FECMA Magazine for European Credit Managers 2/2013

CreditManager Europe

FECMA congress in Budapest: a shining success

Credit Management
an academic angle

Updates 2013
European Payment Index & Credit Manager Index

Insolvency Laws can't save companies in distress

Is Supplier Credit for free?

Opportunity and risk in perfect harmony

Wherever there is trade, there is Atradius, ensuring that customers the world over won't fall prey to payment default and bad debt.

Supported by our expertise and market intelligence, business is free to look ahead with confidence – composed, flexible and resilient.

It's the perfect balance of managing risk and enabling trade, of safety and freedom, of insurance and assurance.

Seize the opportunity to discover more.

Call 0800 0856 973
Email cmc@atradius.co.uk
Visit www.atradius.co.uk

credit insurance | debt collection | business information

atradius
managing risk, enabling trade

DIRECTORY AND FOREWORD

There is a saying – "time flies when you are having fun" – and here we are, already with Issue No. 4 of CreditManager Europe. Much of this issue is taken up by full coverage of the FECMA Pan-European Credit Management Congress held at the Hungarian Academy of Sciences, Budapest on 16 and 17 May, 2013. I will leave you to read that coverage, but will only say here that it was a tremendous event made possible by two things – the dedication and hard work of the team that put the whole thing together, and the enthusiasm of all those who took part. Make a note in your diary NOW – 20 and 21 May 2015, FECMA Pan-European Credit Management Congress, Benelux. Missing the first I will put down as an oversight – don't miss the second one!

It is a foolish man who tries to predict the future but one thing you can be certain of – credit management will be just as important in May, 2015 as it was in May, 2013. Indeed, if anything it will be more important, because the economic recovery will still be number one priority across Europe. The pace of recovery is certain to be slow over the next two years – even if by some miracle the economies of Spain, Portugal, Italy, Greece, Cyprus, and the rest "roared" ahead from today, they would still be in a worse position in 2015 than they were in 2008. Less predictable of course will be the position of the Euro – will it survive in its present form, will more join (Croatia #28 in 2013), will some leave? There will have been a General election in the United Kingdom – no more coalition government, of that we can be sure. That election could well be followed by a referendum on EU membership, though it is likely that the "opposition" to EU membership will have run out of steam by then. That is unless some other rash EU regulation springs up, such as robbing other peoples' bank accounts, not just the Cypriots,

For FECMA, the two years between conferences will be a time of steady growth, both in size and in experience. New associations are already in embryo in some hitherto unrepresented European countries, and existing associations will continue to strengthen their influence and importance, both domestically and across frontiers. Co-operation between the national associations increases with the passing of very month, and we continue to learn from each other. The credit manager, wherever he or she may be in Europe, can be sure that they are a member of a family of knowledge, expertise and professionalism.

Glen Bullivant FICM
President, FECMA

CONTENTS

CME Background

Fundamentals of Supplier Credit 4-5

Insolvency laws cannot save companies in distress 8-10

Credit Management and the academic world 13-15

Credit Management Building Blocks: How to manage Credit effectively 34-36

CME Column

In or Out? Yes or No? 6

CME Interview

Centralised Credit Management at UPM
Interview with Maarit Siijarvi of UPM 21-22

CME Community

FECMA Congress in Budapest: "A good credit manager is like a safety belt" 24-27

Impressions FECMA congress in Budapest 28-29

CME Practice

FECMA CMI-Europe – Results of Q1/2013 17-19

European Payment Index 2013 30-32

CME Calendar

Calendar of events 37

CME Last Words 38

CME Editorial 39

FUNDAMENTALS OF SUPPLIER CREDIT

Oswald Royaards was honoured with the Lifetime Achievement Award at the FECMA European Credit Management Conference in Budapest in May. In this article he shares his views on Supplier Credit and Credit Management.

Drs. O.F.Royaards
founder and past president of VVCM, the Netherlands

Definition

Supplier credit is a short term credit, awarded by a non-financial institution and linked with the sale of goods or services. This connection between credit and sales also implies that for the buyer there is a link with a purchase of goods or services. The customer credit awarded corresponds with the supplier credit received; the amount of accounts receivable for the supplier is the same as the amount of accounts payable for the buyer. Credit management in general is mostly limited to the management of the supplier credit that has been given to the customers.

For this kind of credit the delivery precedes the moment of the actual payment, the delivery being based on a sales agreement. When goods are given 'in consignation' they are located at the customer's premises but the risk remains with the supplier and a payment is only made when the goods are actually sold. In this case there is a delivery based on a storage (or warehouse) agreement so there is no supplier credit, since the receiver's warehouse can be considered as a kind of extended warehouse of the supplier.

Free credit

Is supplier credit for free? Since there is no separate and explicit interest charged, as is the case for a bank loan, the answer is not really straightforward. The financing cost of the credit will be 'charged' one way or another. This can be explicit as part of the cost of the product or rather implicit in the sales margin of the supplier. An internal calculation of this financing cost should be made based on the general payment term defined in the terms and conditions.

However if a supplier systematically allows to use a longer payment term than the one agreed upon, charging additional interests is not common in most industries. If the supplier allows, for the sake of the continuity of the existing trade relationship, this payment behavior of his customer, there is of course a real risk that the customer/buyer considers this favor to be his right. In this case one could even speak of a "forced" free credit.

General terms and conditions

It is definitely recommended to include a clause against late payment in the general terms and conditions. In case of obvious abuse by the customer this offers a legal basis for enforcing the payment. In the current situation with very low interest rates awarding credit seems to be less important, but as long as financing for businesses remains a scarce resource it deserves our full attention.

Cash discount

A lot can be said about cash discounts, especially the discount rate that is applied. An important element is not to include the cash discount in the general terms and conditions. This implies that the cash discount is not a right for all the customers, but a specific advantage given to a specific customer.

Creditworthiness of the customer

Is the supplier credit awarded in blind faith? To answer this question

the creditworthiness of a customer must be determined. Many suppliers do not have the specialized knowledge that is required. This is the expert area for financial institutions, who also have better possibilities for risk reduction by requiring different kinds of collateral, and who also have recent financial/banking data from the buyer/customer.

A supplier is in fact an 'inappropriate' banker, since he considers the financing 'on top of' the sale, where a retention of title for instance is in many cases not practically applicable.

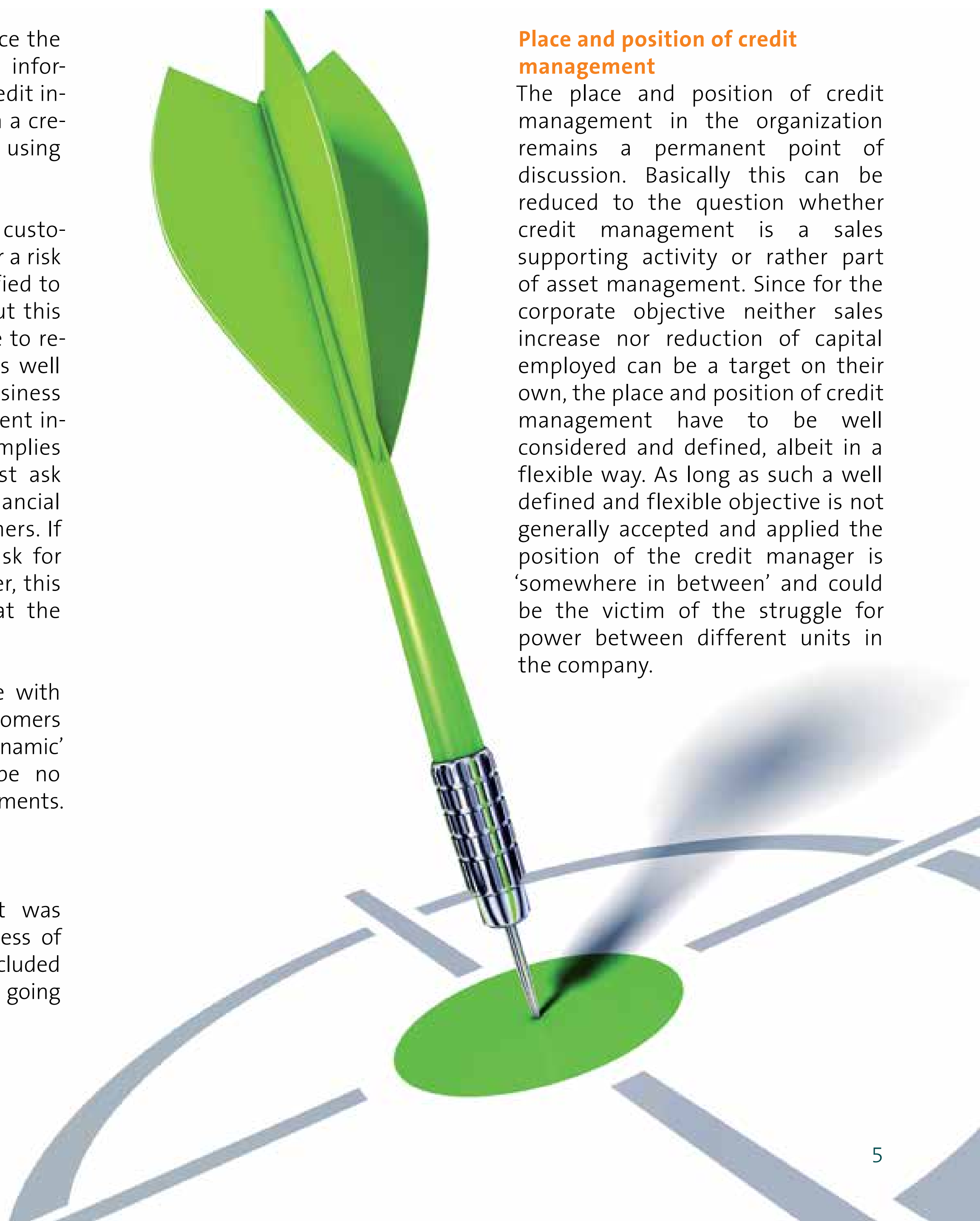
One can of course try to reduce the risk by gathering commercial information from a professional credit information provider or through a credit insurance contract, or by using factoring.

Only where the number of customers is big enough to allow for a risk diversification, can it be justified to manage this risk internally. But this also means that one will have to remain very alert for internal as well as external changes in the business environment, such as the current increase in bankruptcies. That implies that the credit manager must ask for regular updates of the financial situation of the bigger customers. If the supplier is reluctant to ask for financial data from a customer, this means that one can say that the credit is given in "blind faith".

Favorable historical experience with the payment behavior of customers will unfortunately in the 'dynamic' era that we are living in, be no guarantee for future timely payments.

Other aspects of credit management

Originally credit management was not more than a passive process of debtor administration. It included the registration of invoices going out and payments coming in. Considering the high labor cost for simple administrative tasks and the possibilities for automation an enormous cost saving became possible. In the end the complete order to cash process, including payments, must be integrated, avoiding all the manual and labor intensive work in the intermediate processes. The mere registration or the debtor administration evolves into a modern data communication process with all its advantages. In order to do this successfully there have to be made standard agreements and all the partners involved in the process must be aware of the usefulness of the integration.



Another important aspect of credit management is the search for and handling of real or unjustified claims or disputes concerning the invoices. They have to be identified and solved as soon as possible, to make sure that the matter is still fresh in the memory of those who are involved. If credit management can provide adequate information to the units that are involved in the disputes it can help in optimizing the quality of the production process.

Place and position of credit management

The place and position of credit management in the organization remains a permanent point of discussion. Basically this can be reduced to the question whether credit management is a sales supporting activity or rather part of asset management. Since for the corporate objective neither sales increase nor reduction of capital employed can be a target on their own, the place and position of credit management have to be well considered and defined, albeit in a flexible way. As long as such a well defined and flexible objective is not generally accepted and applied the position of the credit manager is 'somewhere in between' and could be the victim of the struggle for power between different units in the company.

IN OR OUT? YES OR NO?

No doubt you will have noticed that this is issue #4 of CreditManager Europe, full to the brim with news and views. After the superb congress in Budapest in May, my thoughts turned to May 2015 when another stupendous event (already well advanced in the planning) is set for Benelux. It remains to be seen what the content will be, but fun and frolics are guaranteed. It also remains to be seen what the two years leading up to the event will bring. I am no clairvoyant, no more able to look into the future and make predictions than anyone else, but as I was saying to Lord Whoever only yesterday, "if things don't alter, they will stop as they are". Some things we do know about, and unless the earth is struck by an asteroid the size of the moon, or people in Newcastle upon Tyne start wearing overcoats, they will take place.

For example, in 2014, the good citizens of Scotland vote on possible independence. A lot of campaigning to do between now and then, but just a thought on what a "yes" might mean. Obviously, The United Kingdom becomes the United Kingdom of England, Wales and Northern Ireland, and already the debate about EU membership has begun. If membership as it now stands is enjoyed by the present United Kingdom of England, Scotland, Wales and Northern Ireland, will the new UK have to re apply, and will Scotland have to apply in its own right? Will Scotland apply to join the Euro or decide to stay with Sterling? Defence – Royal Navy, Royal Air Force, Army? Will Scotland apply to join the Commonwealth? A considerable amount of emphasis is put upon the fact that North Sea oil revenues flow through Scotland and into England, and that following independence, revenues remain in Scotland for the benefit of all. This is actually where I begin to smell a rat – when politicians, of whatever persuasion, starts talking about everyone benefiting, you know for certain that what is meant is that they will benefit, and not you. Realists honestly doubt the economic viability of an independent Scotland and threats of major migration south would no doubt increase. We might not know the outcome, but we do know that the event will take place.

Like 2015, for instance. Another "going to happen", but outcome unknown till it does. There will be a General Election in the UK, and here I am prepared to make a firm prediction. After 5 years of a coalition government, the Brits will not have another. Whether it is Cameron or Milliband I know not, but a Cameron-Clegg coalition it will not be. The British do not like coalitions, except when they have to, and much prefer a government of one shade or another, with the kind of majority you can either cheer along with, or shout abuse at. The question after the election will depend upon who wins – if it is David Cameron back at 10 Downing Street, and if he has had enough success in respect of his negotiations with the EU, then the question will be a straightforward referendum to the electorate – in or out of the EU. If it is young Ed who emerges the victor, the question will be how much to spend and on what. Personally, I favour staying in, reforming and revising. I would not expect any public answer to be very far away from the same, though not only would it depend upon who is in No 10 in 2015, but what the EU does twixt now and then.

It will be 28 by then, with Croatia joining the club, and assuming the Scots vote against independence, the question of a split UK will not arise to muddy the membership waters. One other certainty about 2015, in passing, is that the UK will not have joined the Euro and will still be floating around on the Pound. Less certain will be the state of the Euro itself, but let's not get ourselves embroiled in that debate here – playing the prediction game is only beneficial if you bet on certainties. That also rules out predictions about the Englishman's favourite topic, which is not Euro bashing, nor is it about believing themselves superior to those not fortunate enough to have been born British. I am of course talking about the weather. Being a small island (that is, a lump of land surrounded by water), Britain is battered by weather fronts from the Arctic Ocean, Atlantic Ocean, North Sea, Irish Sea and English Channel, the result being that it is the only place on the planet where one can experience all four seasons on the same day.

I am told that is what forms the British character – cynical, calm, sardonic, satirical, even tempered, never ready for the unexpected but always able to deal with it, and a sound belief in being right. Come to think of it, that is not being British – that is being a credit manager.

AON

Risk.o.

Every 5 minutes an enterprise changes its legal form. Every 4 minutes a company goes bankrupt. Every 2 minutes a firm closes its business activities.

Unknown risks can force an enterprise to its knees. For this reason it's imperative that every company has a strong partner in its corner. More than 2,000 customers trust in the competence of Aon Credit International.

So let us be your sparring partner too.

Aon Credit International Insurance Broker GmbH
Caffamacherreihe 16 | 20355 Hamburg
Tel.: +49 40 3605-0 | Fax: +49 40 3605-1000
www.aon-credit.de

INSOLVENCY LAWS CANNOT SAVE COMPANIES IN DISTRESS

Restoring the creditor relationships is vital.
The economic crisis has left its traces all over Europe. Many sectors and regions have been hit hard, and bankruptcies are still very much around. The international business is suffering under the strains of the recession and many industries call out for help to get their businesses out of the recession. At the same time, we see a revival of some old discussions on the improvement of insolvency laws. After all, most attempts at judicial reorganisation fail in Europe, but also in other parts of the world. Should reorganisation sections in bankruptcy laws perhaps become (even) more debtor-friendly, allowing for more companies to be protected from creditors and thus be saved? We are of a different opinion. Legal arrangements for deferred payments and reorganisations will provide no solution for companies on the brink in this current crisis. They are nothing but a waste of time and effort. In turn, it would be better to focus on 'turnaround management'.

Prof. Dr. Jan Adriaanse and
Dr. Jean-Pierre van der Rest
are associated to the Department of Business Studies of Leiden Law School in the Netherlands. The research program of the department is called "Turnarounds and Insolvency Law: a Business Research Perspective". Professor Adriaanse is also founder and CEO of think-tank Turnaround PowerHouse® in Rotterdam.
j.a.a.adriaanse@law.leidenuniv.nl

www.leiden.edu
www.turnaroundpowerhouse.com

Causes of financial distress in companies

Financial distress is a situation which does not just happen overnight. This situation is often preceded by a long period of negative developments whereby external impulses eventually give it a final push. A large store chain located in the vicinity of a traditional store painstakingly highlights the uncompetitiveness of the latter. If sales then continue to drop due to the economic crisis, and the bank decides to withdraw its credit facilities and on top of that, suppliers refuse to extend the credit terms, the entrepreneur simply ends up in a further downward spiral. A process of value destruction, which has been single-handedly initiated though.

Value destruction refers to a company's inability to generate positive cash flows from its operating activities, which in turn allow it to meet its obligations. Competitors, economic circumstances, banks, and suppliers thus are never to blame for a bankruptcy. The entrepreneur is though, for his inability to turn his company into a viable business. The business model in place is outdated or inefficient, leaving no room for value creation. This becomes particularly, or even especially, clear in these times of economic crisis. After all, not a single industry will be brought down in its entirety. Only businesses where stress is already occurring or those taking too many risks now find themselves on the receiving end.

> „BANKS AND SUPPLIERS ARE NEVER TO BLAME FOR BANKRUPTCIES"

The underlying causes of financial distress stem mainly from a lack of strategic entrepreneurship, insufficient financial insight, and proportionally high costs. As it turns out, management of insolvent companies – from a convenience store to a multinational – often have been insufficiently systematically engaged with questions related to the markets in which the company currently operates, wants to be active, and should be active, and how to go achieve this. This also pertains to the actual needs of the company's customers, the identification of its competitors and of its real competitive advantage – their unique selling proposition. We often see that there is a gap between the desired

market behaviour of a company and its actual behaviour. In addition to the lack of a proper strategy, companies in distress seem to be insufficiently driven by parameters such as profit, cash flows, solvability, and their cash position. These often go hand in hand with a poor administrative organisation and insufficient cash planning, leading to excessive expenditures without management being aware hereof. As a result, the primary process now contains hidden inefficiencies. This clearly explains why intervention is often long overdue. Many studies show that companies in Europe are often waiting too long with taking corrective actions. And in the majority of cases, we are not talking about months overdue, but rather years.

Turnaround management

What can we learn from this? First of all: directors, who are adamant about keeping a company afloat, will have to pull all triggers in order to restructure the operational business activities and make these profitable. The way to go about this is by applying turnaround management. This process offers two ways for turning ailing companies around, which also reinforce each other. On the one hand, through cost reductions, and on the other hand through on-going qualitative and quantitative improvements in turnover. In a nutshell, the pursuit of growth. The latter can only be achieved by improving relationships with existing customers, a strategic review, and other marketing efforts. In reality, businesses under financial stress tend to focus their efforts solely on swiftly implementing cost cuts. While this approach is psychologically understandable, they often overlook the fact that increased sales usually present greater opportunities to improve profit margins and to increase the related cash flow. An in-depth and structured reflection on the company's ability to offer differential value in its current market should therefore always be at the forefront.

> ” MANAGEMENT SHOULD NEVER BLINDLY TRUST JUDICIAL REORGANISATION PROCEDURES “

The severity of the crisis will obviously largely determine the order and the urgency of the measures to be taken. In doing so, we should bear in mind that the existence of a company is ultimately based on the aforementioned ability to sell its products and services against competitive prices in line with the costs to be incurred. In situations of financial distress, customers and markets should be a company's focal point. After all, a company's long-term survival and growth ultimately depend on its ability to satisfy the needs of the chosen market. In short, in a value recovery process the focus is primarily on target groups, value creation, and thus renewed viability. Based upon an integrated vision and a turnaround strategy, operational problems should be addressed in a structured way and within self-imposed time constraints. After all, as long as the underlying causes are not eliminated, the effects will continue.

Financial restructuring in the form of a creditor remission arrangement as well as cost cuts should therefore be viewed as temporary measures in the search for renewed confidence, customer base expansion and thus of the company's existence in the long-run. That is all there is to it. Debt consolidation attempts – as is usual in judicial reorganisation procedures – do not contribute in any way to the structural viability of a company, but merely act as an emergency brake in situations where sufficient positive cash flows cannot be generated in time. In other words, they constitute a solution to a sub-problem.

Current issues

Discussions on the revision of bankruptcy laws are always largely fuelled by the idea that too many reorganisations fail. In view of this perspective, it is necessary to assess the actual issues. After all, regulations should be aimed at the effective elimination of issues that cannot be solved on their own. Based upon

on-going research at the University of Leiden (2005-2013), the following 'worst practice' can be formulated.

First of all, we see that management underestimates the need for a swift, thorough, and adequate reorganisation of business activities based on an integrated strategic vision. Moreover, management is unaware of the precarious situation and often dreads the thought of employing specialists, having to put up with them and jointly work towards a long-term solution. Another problem is that major financiers such as banks and main suppliers are often somewhat purposely excluded from the reorganisation process. Management tolerates little to no involvement or is afraid and refuses to inform them about the actual loss situation. Let alone on the plans to get back on their feet again, if in place at all. In addition, creditors are often too late in the process confronted with a highly compelling proposal for debt relief.

Initially, no attempts are made to find a solution for a full and final settlement of the existing debts. In other words, they seek to transfer the entrepreneurial risk from the entrepreneur onto the lenders. Moreover, management often lacks transparency towards key stakeholders on the development of the financial situation. As a result, this party is unable to properly assess and weigh their risks. Finally, following the poor state of affairs, the solvability has often deteriorated. By attracting private equity, companies could up their balance sheets without the need for creditors to waive their claims. This creates a much healthier relationship between internal and borrowed funds, leading to potentially lower risks for financiers and suppliers. In many unsuccessful turnaround operations, this option seems to have been insufficiently investigated.

Confidence restoration

Remarkably, many problems arise from communication issues between the various parties involved, and relate in particular to the individual risk perception. The success or failure of a turnaround operation thus largely depends on whether management is able to convince its key financiers adequately of the viability of the distressed company. The issue here is whether they are indeed sufficiently capable of gaining trust with respect to both the future profitability of the business activities and its own management capabilities. The key question is whether management is able to manage the perception of their creditors by making them believe their interests are in capable hands. After all, when financiers back up the company, a solution automatically presents itself due to the factors time and credit. The latter applies both literally and figuratively. The risk of conflicts with creditors, and thus the risk of bankruptcy, will significantly decrease by communicating with creditors, and by providing insight into the financial situation and the anticipated turnaround plan. Also by communicating pro-actively about the progress and by adopting an attitude, which demonstrates of no intend of transferring the entrepreneurial risk in any way onto the creditors.

On the other hand, the chances of failure increase significantly if these criteria are not met. Fixing troubled relationships thus forms an essential part of reorganisations. This is entirely separate from judicial means of coercion, which are aimed at keeping creditors at bay and force a debt waiver. In that sense, a company clearly has no natural viability. This has to be awarded by financiers and customers involved. The legal enforcement of a company's existence – which is what judicial reorganisation means are basically aimed at – is therefore impossible and attempts hereto should be kept to a minimum. Tackling the practical issues with 'improved' debtor-friendly reorganisation laws obviously does not serve any purpose. It will most likely lead to even more bankruptcies instead of fewer. Management should therefore never blindly trust judicial reorganisation procedures, and in periods of crisis, will always have to be able to demonstrate the viability of the company. For a Credit Manager it is important to point out the abovementioned factors of success and failure to distressed customers, and to keep insisting on – whether or not in cooperation with the client's bank – the need for a swift and holistic approach to the financial problems by means of turnaround management. Turning around distressed companies is not 'rocket science'. All it takes is some creativity, swiftness, renewed entrepreneurship, and discipline. Turnaround management is the key to renewed success.

GUARDEAN®
A Company of SHS VIVEON AG

GUARDEAN DebiTEX
International Credit Management Software

Optimises processes. Reduces credit costs. Provides transparency. Ensures reliable reporting.

Features & Benefits:

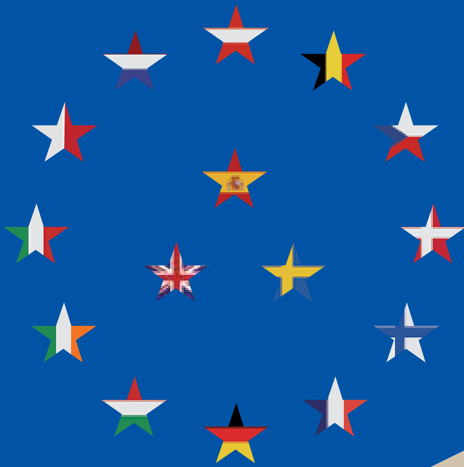
- Current overview of customer status (e.g. credit rating, limit calculation, collection status)
- Optimisation of credit management processes (e.g. through automation)
- Online access to more than 50 international credit agencies and payment history pools worldwide
- Online interface to credit insurers (e.g. Euler Hermes, Coface, Atradius) to manage limit processes and obligations
- Decrease in credit costs (e.g. reduction in bad debts or days sales outstanding/DSO)
- Standard software solution ensures stable and calculable total cost of ownership (TCO)

For further information please visit www.guardean.com

GUARDEAN GmbH . info@guardean.com . www.guardean.com

SAVE THE DATE!

FECMA
Federation of European
Credit Management Associations



PAN-European
FECMA Credit Management Congress
20. & 21. May 2015
Benelux

Do you want to keep posted,
please sent an email to
fecma@sbb.nl

www.cm-congress.eu

Stop groping in the dark!

OPTEN CAN BE THE FLASHLIGHT IN YOUR HANDS!

OPTEN – the accurate company information provider in Hungary

All 3 credit insurance companies in Hungary and most of the Hungarian financial institutions chose the services of Opten Ltd.

Unique Credit Risk Management
with high quality company information services:

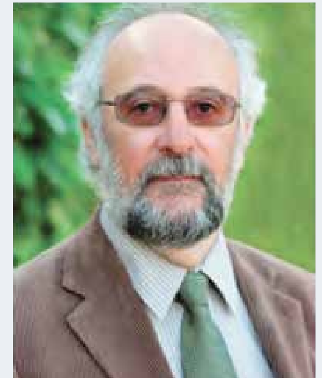
- Company database
- Financial database
- Credit report
- Unique scoring model based on Hungarian economic specialties
- Client monitoring
- Claim Register System
- Data cleaning, data mining
- Person and address based connection network

Company information services are also available on smart phones (download „Cégtár" from Google Play or from App Store)

Information: +36 1 222 3130, opten@opten.hu, www.opten.hu

CREDIT MANAGEMENT AND THE ACADEMIC WORLD

As we are all very interested in the further development of knowledge in our area of interest (which we presume to be credit management) we may wonder what the academic world is doing in this very fascinating domain.



Prof. Ir. Ludo Theunissen
Faculty of Economics and Management,
University Ghent, Belgium
Ludo.theunissen@themasoft.be

Before we would start making premature conclusions based on what we see in practice, it may be good to try and find out what the academic world is really about. And then to take a look at what is in it for us credit managers.

When I say 'us, credit managers' this is only partially true. I have the privilege to be active in both worlds: as an academic since I am a part time professor at the Faculty of Economics and Management at the university of Ghent (Belgium) and of course also in the credit management community as president of the 'Instituut voor kredietmanagement' the Belgian credit managers association (a member of FECMA of course).

ACADEMICS ARE IN FACT DOING MAINLY 3 THINGS: EDUCATION, ACADEMIC RESEARCH AND SERVICES.

The academic world
Academics are in fact doing mainly 3 things: education, academic research and services.

Services
The services part corresponds to the general availability and services of university staff for support to the community they work and live in. Indeed they are often invited – or challenged – to participate in committees, councils, research groups, ... funded by governments, other public authorities and non for profit organizations. To a certain extent this will be considered to be part of their assignment. This obviously excludes the commercial activities that some (or most) of them have as entrepreneurs, consultants, board members etc.

But we will focus on the other aspects.

Education
Let's start with the very obvious area of education. It seems to be logical that an important element in the mission of a university professor is teaching and passing on his/her knowledge to students. No surprise here, but when we focus on the area of credit management, the situation seems to be a lot less interesting. When we look for bachelor or master programs on credit management, we have to admit that there's not much to be found. There have been some attempts to set up bachelor or master courses and MBA's in credit management. But as far as I know there is none today in Europe. We can still find credit management as an important topic in master courses on Risk Management, Treasury management etc.

If credit management is not important enough to be the subject of a specific academic program, it can be an important topic in the education of accountants and economists. But here again we have to admit that is mostly not the case. I can of course not speak for all countries in Europe, but when we run through the text books on corporate finance that are used as handbooks in universities

we can have a first impression of the importance of credit management.

As an example we take a look at a well known and often referred to text book 'Corporate Finance' by Hillier, Ross, Westerfield, Jaffe and Jordan. They even published a 'European' edition where the text part of the chapter on Credit Management is exactly 13 pages (p 766 to 778 of a book with 897 pages ...). And to be honest I was not impressed by the quality of the text.

Unfortunately other text books show the same lack of interest for credit management. And there are hardly any purely academic books on credit management. We have to rely on practitioners to provide us with some decent literature on the topic. There are some good examples (like the book of FECMA president Glen Bullivant) covering some specific aspects or even the complete area of credit management, although some of them miss the scientific background.

The same phenomenon can be seen for education: here also the lack of interest by academic institutions is filled in by the practitioners: in many of the FECMA member countries the local credit management association is organizing a high level education program. In quite some countries you can become a Certified Credit Manager. The content and the high level of these programs also means that in most countries the 'CCM' title is recognized by the business community as a very valuable reference.

Academic Research

Let us now take a closer look at the second main domain of activities of academics. Research is indeed a key element in the mission of academic institutions. How important is credit management here?

We start with an obvious statement: credit management has changed tremendously in the last couple of years. There has of course been the financial crisis with its direct consequences and impact on payment behavior and increasing numbers of insolvencies. There are some other effects as well: the credit crunch, making it more difficult, especially for SME's to obtain bank financing. But there were also some other changes that had nothing to do with the crisis.

- The increased availability of financial data for instance. More and more countries have the financial statements of companies centralized and available at reasonable conditions. For researches this corresponds to important data sources for research projects.

- The evolution towards a globalised market has continued. On both sides of the supply chain we see an increasing internationalization, thus increasing the challenges for credit managers.

- This has also occurred for some financial functions: the still increasing number of centralized shared service centers, either within the own organization or outsourced to an external provider has in quite some cases also included credit management.

- In the meantime e-business and e-invoicing have in some countries already become the normal channel for invoicing which has an important impact on the requirements of the invoicing process, but definitely also on credit management.

These are only some of the important elements that have indeed been modified in the recent years, so it is clear that one of the characteristics of the recent period is change. Change in business relations and in the way they are managed. This means that credit management has the potential to become an attractive area for academic research.

Has this been the case? There have been some research projects on the impact of the credit crisis on financing of businesses, especially also for SME's. In that case the use – or abuse – of supplier credit is of course an important element. There have also been some more theoretical studies on trade credit, but there are few of them and sometimes they are a bit (or completely) distant from the real world of the credit manager.

Why is this so?

An important argument here is that academics are – just like business managers – subject to permanent evaluations. They have to perform well in their teaching, but they also have very stringent requirements in the area of research. Nothing wrong with that of course, but it has serious consequences. How can we measure research performance? One of the main elements here is the number of publications in highly ranked magazines. There is indeed a ranking of magazines, where the highest category is A1 (recognize something?). The number of A1 magazines is limited, so the supply of texts and reports is much higher than the demand by those magazines. They are all peer reviewed. This means that a text is submitted (normally this has to be anonymous) to a peer review. This implies that specialists in the subject (the 'peers') will judge the relevance, the scientific methodology and the results of the study. The result of all this is that it takes quite some time to get an article published (18 months and 3 revisions of the research and/or the text are not exceptional). So the pressure on academic staff to reach a sufficient number of A1 publications has become very high, causing a lot of stress and the need to work very hard . But it also leads to research projects that become more and more specialized and focus on very specific subjects. These subjects must really be feasible for a purely scientific approach. This means that most of the research is on a quantitative base, using advanced statistical techniques.

This may lead to publications that can be a bit out of the normal scope of business people. Just to give an idea, I can quote some of the titles of research papers that are currently on my desk: 'Rollover risk and market freezes', 'Enhanced Decision Support in Credit Scoring Using Bayesian Binary Quantile Regression'.

This can even become excessive. This is also shown by the existence of the so called IGNobel prices. Every year a series of 'Improbable' research publications in different domains receive the IGNobel prices. Some examples are shown in the separate text box. Fortunately there is still one of the academic research topics that is very relevant for credit management: credit scoring and rating. This is because it allows for the typical academic research pattern: review of literature, formulation of research hypotheses, setting up a data sample, empirical research and conclusions. New statistical techniques have been used in recent years in this area of research. Especially failure prediction is still a very interesting domain where new results are found, some of them even useful!

It would lead too far to elaborate on this subject now, so I just mention some techniques such as survival analysis, fuzzy logic, Markov chains that are used in this area, along with the traditional techniques of regression, linear and logit models, etc.

Why not join forces?

We can conclude that the academic world has the theoretical knowledge and the research methods but it would be useful to combine this with the practical knowledge of the credit management community.

And there have been some interesting research projects, executed by academic researchers in collaboration with business organizations or credit management associations. They are not published in A1 journals, but they provide very interesting and useful information.

Just some examples. A project on behalf of ACCA (Association of Chartered Certified Accountants) in the UK, executed by Prof. Salima Paul on 'Getting paid: lessons for and from SMEs'. Some of the conclusions will seem very obvious and normal for experienced credit managers, but for those who do not know our working area it is very good to see a confirmation of the need and the usefulness of a professional credit management.

Another interesting survey was made in Germany by Prof. Weiss on determinants of payment behaviour, published in collaboration with BvCM, the German Credit Management Association.

So there are quite some initiatives but they are mostly not really considered to be 'scientific' enough to get a research output that is useful for the researcher. For the evaluation of their research output the A1 publications are the ones that really matter.

We can hope that the academic world would change and recognize the importance of applied research, but I am afraid that this saying of Prof. Geoffrey Boulton (University of Edinburgh) is still applicable:

"The difficulty is, that changing a university is like moving a graveyard, you get no help from the people inside!"

In case you are aware of other qualification programs on credit management or interesting research papers and reports, I will be very grateful if you let me know. We intend to use the FECMA communication channels to make all the relevant knowledge available for the European credit management community.

IGNobel price for IMPROBABLE RESEARCH

For achievements that first make people LAUGH then make them THINK
Some examples:

❶ Neuroscience price: Craig Bennett, Abigail Baird, Michael Miller, and George Wolford [USA], for demonstrating that brain researchers, by using complicated instruments and simple statistics, can see meaningful brain activity anywhere — even in a dead salmon.

❷ Literature price awarded to the US Government General Accountability Office, for issuing a report about reports about reports that recommends the preparation of a report about the report about reports about reports.

❸ Economics price for 2010: the executives and directors of Goldman Sachs, AIG, Lehman Brothers, Bear Stearns, Merrill Lynch, and Magnetar for creating and promoting new ways to invest money — ways that maximize financial gain and minimize financial risk for the world economy, or for a portion thereof.

We at Euler Hermes know that many unpaid invoices are caused by insufficient knowledge about your customers' solvency.
Our knowledge helps you to pick the right customers to do business with, while our credit insurance brings you the reassurance that your invoices will be paid.
Euler Hermes is the world's leading provider of trade related insurance solutions, helping companies of all sizes trade with confidence at home and abroad.

Visit our website to find out more about how Euler Hermes can help you grow your business successfully.

www.eulerhermes.com

EULER HERMES
Our knowledge serving your success

A company of **Allianz**

FECMA CMI-EUROPE RESULTS OF Q1/2013

CMI is the European risk and prosperity forecasting indicator of the Federation of European Credit Management Associations (FECMA). Below we share the latest results from this Pan-European survey.

The Credit Manager Index (CMI) has been used for many years to predict the performance of the economy in many countries like the US, the Netherlands or UK. Credit managers are focusing intensely on the future when estimating risk and business opportunities so CMI has been recognised as a quality economic forecasting tool. Credit managers always have to look forward to the moment when the invoices are due in 30, 60 or maybe 90 days, therefore their attitude and anticipations can be interpreted as a prosperity and risk level indicator. The relevance of the CMI was largely proved at forecasting the dramatic economic breakdown in 2008.

CMI-Europe, the joint credit manager index for the European credit manager community has been gathering data since Q2/2012 with the participation of the national credit management associations of many European countries including Czech Republic, France, Hungary, Sweden, The Netherlands and United Kingdom. The German CMI was launched in January 2013 (first result: 52,35), so the CMI-Europe Q1/2013 is including figures for Germany as well.

Results of the CMI-Europe are published quarterly reflecting the judgement of around 1.000 credit managers in Europe. Questionnaire and results are regularly published on the official homepage of CMI-Europe (www.cmieurope.eu).

Results

Country	Index of favourable factors	Index of unfavourable factors	CMI
France	77,8	52,4	**60,0**
Hungary	58,7	38,2	**44,3**
Sweden	50,0	42,9	**45,0**
UK*	59,2	48,8	**51,9**
Germany**	52,9	50,8	**52,0**
The Netherlands ***	50,5	42,1	**45,5**
CMI Europe 2013 Q1	**57,8**	**47,7**	**50,8**

* UK CMI is published by the Institute of Credit Management (ICM).
** German CMI is published by Georg-August-Universität Göttingen
*** In the Netherlands, CMI is published by BurlinQ B.V.

Detailed CMI figures

question\ country	FR	HU	SE	UK	DE	NL	FECMA
Credit sales	100,0	67,4	58,3	60,5			60,9
New credit applications	83,3	58,7	50,0	56,5			56,6
Order book	50,0	50,0	41,7	60,7			60,1
Index of positive factors	**77,8**	**58,7**	**50,0**	**59,2**	**52,9**	**50,5**	**57,8**
Credit application rejected	66,7	37,0	41,7	45,8			45,5
DSO	33,3	26,1	58,3	50,0			49,1
Overdue debtors	33,3	43,5	33,3	48,9			48,5
Payment terms / UK: Bad debt provisions	33,3	32,6	41,7	53,2			52,3
Collections efforts	50,0	32,6	50,0	49,8			49,2
Insolvencies	66,7	43,5	41,7	47,0			46,9
Disputes	83,3	52,2	33,3	46,9			47,1
Index of negative factors	**52,4**	**38,2**	**42,9**	**48,8**	**50,8**	**42,1**	**47,7**
CMI Europe 2013 Q1	**60,0**	**44,3**	**45,0**	**51,9**	**52,0**	**45,5**	**50,8**

Comparisons

2013 Q1	FECMA CMI-Europe	USA NACM Credit Managers' Index*
Index of positive factors	57,8	58,4
Index of positive factors	47,7	51,4
CMI	50,8	54,2

*NACM CMI is published by the National Association of Credit Management, Columbia, Maryland, USA

Q12013 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1
FECMA CMI-Europe	50,0	48,7	49,8	50,8
USA NACM Credit Managers' Index (PMI)*	46,3	46,1	47,2	46,5

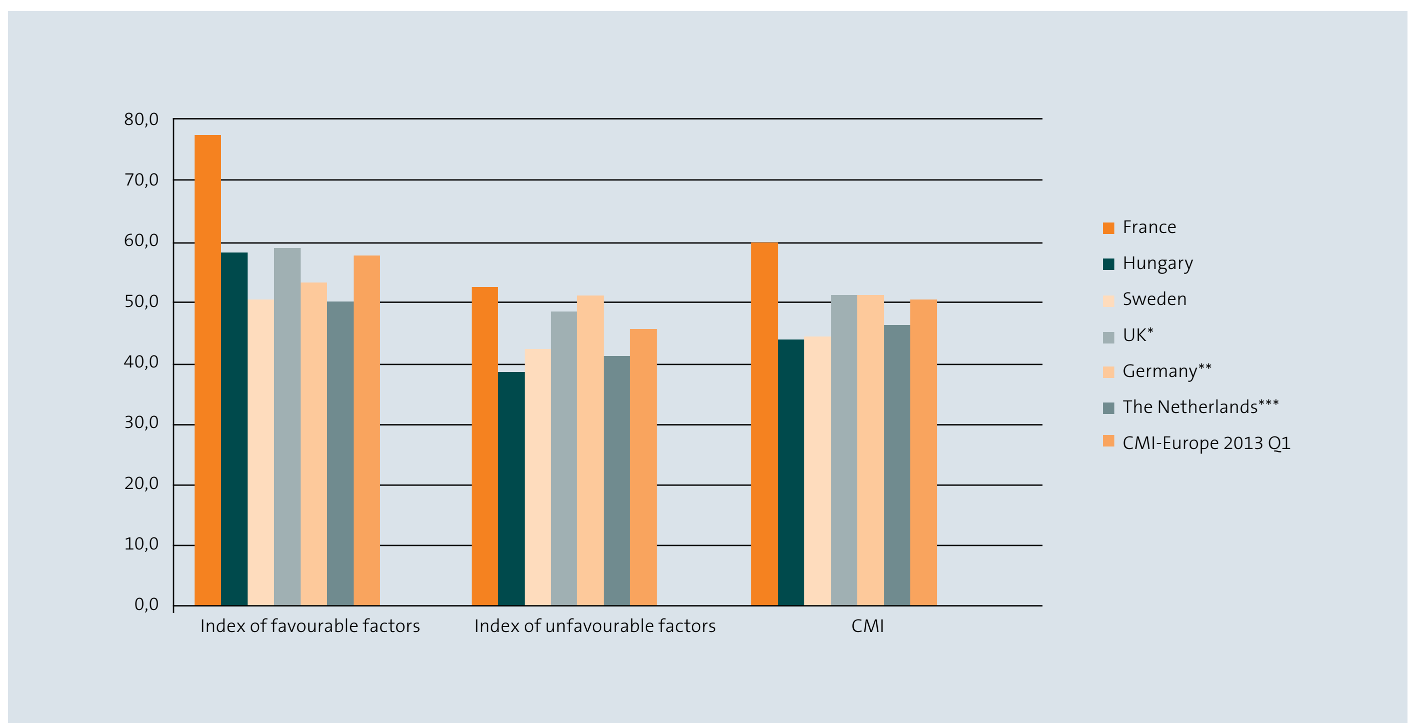
*Eurozone Composite PMI is published by Markit Economics

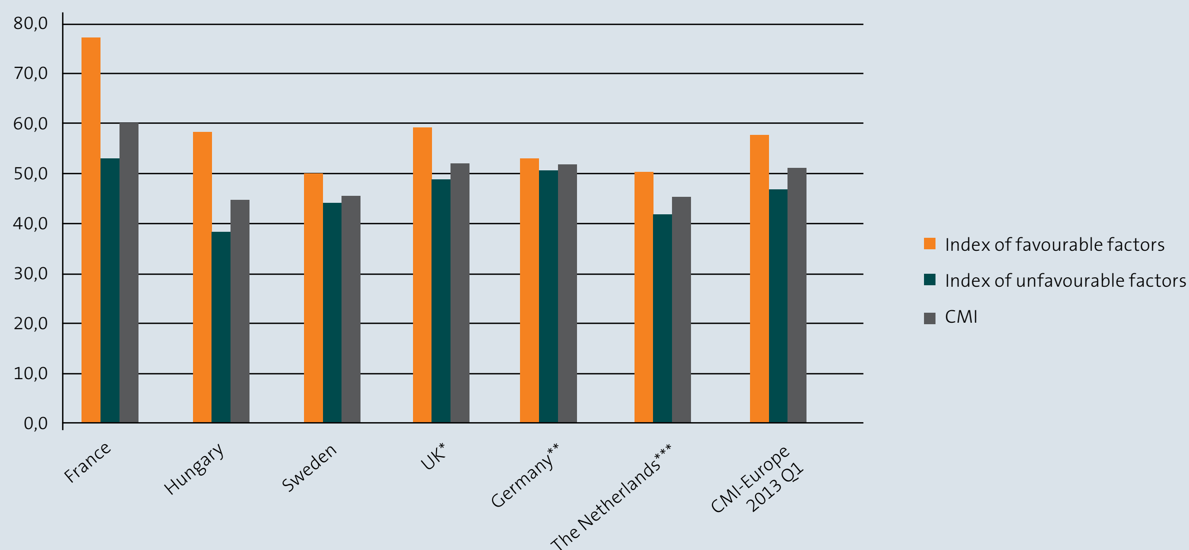
2013 Q1 result of FECMA CMI-Europe is 50,8, slightly higher than the relatively neutral judgements of European credit managers in the previous quarters. France, Germany and UK are a bit optimistic about the economy in the near future, while Hungary, Sweden and The Netherlands are relatively pessimistic with results of around 45.

The Index of favourable factors is 57,8: especially sales figures related scores are all predicting expansion with the index above 60. Credit sales is showing a positive development in all countries indicating the increase of credit sales in Q1/2013 as compared to the previous quarter.

The outcome for unfavourable factors is 47,7. The most explicit change is found in the result for rejected credit applications: the figure of around 46 reflects the negative impact of higher risk level of debtors in all countries. For the total index of negative factors we can also distinguish between 2 groups: the neutral to slightly positive feelings in France, UK and Germany opposed to the negative results for Hungary, Sweden and the Netherlands.

Credit managers will be able to share their experience about Q2/2013 from 1st July when the next CMI-Europe data gathering survey will be opened. Please visit www.cmieurope.eu.





About CMI

CMI consists of ten factors: three of them are favourable and seven unfavourable ones. Favourable for example is the volume of sales or new credit applications. Unfavourable among others are payment delays, overdue or number of insolvent clients. Credit managers evaluate the ten components and all of them that will be used in calculating CMI with equal weight. Index of positive and negative factors can be expounded separately where favourable items have reference to shaping of business while unfavourable ones referring to changes of risk parameters. CMI above 50 indicates economic expansion, under 50 contraction and narrowing of economy is expected.

For more information please visit: www.cmieurope.eu.

International company data for credit management

Whether you need sophisticated functionality – or a simple way to check a company's financial strength – there's a BvD solution to suit.

We offer comprehensive, standardised financials, own ratio and data options plus benchmarking software and integration packages – so you can include data from our products in your systems and workflow.

Visit bvdinfo.com to arrange your free trial

bvdinfo.com

orbis

credit catalyst

BUREAU VAN DIJK

CENTRALISED CREDIT MANAGEMENT AT UPM

Maarit Siijärvi, Manager Risk Assessment at UPM "(Finland)" one of the speakers at FECMA's Pan-European Credit Management Congress held in Budapest in May this year, tells us more about how centralization of the credit management function has helped her company to improve its performance.

Maarit Siijärvi
Manager Risk Assessment
at UPM Finland
maarit.siijarvi@upm.com

Please tell us about your company UPM. Where are you active in business and what are your products?

"As the frontrunner of the new forest industry UPM leads the integration of bio and forest industries into a new, sustainable and innovation-driven future. We create value from renewable and recyclable materials. Cost leadership, change readiness, engagement and safety of our people form the foundation of our success. UPM comprises of three Business Groups: Energy and Pulp, Paper, and Engineered Materials. In 2012, UPM's sales exceeded € 10 billion. UPM is present in 67 countries and has production plants in 17 countries. The company employs approximately 22,000 people worldwide. UPM shares are listed on the NASDAQ OMX Helsinki stock exchange. As the Biofore Company, UPM's vision is to lead the integration of bio and forest industries. Cost competitiveness and materials and energy efficiency, combined with high-quality products and the ability to quickly adapt to changing circumstances, strengthen UPM's competitive position, create new opportunities and increase shareholder value in the long term. Fibre- and biomass-based businesses, recyclable raw materials and products are cornerstones of UPM's business. UPM comprises of six independent business areas: Energy, Pulp, Forest and Timber, Paper, Label and Plywood. UPM uses fibre and forest biomass in its current products and its aim is to create new growth opportunities based on continuous product development and innovation. UPM provides smart and sustainable products and solutions for its customers worldwide."

Your role in UPM is: Manager Risk Assessment. What is your remit?

"I am one of the four managers in the UPM Credit Risk Management (CRM) team, Europe. My main responsibility is the sub-team that takes care of the credit risk assessment and collection. We are located in Tampere, Finland. We have a 20+ strong multinational team with team members from Greece, UK, Germany, Italy, Russia, Finland, France, Dominican Republic, Poland and so on. There are also two other sub-teams within the CRM department: Customer Master Data and Bad Debt Handling team. As their names describe they take care of the specific areas. For example the Customer Master Data personnel is involved when a new customer is set up, or any changes occur in the customer's address, VAT, payment terms and so forth. The Bad Debt Handling Team on the other side is responsible for legal collection, lawyer contacts, trade credit insurance claims etc. The CRM Europe team provides credit risk management services to UPM European and agent market sales.

As a manager, I am facilitating the team in performing their tasks. We are continuously developing the ways of working in the team, with training programmes and other methods. Our focus and attention this year is to steer the way of working into an even more pro-active approach in risk mitigation instead of just looking back to the historical performance and taking actions on that basis. Naturally, an efficient collection process is important, too, especially considering the challenging market conditions in Europe."

How is Credit Risk Management organised within UPM?

"UPM Credit Risk Management is a part of the UPM Finance and Control Organization. The top organization in the Credit Risk Management is the Group Credit Risk Management located in the Group Head Office in Helsinki, Finland. Group Credit Risk Management sets the targets and standards for all CRM processes. Group CRM also negotiates all agreements with the all service providers, such as trade credit insurers, brokers, status report and collection agencies. Group CRM also provides monthly updates on receiveables stand and risk issues to the Board and the management of the Business Groups.

Besides CRM Europe team in Tampere we have two other continental CRM teams for APAC/China and Americas who provide the credit risk management services to sales in their respective market areas. The operations were centralized from five regional CRM centers in Europe to one location in Tampere, Finland in 2010."

What are the advantages of having a centralised Credit Risk Management Team in Finland?

"The advantages are that we have a streamlined way of handling the CRM tasks, less local variations and unified CRM processes. Our internal stakeholders also have one contact point in the centralised team.

One big advantage is when we are dealing with multinational groups. When the credit control for the whole group is in the same location, we can manage the total exposure in a more efficient and simplified way. If one was only concentrating on the risk involved with a local subsidiary, the total exposure and risks involved in other countries might be neglected. This way we can see the whole picture and can take necessary actions across Europe when needed. Naturally when we deal with global customer groups we also discuss with our colleagues in the other continental CRM teams."

What are the disadvantages of centralising credit management?

"At times we have had challenges in finding qualified staff. That was especially true in the early stages of the centralization three years ago when the current organization was set up. Now we have found the right channels and networks to reach the suitable candidates with the required skills, experience and languages."

What was the effect of centralising Credit Risk Management on your KPI's?

"We have been able to focus in a more efficient way on risk mitigation and collection supported by new tools in these areas. This has resulted in improvement in KPIs, for instance overdues, in certain key markets. We are also in a better position to follow the KPIs relating to the team's performance and efficiency, for example, in collection and processing Customer Master Data and credit limit requests."

Who visits your buyers to discuss non payments, your team or the sales team? Why was this choice made?

Both parties, us and sales, visit the customers concerning non-payments or for customer risk assessment purposes whenever necessary. We make decisions case by case. Naturally now that more of the communication has moved from face-to-face meetings to internet based solutions, the need for face-to-face meetings has become more scarce than before. We now normally utilize an e-tool in collection to communicate with customers."

What is the role of credit insurance as a way to mitigate risk for UPM?

"UPM uses credit insurance, external and own captive, for risk-transfer purposes. Obviously, the customer analysis conducted by the credit insurer supports UPM's credit risk management in the risk mitigation."

The future of UPM is about moving into Emerging Markets and moving from paper into more profitable product groups such as Energy and Biofuel. How will these changes impact your credit risk?

"Firstly, I need to correct the question. We are complementing our European business presence with Emerging Markets and with other businesses such as Biofuel and Energy. In our CRM Europe team the attention is definitely focused on the risk mitigation in the challenging mature markets in Europe but simultaneously supporting new business areas in their strategies. The growth areas are in Asia and Latin America, and our CRM teams are very experienced in analyzing the customers in these markets in close co-operation with our local sales and agents. Our sales also have responsibility for their customers until the payment is received. This means that they are also focused on mitigating the risks by careful customer selection and are regularly reviewing the customer base with the CRM teams."

You are also a board member of the National Credit Association of Finland, one of the members of FECMA. How do you see the future of Credit Management in Europe, and what role can FECMA play?

"I see FECMA as an important "glue" between credit professionals across Europe. It is a great forum for us to exchange views on legislation, trends, best practices, KPIs. And so many other topics, difficult to list, actually. The work of your typical credit professional in any given European country or any given company will eventually become more global. Thus it is important for all of us to follow recent developments in international credit risk management, keep up to date with changing legislation, learn more of local collection practices.

I hope of course that one day FECMA would have an active role in how the European legislation will be harmonized, for example in terms of bankruptcy law."

is a leading credit risk management solution.

Our Credit Application Manager (CAM) is a leading credit risk management solution for more than 290 national and international major corporations, as well as insurance, factoring and leasing companies. In their daily work, CAM allows credit and sales managers to call up all the available information about a customer or risk in a few seconds for decision support: real-time data from wherever they are.

CAM keeps an eye on customers whose payment behaviour stands out or who have overdue invoices! CAM provides an up-to-date forecast of customers' payments. Additionally, CAM has automated interfaces for connecting to leading suppliers of company credit data, payment record pools and commercial credit insurers.

The system is characterized by its great flexibility.

We have years of experience in consulting and software development for credit risk management.

Automated interfaces for connecting to

- leading credit agencies
- payment record pools
- financial statement analysis
- commercial credit insurers

Real-time

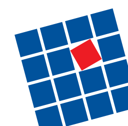
- payment behaviour
- overdue invoices
- up-to-date forecasts
- portfolio analysis

Our customers benefit from

- automated risk monitoring
- risk adjusted credit limits

Contact us – we have the right solution for you!

Prof. Schumann GmbH | phone +49 551 383 15-0
www.prof-schumann.de | info@prof-schumann.de



Prof. Schumann GmbH
innovative information systems

FECMA CONGRESS IN BUDAPEST: "A GOOD CREDIT MANAGER IS LIKE A SAFETY BELT"

Successful start in a magnificent setting: Approximately 200 participants came together at the Academy of Sciences in Budapest to attend the first FECMA Pan-European Credit Management Congress. Under the motto "European Best Practices – Inspiration for Credit Managers" the Federation of European Credit Management Associations had invited its international guests to the Hungarian capital for two days to give them the opportunity to hear presentations on current trends in credit management, participate in discussions and engage in professional networking. The dazzling highlight of the event was the presentation of the first FECMA Lifetime Achievement Award to Drs Oswald F. Royaards from the Netherlands for his contributions to the industry.

The Academy of Sciences in Budapest brings together the best researchers in Hungary. Eleven faculties reside in the Neo-Renaissance style building constructed in 1845 by the Prussian architect Friedrich August Stiller, and every two years it is the venue for the World Science Forum, the most important conference on global science policy.

For two days, however, the venerable academy on the banks of the Danube River was the centre of a very different summit: Glen Bullivant, President of FECMA, welcomed credit managers, scientists and other interested parties from 18 countries to the first pan-European Credit Manager Congress. "We may indeed have gathered at the Academy of Sciences," said Bullivant, "but the focus at our congress will be practical insights being of major relevance for the daily business of credit managers." The event was hosted by FECMA with the valuable support of the Hungarian Credit Management Association, whose chairman Péter Szentirmay stated in his opening speech: "Even if we do not all have the same mother tongue, we all speak the same professional language."

The first to define what kind of language this is was Claes Jacobsen (Scania Financial Services, Sweden), who spoke about the challenges a credit manager faces today in a rapidly changing economic environment – and how these can be

A STATUE FOR OSWALD ROYAARDS
During a Gala Dinner, Drs Oswald F. Royaards from the Netherlands received the FECMA award, a statue by the sculptor Dieter von Levetzow, for his lifetime achievements in the field of European credit management from the hands of FECMA President ,Glen Bullivant. "Nobody has given more to the Credit Management in Europe and nobody deserves this award more than Oswald," said Mr Bullivant. The recipient expressed his gratitude, stating that he was very happy, and with a look at the statue with her arm raised, he added: "I see it as a permanent warning to take care of the future."

addressed by means of dedicated risk management.

Willibrord van Leeuwen from the Dutch publishing house Wolters Kluwer then turned to very practical conflicts of interest between sales staff and credit managers. The main concern of one side would be the customers, whereas the other side would have the payments at its centre of concern. In the opinion of van Leeuwen, this naturally leads to conflict. Nevertheless, he regards a good relationship between the two areas as essential for the success of the company. In order to be able to cooperate in a constructive and successful manner, the Dutchman called for clearly defined responsibilities and precise agreements, for example on how to deal with late payers. The sharing of knowledge about good customers – i.e. customers paying on time – he considered equally important, as such information could also potentially provide starting points for the expansion of business relationships. Van Leeuwen's conclusion: "A good credit manager is the safety belt for business and for your company."

Two other lectures provided the participants with insights into the Hungarian perspective on the economy in general and credit management in particular. A Hungarian economist provided a comprehensive overview of the economic situation in Eastern Europe and the current risks, and Dr. Erzsebet Antal from the Hungarian logistics group Waberer's described the efforts that have been made in their affiliated companies to improve credit management – one major focus being the automation of specific processes.

In a panel discussion moderated by Philip King (Institute of Credit Management, UK), the conference participants exchanged ideas about the

importance of credit management and current trends. Highlight of the first day was the Gala Dinner, during which Drs. Oswald F. Royaards received an award for his lifetime achievements in the credit management profession (see adjacent article).

The second day of the conference was devoted to in-depth information on all aspects of professional practice – but also to the role of credit management in science. Prof. ir. Ludo Theunissen (Ghent University) clearly stated his position on this matter: Credit Management is - despite the obvious importance – not really a hot item in university education." The changing environment – he named the credit crisis as a prominent example – would not be adequately reflected within the academic world. As Theunissen put it pointedly: "Changing a university is like moving a graveyard. You shouldn't expect too much help from those who were inside." Basically, he looked to academics to translate expert knowledge into decision-making models – in order to provide a bridge to the practical application of the findings.

Dr. Michael Sauter (German Credit Management Association BvCM) dedicated his speech to the anchoring of credit management in business processes and, in view of the recent development regarding the significance of "big data", dared to give a trenchant outlook: Using a beamer he presented a – as of yet fictional –"Google Credit Management" search form. Credit Management by a mouse-click – will this be the future? Sauter's practical advice to those present: "Make sure to strive for best practices and not for the optimum, because the lat-

ter might entail too much effort." According to Sauter, success factors for credit management include further integration with the sales organisation, a holistic view of the function and continuous innovation.

Andreas Wenzel (Agfa, Belgium) explained that efficiency gains can be achieved by constant determination and the realignment of the credit management of a globally active organisation according to clear guidelines and with appropriate software support. Alberto Bottoni (ABB) talked about the pros and cons of certain organisational models for regional and international companies. The motivational concluding lecture was given by Brian Morgan (Veolia Environmental Services, UK), whose final consideration could as well have been the secret motto of the congress: "Getting better never stops."

In his closing remarks at the end of the congress, Glen Bullivant thanked all who had contributed to the success of the event, particularly the Hungarian hosts, Pascale Jongejans of the European FECMA secretariat and the team of the BvCM. "It was a most successful, enjoyable and informative Pan-European conference," concluded Bullivant – and that he was already looking forward to the next stageing of the event. The latter has already been scheduled (May 20-21, 2015) and will most probably take place in Brussels, Belgium.

IMPRESSIONS
FECMA CONGRESS IN BUDAPEST

IMPRESSIONS
FECMA CONGRESS IN BUDAPEST

EUROPEAN PAYMENT INDEX 2013

About Intrum Justitia
Intrum Justitia is Europe's leading Credit Management Services (CMS) group and offers services designed to measurably improve clients' cash flows and long-term profitability, including purchase of receivables. Founded in 1923, Intrum Justitia has some 3,500 employees in 20 countries. Consolidated revenues amounted to around SEK 4.1 billion in 2012. Intrum Justitia AB has been listed on NASDAQ OMX Stockholm since 2002. For further information, please visit www.intrum.com

EUR 350 billion in bad debt written off by European businesses

Highest level of bad debt losses to date and the forecast is bleak

- Well over half of the surveyed European countries show increased payment risks and as much as a third of the countries are seen as having an emergency risk profile.
- The level of receivables having to be written off due to default on payment rose by 7 percent and corresponded to 3.0 percent of all outstanding receivables among European businesses. In total, receivables for EUR 350 billion were written off.
- Only four out of 31 countries surveyed showed decreasing bad debt losses – Denmark, Finland, Iceland and Sweden. Germany showed zero growth in written off receivables, although perceived future risk among businesses increased sharply.
- In the United Kingdom, the percentage of receivables that were written off continued to rise from an already high level and in France the perception of future risk continues to be high.
- Countries in southern and eastern European are struggling with long maturities, high levels of default on payment and widespread pessimism regarding their ability to rise from the current slump.
- Companies are increasingly seeing effects from the recession on sales, liquidity and their ability to grow and find resources to invest in the future.

More than ever, it is apparent that the European economies are running at different paces, with a small group of countries acting as leaders and a large group as laggards. This was confirmed by the payment and credit statistics presented in Intrum Justitia's ninth annual EPI survey (European Payment Index), in which almost 10,000 businesses responded to questions about payment patterns. Only four out of the 31 countries surveyed have seen their share of bad debt losses decrease – all of them Nordic countries.

Greece is the country where the EPI Risk Index has reached an extreme 195 out of possible 200, whereas Finland shows the lowest risk with 125. The index reaches from 100-200 and is presented in full in the Intrum Justitia European Payment Index 2013.

"The North is still holding on but Europe's dependence on Germany is more evident than ever. The sharp rise in the perception of future risk among German businesses is really alarming and should send a chill down the spines of politicians all over our continent. There is an evident danger of bad turning worse in Europe.

"THE NORTH IS STILL HOLDING ON BUT EUROPE'S DEPENDENCE ON GERMANY IS MORE EVIDENT THAN EVER".

Bad debt loss in Europe reaches € 350 bn

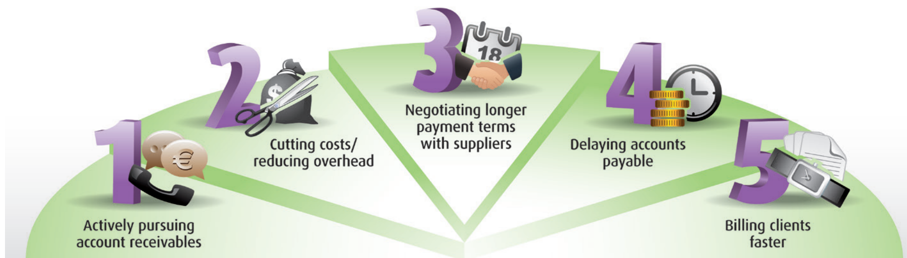
Bad debt loss in Europe poses an unsustainable threat to Europe's financial recovery. Big differences emerge between Northern countries, Germany, Switzerland and the rest of Europe. Late- and non payment hinders growth of companies and investments in innovation.

Leap in bad debt loss (% of total receivables) to € 350 bn

Bad debt loss in Europe poses an unsustainable threat to Europe's fiscal recovery. The staggering write-off sum is directly due to late- and non-payment behaviour by consumers, businesses and the public sector. The bad debt loss rose from 2.8% to 3.0% equalling a 7% jump to reach €350 bn.

Top 5 actions European companies take when liquidity is squeezed

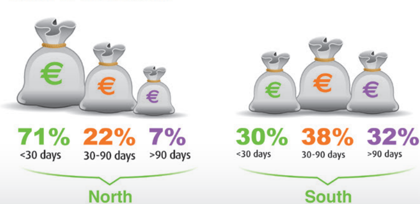
Across Europe, thousands of enterprises have been forced into liquidation and others are battling reduced liquidity, later payments from customers and restricted credit from banks. What are they doing to improve their liquidity?

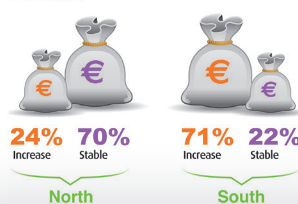


Comparison payment behaviour and risk forecast

Payment behaviour and risk forecast clearly differ substantially between north and south Europe

Share of receivables





	<30 days	30-90 days	>90 days
North	71%	22%	7%
South	30%	38%	32%

Forecast

	Increase	Stable
North	24%	70%
South	71%	22%

The inability among consumers, businesses and authorities to settle their bills on time has resulted in an increase from 2.8 percent to 3.0 percent of all outstanding receivables having to be written-off as bad debt. This represents a 7 percent increase in the amount of debt being written off, or a total of EUR 350 billion in the countries embraced by the survey. When looking at individual countries, the

One positive sign in the report is that the awareness of the danger of payment default seems to have increased among businesses. The time that it takes for a company to get paid decreased for the second year in a row. At the same time, the survey reveals a strong sense of dissatisfaction with governments, who are not perceived as doing enough to protect businesses against late payments. Overall, 70 percent of the respondents said they did not believe that their government was doing all it could to help.

Banks continue to fall from grace. Banking practices were slammed in almost every country with a substantial majority of respondents saying they were less confident than before getting financial support from their bank to help run and grow their business.

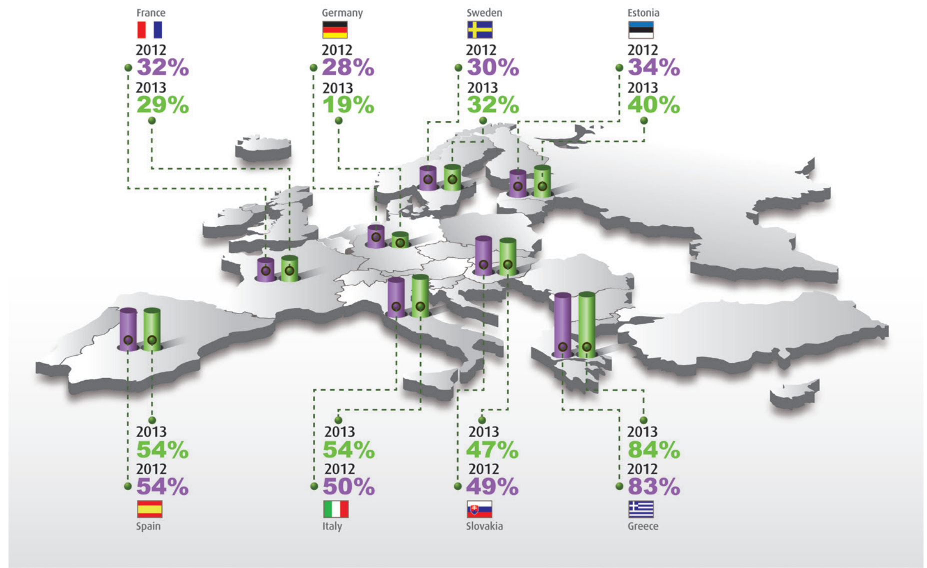
The EPI 2013 survey also drilled down into the priority given by companies to those they owed money to. Perhaps unsurprisingly, the majority said they first paid public sector invoices, including taxes and other charges. After that, the second priority was to pay the invoice from the most important supplier, followed, in third place, by invoices from utility companies. International invoices were given the least priority, on the list of ten, which perhaps is not such a positive notion from an exporting perspective.

Despite the ongoing implementation of the Late Payment Directive across the EU, delayed payments are still a major threat to the growth and survival of European businesses. The EPI survey reveals that out of the 9,800 businesses that responded to the survey, 61 percent say they experience lost sales as a consequence of bills not being paid, 57 percent say that their liquidity has been impacted by the tough economic conditions and 48 percent say that they have decreased their investments in innovation as a consequence of the tighter financial situation.

If this downward spiral continues, we will soon have a situation where businesses are unable to grow, where innovation is hindered and where the survival of businesses is threatened. All stakeholders involved, businesses as well as governments, have to do everything in their power to turn this development around. The long-term stability and prosperity of the European countries presuppose that businesses get paid on time.

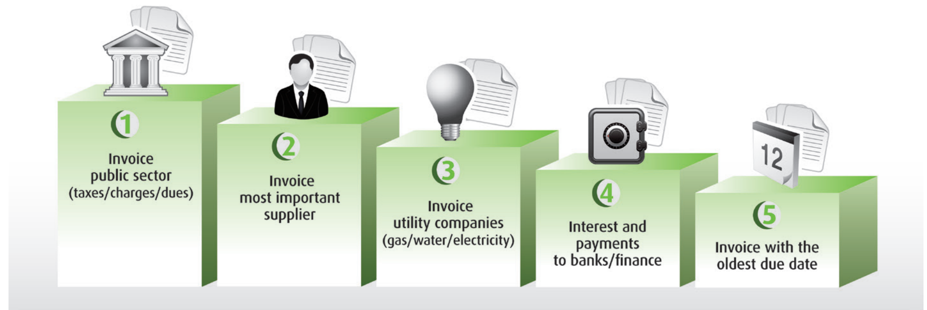
Confidence in getting financial support from banks drops

Banking practices were slammed in almost every country with a substantial majority of respondents saying they were less confident than before about getting financial support from their bank to help run and grow their business.



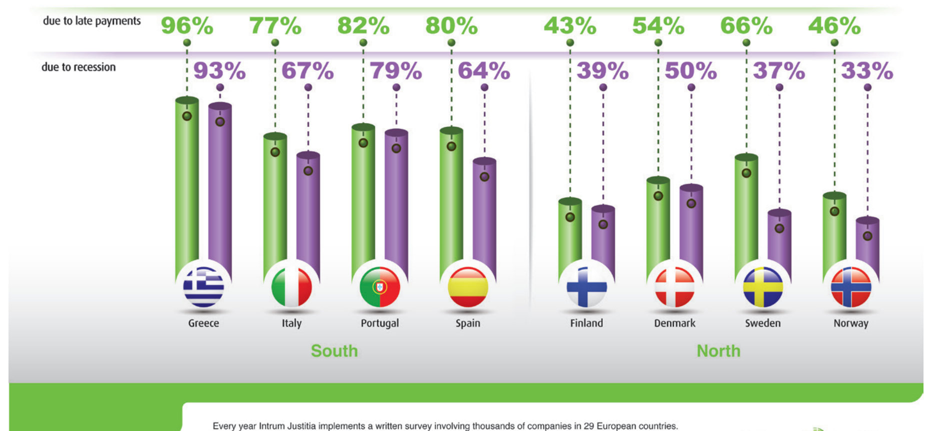
European businesses top 5 prioritised invoices

Companies have different priorities when cash flow is tight. Below the invoices that are being paid first when money is tight.



More and more businesses report liquidity problems

Liquidity problems are rife. Companies report rising liquidity issues due to late payment and the ongoing recession.



Every year Intrum Justitia implements a written survey involving thousands of companies in 29 European countries. The results are published in the European Payment Index (EPI), designed to capture insights and trends to aid financial decision-making. For your own FREE copy of the European Payment Index 2013, go to intrum.com.

intrum justitia

About the European Payment Index

The Intrum Justitia European Payment Index (EPI) has measured the risk of doing business in the European economies, by surveying businesses, since 1998. The survey was conducted simultaneously in 29 European countries plus Turkey and Russia between January and March 2013. The survey was conducted in written form and more than 9,800 companies responded. The Index is based on 21 different variables, including payment duration, payment loss, consequences of late payments and forecast on risk development, as well as technical financial data.

For further information, please contact:

Madeleine Bosch,
Head of EPI Research,
Intrum Justitia AB
Mobile: +31 64 6212 579
Email: m.bosch@intrum.com

SUNGARD® AVANTGARD

70% OF COLLECTIONS CALLS GO TO COMPANIES THAT WOULD HAVE PAID[1]

For more information, please visit:
www.sungard.com/avantgard

Contact us:
avantgardinfo@sungard.com

SunGard's AvantGard GETPAID Solution can help you focus your collection efforts

- Leverage payment behaviour to drive risk-based collections
- Lower days sales outstanding (DSO) / reduce past-due A/R
- Reduce dispute cycle time
- Decrease bad debt expense
- Improve cash forecasting

SunGard's AvantGard GETPAID solution is a fully integrated, web-based order-to-cash solution that enables companies to achieve significant financial and operational benefits. AvantGard Receivables GETPAID drives automation, workflow and collaboration across the order-to-cash cycle, with detailed analysis and reporting capabilities for decision support. The solution includes credit risk modeling, collections management, deductions management, cash application, collection agency management and dashboards and reporting.

(1) Source: McKinsey & Co.

© SunGard 2013.
All rights reserved. SunGard, the SunGard logo, and GETPAID are trademarks or registered trademarks of SunGard Data Systems Inc. or its subsidiaries in the U.S. and other countries. All other trade names are trademarks or registered trademarks of their respective holders.

CREDIT MANAGEMENT BUILDING BLOCKS: HOW TO MANAGE CREDIT EFFECTIVELY

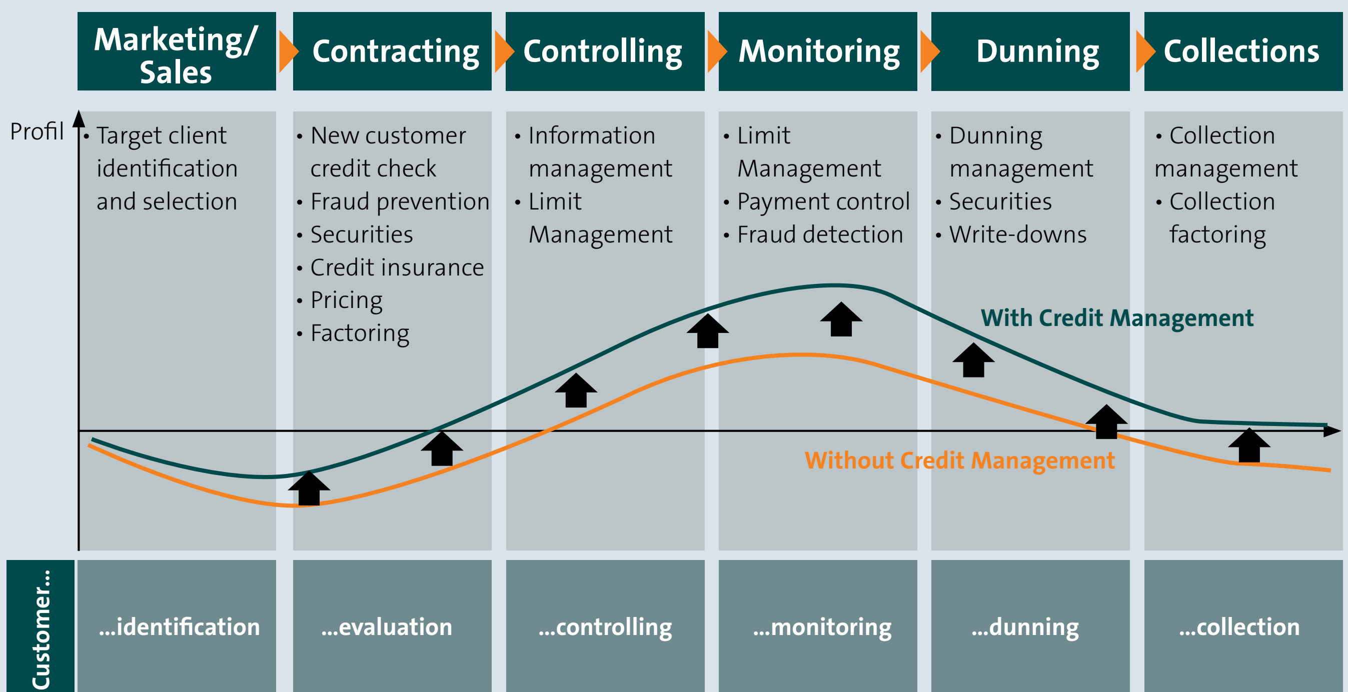
Fundamentals of credit management

Credit Management has very much evolved over time. While in the early days of credit management it was just another hidden function in the finance department, credit management recently has gained a lot more attention in the light of global financial crisis. Credit management today needs to start early in the customer lifecycle and has a strong impact on profitability.

This means that credit management should be integrated with sales activities from the beginning. Not when contracts with clients already have been finalized, but in the first step, when customer segments are profiled to approach them with marketing and sales activities (see graph). More and more companies have understood this and have set clear expectations and incentives for cooperation between the two departments.

What is needed is a holistic view on customers, either as opportunities or risks associated with individuals or businesses. We call this a "360 degree view" that makes sure, nothing is overlooked and opportunities are not overrated denying potential risks. A good way to effectively implement this in an organization, is a credit policy, that consolidates the viewpoints of both sales and credit management, and has top management commitment for execution.

Given these responsibilities in the company, the role of the credit manager as such has changed from being a traditional "accountant" to being an "advisor" to the company who is working closely together with all departments and all hierarchies (see graph). The ultimate goal of a credit manager as such is not to "get rid of risk" but to enable profitable business. "Saying YES to profitable credit" must be the primary objective of the credit manager's profession.



The role of the Credit Manager has changed – from "Accountant for" to "Adviser to" the company

Classic Credit Management:"Accountant"	"New" Credit Management:"Adviser"
• Little communication, many interfaces • Economic situation hardly considered ("sales deterrent") • Limited use of customer data • Marginal use of external data • Exceptions rather than clear rules • Late / forgotten request for payment • ...	• Central function in the company • Advisory function for other departments in the company (especially sales and top management) • Credit policy for determining policy towards risk • Use of mathematical / statistical method • Use of additional external data sources; link-up of all relevant information • Assessment of all customer information • Permanent monitoring and early warning system ...

Optimal combination of opportunities and risk through pro-active identification and management of risks and advisory function in the company!

Building blocks of "good" credit management

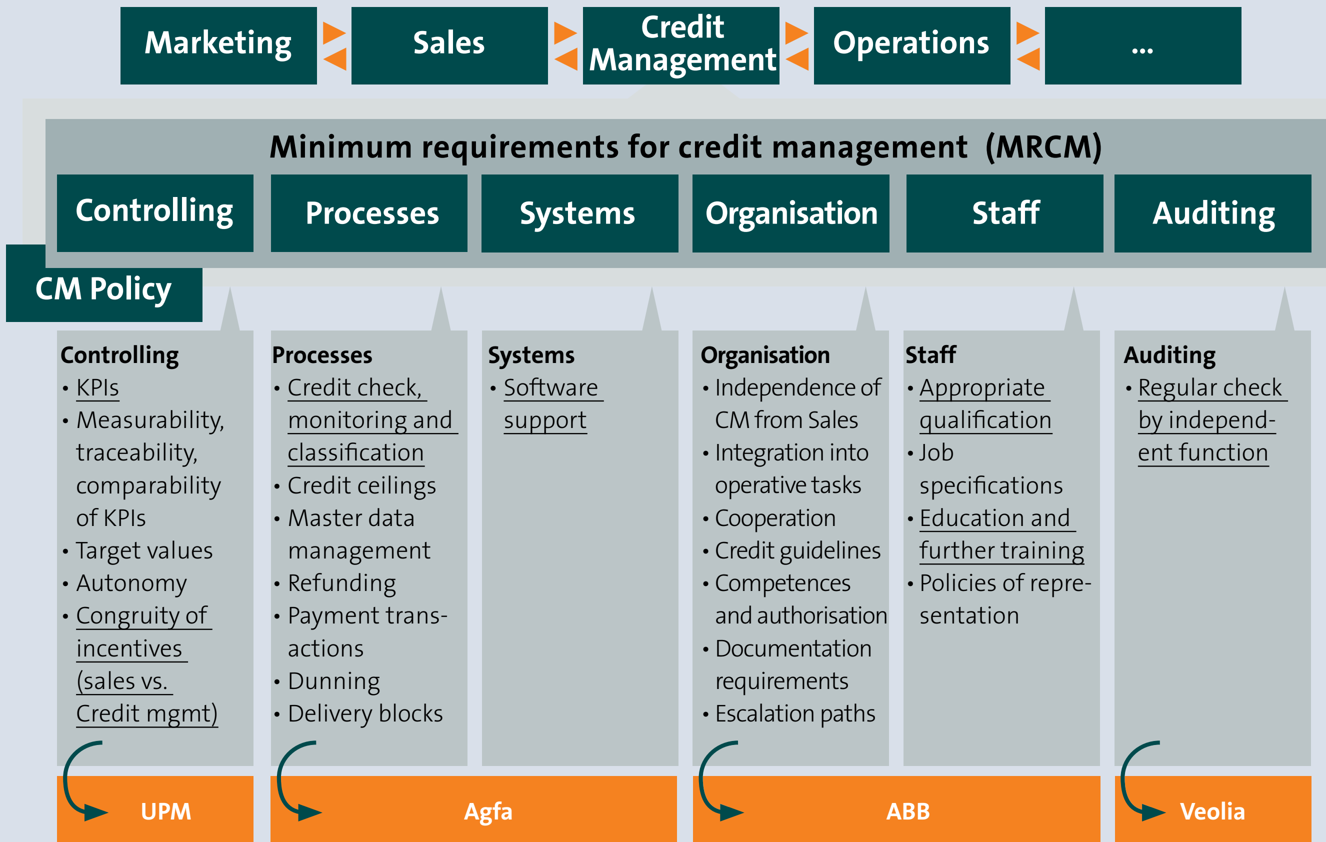
Until now it should have become clear that credit management as a profession is a "full-time" job. A credit manager's day is packed with challenges that need his immediate attention. Credit management is connected with all client facing departments and needs to integrate several areas to build a highly effective credit function.

The German credit management association Bundesverband Credit Management (BvCM) with its "Minimum Requirements for Credit Management" has put together guidelines for "good" credit management that cover all relevant areas ranging from credit policy, controlling, processes and systems, organization and staff to auditing processes (see graph). Based on the basic concept, some trends (see underlined topics in graph) can be identified that need to be addressed by credit managers today to successfully prepare for the future.

At the FECMA Pan-European Credit Management Congress in Budapest on May 16-17, international players ABB, Agfa Graphics, UPM, and Veolia presented case studies on how they tackle these specific challenges in their credit management departments.

One thing all presentations clearly showed: credit managers today are change managers of a special species. Quality improvements heavily depend on their intrinsic motivation to drive change and getting things done. However in the light of new requirements constantly popping up and change management being a standard task in today's credit management departments, one should always verify value against cost of each change activity. In general not the optimum, but best practice should be the target. Changing to the optimum could have a total cost too high to justify its implementation, while the best practice solution might be reached with lower investments.

Dr. Michael Sauter CCM
Bundesverband für Credit Management, Germany
sauter.drm@gmail.com



Outlook and future trends

Credit management as an eco-system is quite isolated: academic research does not really cover most recent developments and corporate practice often seems too much focused on their day-to-day priorities. To really excel credit managers today can adopt strategies from internet startup companies. Eric Ries in his book "Lean Startup" developed an approach that revolutionizes how new concepts and innovation of any kind should be implemented in the future.

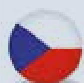
What can be taken from the concept for change projects in credit management is as follows:

- You personally need to drive change: be a change leader, don't wait for others to take action.
- Clear processes are required: structure your organization effectively and efficiently.
- Formulate explicit hypotheses and verify their validity: develop a clear plan with measurable goals and execute along these guidelines.
- Track changes and their success: track success and failure based on key performance indicators and take action accordingly.
- Establish continuous improvement circuit: don't stop, but iterate continuously.

Summary

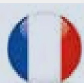
Overall managing credit effectively requires openness and a willingness for constant change. If there are three things to keep in mind as guidelines to build a strong credit function they are: ❶ effectively integrate with sales to boost performance, ❷ holistically improve your credit management function, and ❸ innovate and adapt continuously. No one said, it will be easy, however be sure, once you see the first positive results – you will wish you had started a lot earlier.

CALENDAR OF EVENTS



CALENDAR CZECH REPUBLIC www.creditcee.eu

13th / 14th November 2013 The 2013 Credit Matters Conference at Reduta Theatre, **Brno**. Delegates and sponsors are welcome. Full details to follow by end of July.



CALENDAR FRANCE www.afdcc.com

14th November 2013 Journée Crédit with Economic Conference, AFDCC General Assembly, Workshop on communication between the Credit Manager and the Sales Department. Workshops on Credit Limits in France and abroad, Credit Management in Italy. Starting at 8.00 am with breakfast and ending at 21.00 pm with cocktail. For more information contact: contact@afdcc.com.

CALENDAR GERMANY www.credit-manager.de

5th July 2013	Credit Management Alumni 2013, **Bochum**
11th July 2013	Regional Event West, **Ennepetal**
20th August 2013	Working Group Data Protection
6th September 2013	Kick off Certified Credit Controller®, **Aschaffenburg**
10th September 2013	Regional Event North, **Wolfsburg**
12th September 2013	Regional Event SAP meets Credit Manager, **Walldorf**
9th / 10th October 2013	BvCM Annual Congress, **Koblenz**
14th November 2013	Working Group International

CALENDAR IRELAND www.iicm.ie

9th July 2013	IICM SEPA technology Session. Michael O'Neill, SEPA Ireland Programme Manager, of IPSO (Irish Payment Services Organisation Limited) will deliver a SEPA Technology Session In the Hilton Hotel, **Dublin** from 2.30pm until 5.00pm.
12th September 2013	IICM Credit Convention, Aviva Stadium, **Dublin** from 8.30am until 2.00pm
22nd November 2013	IICM Annual Awards, Conrad Hotel, **Dublin**

CALENDAR NETHERLANDS www.vvcm.nl

26th June 2013	Yearly Golf Tournament, Golf Course, **Tilburg**
30th August 2013	Yearly Beach Event, **The Hague**
10th September 2013	SEPA, **Amsterdam**
7th November 2013	Credit Expo, Business Centre, **Nieuwegein**

CALENDAR SWEDEN www.kreditforeningen.se

28th August 2013	Autumn evening event with speaker from Swedish Export Credit Corporation, **Stockholm**
17th/18th October 2013	Credit Conference "Scenario Europe", **Copenhagen, Denmark**
Late November 2013	Winter Dinner event

CALENDAR UK www.icm.org.uk

9th July 2013	Change Management Masterclass, **Manchester**
18th July 2013	Credit Risk & Compliance Masterclass, **London**
15th August2013	Liverpool Regional Roadshow, **Liverpool**
17th September 2013	Technology Masterclass, **Manchester**
25th September 2013	Credit Risk & Compliance Masterclass, **Cannock**
18th September 2013	QICM Best Practice Conference, **London**
10th October 2013	Change Management Masterclass, **Leeds**
16th October 2013	London Regional Roadshow, **London**
25th October 2013	ICM Turner Lecture, **London**
6th November 2013	Technology Masterclass, **Cannock**
21st November 2013	ICM Law Conference, **London**
4th December 2013	Change Management Masterclass, **London**
10th December 2013	Belfast Regional Roadshow, **Belfast**

FECMA READY TO LEAD THE WORLD

Anyone who missed out on FECMA's Pan-European Credit Management Congress in Budapest in May, has missed out on a great event. Over 200 credit professionals from all over the continent gathered to share best practices and improve their network. Through this gathering, FECMA has established itself as the leading European organisation in the field of credit management.

Pieter Postmus
Manager Global Unit,
The Netherlands at Atradius
pieter.postmus@atradius.com

It can now build on this success, to further grow the organisation and further increase its influence. And this influence should not be restricted to just Europe. We should remember – and I can confirm this from my work with truly global multinational companies – that credit management is further developed in Europe than anywhere else in the world. So at least in this area we are still global leaders!

Trends like increasing use of IT based solutions, focus on efficiency but at the same time taking a more customer specific approach to credit management, forward looking risk assessment etc. will dominate the agenda of credit managers around the world in the coming years.

And FECMA members are well placed to lead the way in coming up with the best solutions for these challenges. Let's see what we have achieved together when we next meet at the 2015 Congress – and for everybody who could not attend this time: be sure to keep 20 and 21 May 2015 free in your agenda – you really can't afford to miss out on FECMA.

Pieter Postmus

PUBLISHING INFORMATION

June 2013, 4th Issue

Herausgeber:
Credit & Finance Verlag
Siemensstr. 31, 47533 Kleve, Germany

Interested in advertising?
Please contact the FECMA:
fecma@sbb.nl

Layout: Ilka Janhsen,
Kompliment – Büro für Gestaltung

Copyright:
In preparing this edition, the editorial team has exercised the utmost care and attention to accuracy. Authors, editors, graphic designers, the BvCM e.V. and other employees are not liable should an error be found. However, the editorial team welcomes any suggestions for improvement you may have.

Please note our legal notice regarding copyrights for use of information provided in "The Credit Manager". All rights reserved. Contents are subject to copyright and relevant international laws and agreements protecting intellectual property rights. Contents may not be used for private or reproduced for commercial purposes. They may not be modified, printed or used in other media. Some pages may also contain content that is further protected by copyrights of those providing the information.

EDITORIAL STAFF

Pascale Jongejans (fecma@sbb.nl)

Pieter Postmus (pieter.postmus@atradius.com)

Guidelines for Authors –
CreditManager Europe / FECMA Magazine for European Credit Managers

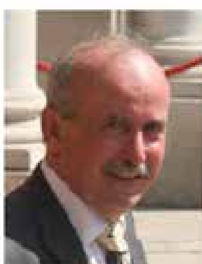
The "CreditManager Europe / CME" has one goal: to be the source of the best new ideas for professionals in Credit Management across Europe. Since 1986 the Federation of European Credit Management Associations (FECMA) has built permanent links between national Credit Management institutes and organisations and promoted co-operation, debate and discussion on all credit related topics. It has also allowed credit managers across Europe to talk to each other in a professional network, share advice and experience and develop closer understanding.

CME's articles cover a wide range of topics within Credit Management that are relevant to different industries, geographic locations and small, as well as large companies. While the topics may vary, all CME articles share certain characteristics. They are written for senior managers by experts in Credit Management. Proposals for articles demonstrating European best practices, innovative thinking and new approaches in Credit Management are those most likely to meet our readers' needs. They should also avoid any marketing for specific products and services. When evaluating an article, our editors often look for compelling new thinking and how a new idea can be applied to practice.

The best way to inquire about CME's potential interest in a topic is to prepare a proposal or to submit an article. CME is published twice a year with issues in spring (around March/April) and autumn (around October/November) covering 7-10 articles each. Nearly all CME articles undergo some editing and rewriting, and CME typically holds copyright on the final product. Authors continue to own the underlying ideas in the article. Please e-mail your proposal or article to FECMA Secretarial Service at fecma@sbb.nl.

CME deeply appreciates the time and energy required to prepare a proposal or article for our publication, and we are grateful to you for that investment. We are always looking for new ideas that can improve the practice of Credit Management across Europe.

EDITORIAL BOARD



Glen Bullivant
President FECMA
United Kingdom

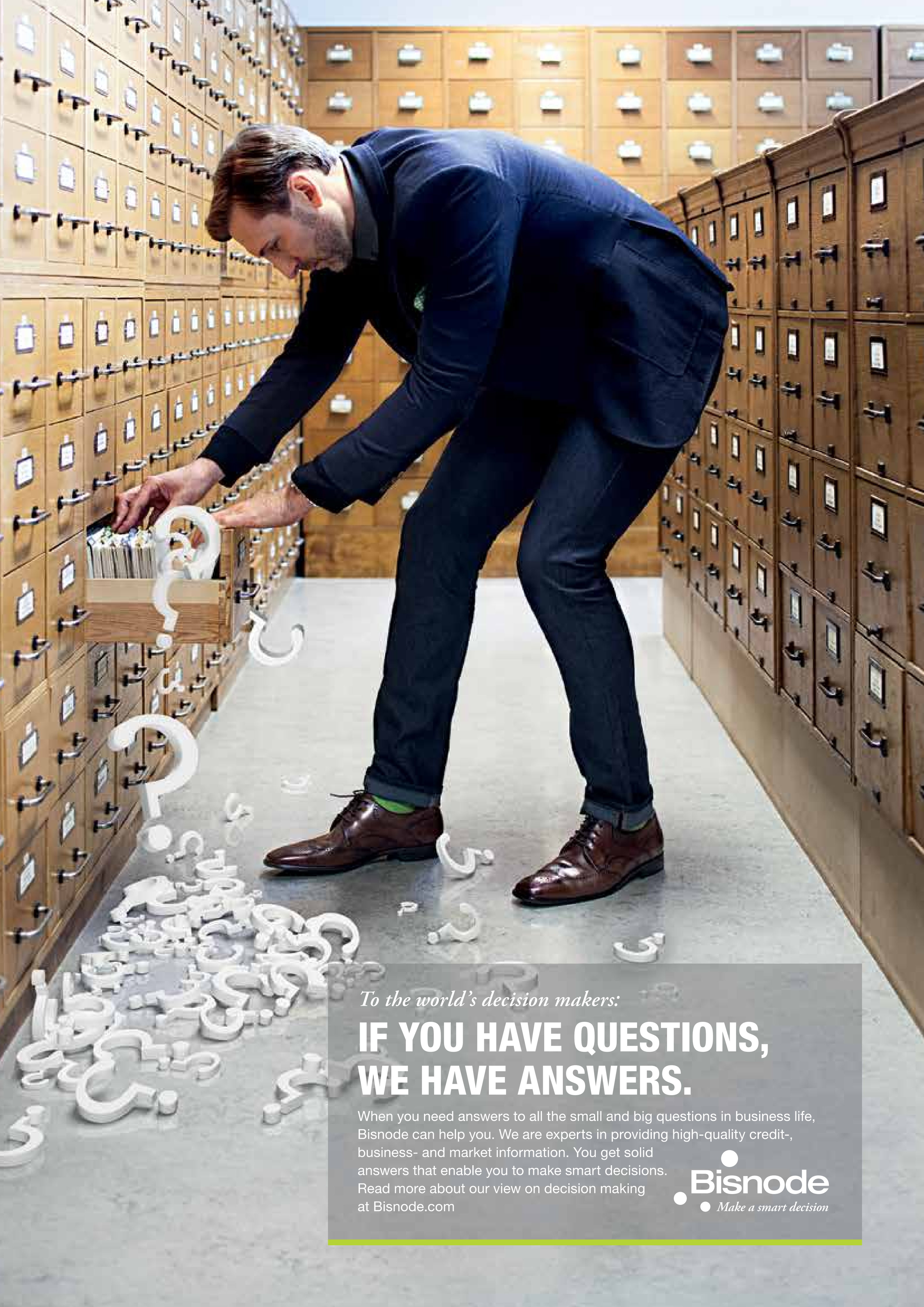
Pascale Jongejans
(editor-in-chief)
The Netherlands

Pieter Postmus
The Netherlands

Josef Busuttil
Malta

Dr. Michael Sauter
Germany

Prof. Ir. Ludo Theunissen
Belgium



To the world's decision makers:
IF YOU HAVE QUESTIONS, WE HAVE ANSWERS.
When you need answers to all the small and big questions in business life, Bisnode can help you. We are experts in providing high-quality credit-, business- and market information. You get solid answers that enable you to make smart decisions. Read more about our view on decision making at Bisnode.com
Bisnode
Make a smart decision