks involved in granting credit and collecting debts.

❖ Encourage the salespeople to make use of the credit application form whenever they are asked for a trade credit facility both from their existing client base and from a new applicant. The credit application form should be the basis of the credit facility and should contain all the relevant information about the applicant, which is needed to assess the risks involved and the creditworthiness of the applicant, and to serve as a contractual basis between the creditor and the applicant.

❖ Provide the salespeople with credit information, including the credit limits set by the credit department and the late paying accounts, without violating confidentiality. This information should be given to highlight any defaulting clients and thus help

to justify any actions taken against these debtors by the credit department.

- The credit manager should attend the sales meetings organised by the sales department. This should help the credit manager to understand better any emerging credit needs in the market, and thus enhance the co-operation between the two departments. Any trade-offs should be discussed between the two departments, leading to more balanced decisions with the primary aim being that of satisfying the needs of the customers profitably for the benefit of the organisation, and the long-term business relationship with the client.
- The credit department should respond promptly to all enquiries from the sales department, and the sales department should in turn accept any decisions taken in respect of any existing account or credit applicant.

Using the resources available within the organisation is the most effective and efficient way to act proactively against any wrongful trading which may exist in the market. Therefore, precautions should be constantly taken, and every trade credit facility should be assessed for its creditworthiness at the onset and monitored throughout in order to keep any negative financial surprises to a minimum, irrespective of the size of the organisations concerned.

Josef Busuttil
Administrator, Malta Association of Credit Management

Going Dutch - recruitment alliance

In response to the growing demand for good credit management policy, the Dutch Association for Credit Management (VVCM) and Robert Half Finance & Accounting (the financial recruitment and selection agency) have agreed to form an alliance.

This alliance comes at a point in time when the demand for professional credit managers is on the increase. Many companies in the Netherlands are now making one specific person responsible for the credit management policy of their organisation. Their objective is to optimise cash flow, which is essential for the continuity of a company. Both parties are convinced that by joining forces, they will be able to serve their clients even better.

Table 1

"How long has the position of credit manager existed within your company?"	Global	Australia	Belgium	Czech Republic	France	Germany	Holland	Ireland	New Zealand	UK
Sample surveyed	1,550	150	100	100	300	300	100	100	100	300
does not exist	53%	46%	74%	73%	48%	64%	49%	44%	39%	46%
since this year	1%	0%	0%	4%	0%	2%	2%	0%	6%	1%
for the last 2 years	3%	3%	1%	10%	5%	2%	3%	0%	3%	1%
for about 2 - 5 years	5%	3%	4%	8%	8%	3%	3%	8%	7%	6%
for more than 5 years	37%	49%	20%	5%	40%	28%	43%	48%	46%	46%

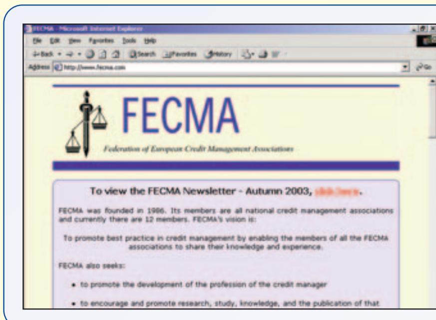
Table 2

"Which tools does the person/ department responsible for credit management in your company use to optimize cash flow?"	Global	Australia	Belgium	Czech Republic	France	Germany	Holland	Ireland	New Zealand	UK
Sample surveyed	1,116	111	74	92	203	196	74	75	73	218
makes sales people accountable	29%	23%	11%	66%	34%	10%	27%	29%	32%	33%
decrease days outstanding (f.e. by giving cash discount)	36%	38%	30%	35%	29%	44%	39%	36%	26%	37%
improve relationship with the bank	23%	21%	35%	23%	19%	23%	16%	23%	37%	21%
internal credit rating system	32%	26%	42%	33%	26%	24%	41%	25%	27%	46%
outsourcing/factoring of credit	7%	3%	5%	8%	9%	11%	5%	1%	8%	4%
Other	4%	6%	3%	0%	2%	3%	3%	21%	4%	1%

Robert Half Finance & Accounting 2004

Within the framework of the alliance, Robert Half Finance & Accounting has made available the results of an international survey held in the autumn of 2003. The outcome of this survey shows that the credit management function has either existed for more than five years or does not exist at all. Table 1 below shows that in the Netherlands, 49 per cent of the 1,550 finance and HR managers who were interviewed say that there is no credit management function in their organisation. 43 per cent say that the function has existed for more than 5 years. Of the group of 822 managers who have no credit manager within their company, 39 per cent say that credit management forms part of the duties of the finance manager. This figure is 57 per cent in the Netherlands, 50 per cent in the UK, and 36 per cent in Germany. In a number of other countries, including Belgium, France and Ireland, the survey shows that the accounts department is often responsible for credit management.

Tom Bijleveld, Dutch Association for Credit Management



FECMA Website

The Federation of European Credit Management Associations now offers a recently updated website, which includes full contact details of all member organisations as well as a pdf version of the last FECMA newsletter.

For further details of FECMA's vision and aims, visit www.fecma.com

The European Communities (Late Payment in Commercial Transactions) Regulations 2002

Late Payment interest

In a recent survey of members of the Irish Institute of Credit Management, 60 per cent of respondents confirm that their company already provides for charging late payment interest in its contracts. Of these, 41.7 per cent never charge late payment interest under their contracts, 25.0 per cent seldom charge late payment interest, 16.7 per cent often charge late payment interest under their contracts, and 16.6 per cent always charge late payment interest under their contracts.

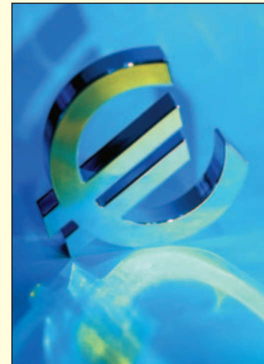
40 per cent of respondents confirm that their companies do not provide for charging late payment interest in its contracts.

Compensation for recovery costs

45 per cent of respondents confirm that their companies already provide for charging recovery costs in its contracts. Of these 33 per cent never charge recovery costs under their contracts, 33 per cent seldom charge recovery costs under their contracts and 33 per cent often charge recovery costs under their contracts.

55 per cent of respondents confirm that their company does not provide for charging recovery costs in its contracts.

Conclusion



The majority of companies that already have the contractual right to charge late payment interest do not fully exercise their right to do so. Those companies that are now entitled to charge late payment interest under the Regulations appear reluctant to do so. The right to charge compensation towards recovery costs both under contract and under the Regulations is little used.

According to a survey carried out by Intrum Justitia (Ireland) only one business in five had positive expectations about the measures introduced under the EU Directive for the purpose of combating late payments and almost three quarters of businesses surveyed were neutral about the impact of the Directive.

J Logue, Irish Institute of Credit Management

Finland - debt recovery proceedings in 2004

In Finland, debt recovery enforcement is the responsibility of the State Debt Recovery Department, which is divided into Debt Recovery Offices operating in Population Register Districts or the Debt Recovery Sections of Population Register District Offices. Finland is divided into 70 debt recovery districts employing about 1,400 staff, including 80 bailiffs, 700 assistant bailiffs who carry out the actual debt recovery measures and 600 clerks. There are about 300,000 debtors who are subject to debt recovery measures. Every year there about 2.5 million debt recovery cases involving about EUR 3bn, of which about 20 per cent is recovered.

In February, the Finnish Parliament passed the Government Bill introduced in November 2001 that proposed renewal of the provisions relating to judgments and other grounds for debt recovery, the general procedural provisions of debt recovery and the provisions concerning eviction. The Bill also contains provisions concerning a time limit for the enforceability of the grounds for debt recovery. A debt can be collected from an individual in debt recovery or bankruptcy for a maximum of 15 or 20 years, depending on the creditor and the grounds for the debt. This legislation, which came into force on 1 March 2004, will have a retrospective effect for up to eleven years.

Timo Mäki Luottomiehet - Kreditmännen ry - Legal committee

An in-depth report will be included next time.

FECMA Members

Belgium	www.vlerick.be	**Italy**	www.acmi.it
Denmark	www.dkforum.dk	**Malta**	www.macm.org.mt
Finland	www.luottomiehet.fi	**Netherlands**	www.vvcm.nl
Germany	www.credit-manager.de	**Norway**	www.dbpartner.no
Ireland	www.iicm.ie	**Spain**	www.gerentescredito.es
Israel	www.bdi.co.il	**United Kingdom**	www.icm.org.uk

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