FEDERATION OF EUROPEAN CREDIT MANAGEMENT ASSOCIATIONS

FECMA

Newsletter spring 2010 — number 25

From Glen Bullivant:

It is beginning to look as if the world is slowly hauling itself out of the deep pit of recession. Some countries are in better shape than others, some further along the recovery road than others, and some even left with fewer anvils of debt hanging round their necks than others. The cry that has gone up, however, seems to be the same all over the world – "Never again". Easier said than done. For this edition of the Newsletter, I hand over to the multi-talented Josef Busuttil, our good friend in Malta, because he has raised the point that if "never again" really has to mean something, then we must look further than just banking controls, caps on bank bonuses and blaming others for the catastrophe of 2008/9. If we are to climb out of the deep hole and stay out, every business which thrives and survives on the granting of trade credit has to ask itself a number of questions. If those businesses are to prosper, they have to answer them truthfully as well, and put into place those reforms necessary to strengthen their respective positions for the future. So over to you, Josef:

As a business organisation, are you segmenting your market and targeting those profitable segments which will set you in pole position for profitable growth, and is your credit function an integral player in that exercise? It blessed well should be, in the same way that it should be recognised by the business owners, from shareholders to CEO as the valuable asset that it is. Are the objectives of the credit function in line with corporate objectives, and are there any areas where it is thought that the credit function is failing to match corporate objectives? Hand on heart, CEO, because if the answer is no and yes, then you have a problem which needs immediate attention.

The credit function does not, and can not, operate in splendid isolation, so is there synergy between it and Sales, Distribution, Despatch, Production, and all those other departments that make up the whole? Are Credit customer focused, and as such striving to maintain long term customer relations, encouraging repeat profitable sales (thereby minimising costs)? All credit personnel should be out their, meeting and getting to know their customers and you, Mr. CEO should be making sure that they are skilled, trained and equipped to do just that. Perhaps you are happy to have them at the PC all the time, blistering the ether with emails and internet contact? Wrong – credit is a people profession, and the more you know the customer, the better you are at dealing with the unexpected or the unusual.

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Do your Sales people know the value of information for Credit and the golden egg which is prompt and efficient sharing of that information? What about your systems – do they enhance or restrict the communication process internally? Does production know the current position as well as Sales, Marketing and Credit? Is it part of the company ethos that whoever we are and wherever we work, we all work for the same company and have the same aims – profitable growth?

There should always be room for improvement, whether in risk assessment, account opening, collections, cash allocation, customer service, internal and external communications, delivery performance, product quality – the list is seemingly endless. Are we, therefore, continually striving to improve, innovate, enhance or is it just "business as usual". The answer has to be quite categorically yes, because if we stand still, we do in fact go back. There is a big BUT, however, and that is that every improvement, innovation and enhancement has to be measured and quantified against customer satisfaction and customer service. After all is said and done, the most important person to us all is the customer – without him we would have no business at all, and life would be one long never ending recession.

Below please find questions that (in Josef's and mine opinion) every business organisation selling on credit should analyse.

1. Is the business organisation segmenting its market and targeting the most profitable market segments / niches in order to position itself as 'unique' & gain competitive advantage in the most appealing markets?

2. Is the credit function involved in the segmentation, targeting and positioning exercise? Should it be involved or not?

3. Is the credit function considered as a valuable asset of the business organisation by the owners, directors, CEOs, top management?

4. Are the objectives of the credit function in line with that of the corporate objectives? Where is the credit function failing to achieve the corporate objectives?

5. Is there synergy between the credit function and the other business units, especially the Sales and Distribution?

6. Is the credit function customer-focused?

7. Is the credit function striving to maintain long-term customer relationship by ensuring **repeat** PROFITABLE SALES to **minimise** costs?

8. What are the credit practitioners doing to get to know their customers? Are they meeting with their customers? How often? IT communication is surely critical but face-to-face meetings are imperative!

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9. Are there any barriers to the internal communication system that may hinder the effective flow of communication between the employees working in different business units or departments? I'm referring to both vertical & horizontal communication here.

10. Are the sales people trained and skilled enough to pass on information to the credit function?

11. Are the credit people trained in how to provide good 'customer' service? Customer refers to both 'internal customers' (employees) & 'external customers' (clients). Thus, satisfying the needs of their customers - colleagues & clients resulting to a win-win situation.

12. How long does it take to process a credit request by the credit function?

13. Is there any room for improvement in terms of A/R Management & Collections? I'm sure there will always be!

14. How innovative and improvement driven are the credit people?

15. What tools, ratios, reports are being used to measure the performance of the credit function?

16. Are these measuring tools effective and efficient for today's ever changing business environment, where competition is more intense than ever before?

17. How are the credit people rewarded by their employers? Are they motivated? Remember their colleagues are getting bonuses and commissions! What about the credit practitioners?

18. As regards to collections: are the credit people perceiving their clients as debtors, late payers or as their esteemed clients who are bringing in business to the organisation?

19. What methods are being used to chase clients for payments? Are they effective? Any innovations and improvement in this regard?

20. Are they using Pareto's Rule: 80 - 20 rule to collect their dues effectively?

21. Are they segmenting their existing clients to collect dues in an efficient manner?

22. Is there a need to outsource collections? If yes, is it cost effective?

This list is by no means holistic and more questions may be added to it but it should serve as a basis to start thinking about today's methods of managing A/R & Collections.

From the Secretariat

by Pascale Jongejans,
From SecretariaatsBuro B.V.
Bussum, the Netherlands

Fecma council meeting on 23rd November 2009

In the beautiful city of Dublin we had our annual autumn Fecma Council meeting. Though very windy, rainy and lots of floods we enjoyed the city a lot. Followed by the 2nd World Credit Congress & Exhibition on the 24th and 25th November. The Fecma council meeting was held in the Conrad Hotel. Almost all members (12 countries) were present and agenda items were amongst others:

- How to establish Fecma in other European countries.
- The Fecma Guide to Credit Management Practice Throughout Europe. This Guide now has three chapters. The first one is on Credit Policy, the second one on Invoicing and the third chapter is on the subject Risk Assessment. On the Fecma website (www.fecma.eu) you can download all three chapters.
- Lobbying in the EU Parliament.

The Irish Association (IICM) was our host these days and after the meeting they arranged a sponsored lunch at the Ulster Bank. In the evening we were invited by the IICM for a wonderful diner in a nice restaurant. During the two days of the Congress our members heard some interesting speakers and some of us made good contacts. Amongst the speakers were Declan Flood, Glen Bullivant and Josef Busuttil, respectively Council member, President and Vice-President of Fecma. For the Secretariat there was a special force: to get in contact with Credit Management people from countries who are not a member of Fecma yet. We made contact with people from Hungary, Czech Republic, Greece and Portugal. Also we made good friends with Fenca, the Federation of European National Collection Associations. They invited us for a meeting with EU Parliamentarians on the 9th December 2009 in Brussels. Jan Schneider-Maessen from the German Association, Ludo Theunissen from the Belgium Association and Pascale Jongejans on behalf of the Secretariat joined this very useful meeting in Brussels.

On the picture you see the Fecma Council members.

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By Prof. Ludo Theunissen,
Instituut voor Krediet
Management, Belgium

Credit crisis : threat or opportunity ?

Much has already been said and written about the terrible consequences of the economic crisis.

It has been initiated by a 'credit crisis', and it has in quite some cases brought along a 'credit management crisis'. This was due to a combination of elements:

- Increased number of business failures: long time reliable customers got in trouble, causing an increased threat of bad debts.
- Longer payment terms: this increased the need of working capital. But it also caused huge volumes of outstanding trade credit and thus an increased intensity of the collection process.
- The coverage by credit insurance companies dropped dramatically, while at the same time there was an important increase of the insurance premiums.

This meant that in many companies the credit management department was facing an increase in their efforts and activities.
Unfortunately at the same time some companies launched severe cost reduction programs. In many cases one of the elements was a staff reduction, often simply linear over all departments… including credit management.

The result of this process is obvious:
perform more with less people – many credit managers came close to a depression…..

However we have also heard from some credit managers how they have used the current crisis as an opportunity to improve their situation. As we know credit management is still a function that is not always seen as important as we think it should be.

How can the threat be turned into an opportunity? There are some aspects of credit management that can definitely be improved in their content as well as in the procedures, at the same time improving the position of credit management within the company.

Some examples:

Relationship with sales force: this is a traditional problem in many companies. Efforts can be made to transform sales force from opponents (which is unfortunately still the case in many companies) into allies. Analysing disasters that have already occurred and - more important – discussing customers who represent real threats can offer an excellent opportunity to improve the comprehension of the procedures and the importance of preventive credit management with the sales people. Once they have seen that the necessity of being cautious when granting credit to customers who have weak financial positions is confirmed by the facts, it may become a lot easier to convince them to follow our recommendations. A strict credit management can be a condition for us to survive.

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Customer relationship: we know that customers may be asking to do the opposite of being cautious: when they don't get the credit they need from the bank, they will try and get the credit from their suppliers, from us! We should make it clear to those customers (and to our sales force) that when they get no more credit from the bank, this means that they become — or already are — very vulnerable. This means that granting more credit to them corresponds to taking more risk, which will probably not be the appropriate reaction. Nevertheless it may in some cases be justified to grant more credit to existing customers. But this is only feasible when we get sufficient information — and if possible specific guarantees — from them to reduce the risk we take. But if they are customers with an important long term potential it may be worth wile to help them get through some hard times — provided of course that our own financial position allows us to do so.

Reviewing procedures: the critical importance of working capital management can represent an excellent opportunity to review the credit management procedures.

Improving the image of credit management within the company: when credit management becomes more critical, this can become a unique possibility to prove the importance and the impact of professional credit management. This should have an effect that goes beyond the current crisis.

This short overview mentions some possibilities that credit managers have to improve their own situation within their organisation. Of course we do not pretend to have a complete list or give the full range of possible actions. Every individual credit manager may come up with other ideas and initiatives to improve his contribution to the company results and at the same time also improve the visibility and awareness of that contribution to all other functions within the company.

Josef Busuttil
Director General
Malta Association of Credit Management

The Recession - *What comes next*?

Economic indicators and forecasts show that the recession will be over by the year end, 2010. Some countries, including some European Member States, are already doing well and are registering economic growth.

Although my views about when the world economy will fully recover may differ from the above, my main concern remains what will happen after the recession, rather than when the recession will be over!

Businesses need to be well prepared and managed in order to act proactively and remain competitive in the '*new'* world market economy developed by the changes due to the recession. All that is currently shaping up the '*new'* international commercial arena should be analysed in detail. The after effect of the recession should be examined and how this will eventually effect the operation of businesses should be explored.

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The basic question to the business community is straight forward – ***Is the future demand for the products and services likely to change in any way due to the recession?***

To answer this question, one needs to investigate if the commercial and economic changes that are currently happening, or that have happened during the recession, will have an impact on the day-to-day operation or on the market of the business. Here are some questions that the business community may address and investigate:

1. Will the mergers of big international companies impact the supply chain or the needs of tomorrow's customers?

2. What will be the effect on European businesses and on the European economy at large when China becomes the most powerful economy in the World?

3. How the projects of the Gulf Emirate of Dubai, amounting to billions of dollars which are now at a standstill, will effect the world economy and international trade?

4. What tools should be deployed by European businesses to gain and sustain competitive advantage in the new global market?

5. What will be the future purchasing power of customers and how will this effect the bottom line of businesses?

The above list of questions is by no means comprehensive or exhaustive, but it may serve to instigate some thought. The business community is encouraged to ask more of these questions in order to act proactively and take appropriate and timely measures, whilst learning from its own mistakes of the past.

Here are some other facts which may also deserve attention and deliberation by the business community:

A. Mergers and Acquisitions

Although mergers and acquisitions usually lead to improvements in the operation and performance of businesses, they result in downsizing of organisations. This would have an effect on the unemployment figure of the economy, which would in turn result in lower purchasing power of the consumers in general.

Mergers and acquisitions also enhance the career path of the workers as they provide a mechanism that help selecting the right people for the job. However, since less people are employed, the economy may suffer from having two distinctive market segments (a small rich segment or niche and a larger poor segment), which may have negative implications on the socio-economic environment.

B. The greed of the West has its price!

Over the past 20 years, the West has invested heavily in Asia, especially in China. The Western World has transferred its own industries there to the detriment of western employees who once used to find jobs in their own countries.

Now China is forecast to be the most powerful economy in the world in the coming few years and this may have consequences for us all! The failure of the Copenhagen Summit on climate change due to China's intransigent stance may be a good example of likely future hardship to the West!

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C. Diversification of investment is always critical to everyone.

The Gulf emirate of Dubai was the centre of attraction for many international businesses in terms of investment. But all that glitters is not gold!

The biggest state-owned group sparked global fear of a debt default in November 2009 and has asked for a six-month debt moratorium. Dubai investors had announced a number of big projects such as the Jumeirah Gardens, Nakheel Harbour, the world's tallest tower, three palm islands, Dubailand Theme Park and others.

Although older projects and schemes have been completed, market researchers estimate that projects worth up to $582 billion, or 45 per cent of the value of all developments are on hold in the UAE.

There are and there will be other facts which the European business community should keep an eye on, investigate and learn from. But, the main focus should be that of exploring how the '*new*' market will look like after the recession and what should be done to stay ahead of the competition coming from all over the world, including Asia, which is producing better products at lower prices, whilst protecting our own socio-economic environment!

By Arto Kallio, Director, Public & SME
Lindorff, region Eastern-Central Europe
On behalf of the
Finnish Credit Management Association

Significance of customer service pronounced during economic downswings

The need for customer services related to the payment of credits has clearly increased as the unemployment rate and payment difficulties have increased. Customers worrying about due dates require information and advise that will reduce their uncertainty and worries about the consequences of payment delays. The need for information and advice is further increased by the fact that the number of debt claims and thus so-called more difficult cases has increased.

More and more often, the people contacting customer service are representatives of the new generation who were still babies during the economic recession in the 1990s. According to studies, these young people are often completely unfamiliar with even basic concepts, such as interest rates.

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Furthermore, the new generation has new kinds of needs and consumption habits that have been created by the emergence of mobile phones, web services, mobile services and youth credit cards. One can also state that the payment culture has changed because consumption has become easier. The youth use money almost without noticing it, and it is even more difficult for them to balance their finances. Plenty of people have temporary payment difficulties, which are often handled by means of new credit.

The new generation requires more from customer service personnel. In addition to expertise, they have to be more patient and provide more guidance.

Retaining customer relations

Creditors and their customer service personnel have an important role as supporters of consumers' personal credit management and providers of credit-related information. Companies providing invoicing and collection services handle these tasks for their client companies. The amount of information communicated has continued to increase during the new millennium as the number of granted credits has increased.

People experiencing payment difficulties often have similar worries and questions. Only a few of them are aware of when their credit rating is actually in danger of deteriorating and how they could handle their finances so that payment difficulties will not influence the credit rating. The customer service personnel assist them by listening to them, answering their questions and explaining their situation in detail. From the creditors viewpoint, the customer service personnel assist in retaining the customer relationship. Retaining the customer relationship and returning the customer back to a full member of the credit society are of utmost importance in the current competitive environment.

Good customer service means sales

According to feedback from customers, it is clear that companies need to improve the level of their customer service as well as increase their resources and the competence of their customer service personnel in order to respond to the increased demand. Poor customer service is often the reason why a customer is lost.

Sales has a key position due to the recession. Sales can be boosted by providing good customer-centred customer service, meaning active contacts both with the creditors and with their customers.

The starting points of good customer service are a positive and personal approach, and susceptibility to the prevailing situation. In most cases, this requires a personal change of attitude: all of us, who are servicing customers, must be willing to use our own personality and go the extra length for the customers.

Additional information: www.maksumyohassa.fi/en

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Next **Fecma council meeting** will be on Friday 28th May 2010 in the Netherlands. Our aim remains raising both standards and awareness across Europe and working towards this involves regular meeting of the full Fecma Council twice a year, coupled with ongoing projects and contacts at ale times.

Fecma relies up on input from its membership to promote best practice and to highlight issues worthy of cross border discussion - both national and EU legislation often raises topics which may have differing impact according to country. We have a long way still to go, but the more who are involved, the more they contribute, the greater the footprint. Fecma members are aware of the growing importance of shared service centres in countries in former Eastern Europe and we are keen to see the establishment of representative credit management associations wherever there may be a perceived need.

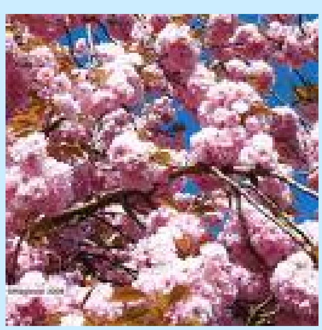
We are therefore very please that we can welcome two guests, during our next meeting, whom are busy raising a Credit Management Association in their countries, Hungary and Czech Republic!

FECMA members:

Austria	**www.credit-manager.at**	**Ireland**	**www.iicm.ie**
Belgium	**www.ivkm.be**	**Italy**	**www.acmi.it**
Denmark	**www.dkforum.dk**	**Malta**	**www.macm.org.mt**
Finland	**www.luottomiehet.fi**	**Netherlands**	**www.vvcm.nl**
France	**www.afdcc.com**	**Sweden**	**www.kreditforeningen.se**
Germany	**www.credit-manager.de**	**United Kingdom**	**www.icm.org.uk**

Guidelines for the FECMA Newsletter
Articles of about 500 words, if possible with graphics or pictures.

Deadline for the summer 2010 edition
15th May 2010. Contribution expected from Denmark, the Netherlands and Sweden to write an article for this edition. Other countries may feel free to contribute as well.



Fecma council wishes you're a very nice and sunny Spring!