EPI 2011 INDUSTRY WHITE PAPER

Professional services most hit by bad debt – an early warning signal of what lays ahead

Practically every major sector across Europe is being impacted in the current economic climate by the upwards spiral of bad debt highlighted in the Intrum Justitia 2011 European Payment Index (EPI). This follow-up EPI 2011 Industry White Paper takes a new perspective by looking at how Europe's various industry sectors are being impacted. Worryingly, the survey reveals that the professional services industry – which has often proved an early indicator of what is to come elsewhere – has been worst hit by bad debt. We also proactively address how commercial enterprises should utilize better credit management services to reduce late payment risks and stay competitive in a economically volatile marketplace.

November 2011

intrum justitia

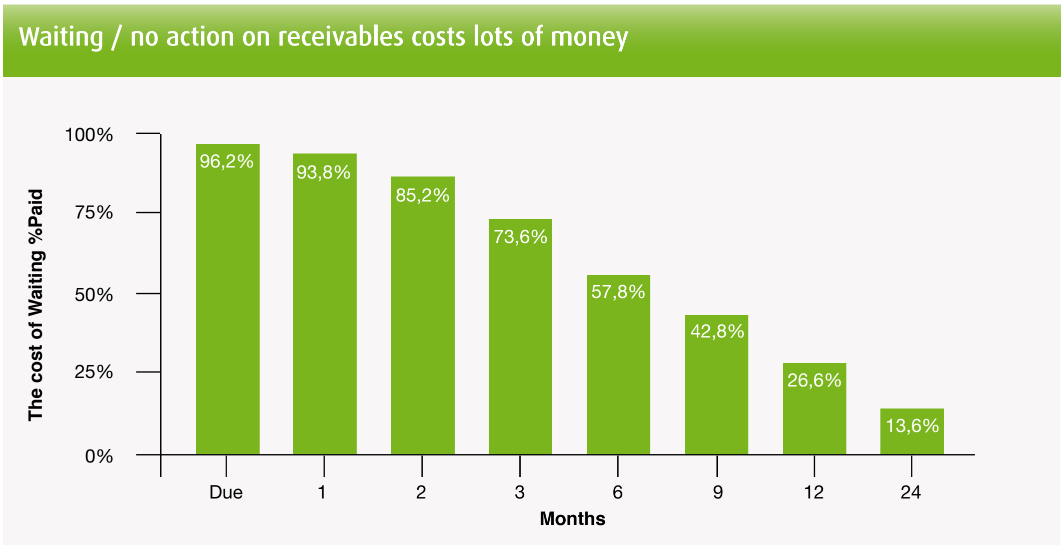
INTRODUCTION

Economic volatility underlines need for fundamental change on late payment

The vast majority of European companies, regardless of their size or operating sector, are battling to succeed in an economy where consumers are reluctant to spend cash and where banks are unwilling to lend, especially to the small and mid-sized enterprises that are the backbone of the European Economy. According to the European Commission, Europe's approximately 23 million small and medium sized enterprises (SMEs) represent about 99 percent of all businesses, providing two out of three of the private sector jobs and contributing to more than half of the total value-added created by businesses across the EU.

The burden of 312 billion Euros written off by European companies in 2010 alone is not spread evenly across the different industry sectors, however. Worst hit is the professional services sector, an industry that often gives us an early warning of where the economy as a whole is going. Other sectors that are showing a worrying trend in both absolute and relative terms are Construction & Building, Education as well as Financial Services. Although Real Estate shows a high percentage written off, things have actually improved slightly in comparison with last year, at least on a pan-European level.

The pressure on European firms and public authorities to implement speedier, more efficient collection strategies has never been fiercer as economic pressures lead to companies and consumers to pay slower. In today's highly challenging environment, managing risk and improving cash flows by adopting and implementing 'best practice' credit management processes has never been more crucial.



THE PRICE OF LATE PAYMENT

The future of companies and their shareholders, employees and the local communities in which they operate depend on their ability to keep a firm grip on costs through highly efficient credit management processes.

Bad debt drives up the price of goods and services. Intrum Justitia and independent research indicates that if companies did not have to allocate costs to get paid or have to write off huge sums of money, they would be able to lower prices, increase investment in R&D, technology and human resources and improve margins.

Next to late payment, another obstacle is the written off percentage in Europe, which has now risen to a very worrying 2.7%. To write off a debt - because your debtor went bankrupt, or just disappeared - causes an enormous burden on businesses, as the graph below shows. If a company writes off 10,000 euro, and has a profit margin of 5%, then the extra sales needed to make up for the 10,000 euro, is 200,000 euro.

In this industry White Paper, we see the big differences between the various industries in Europe. For instance, the professional services industry lays at the wrong end of the scale with a staggering 4.5% written off debt compared to the utilities industry with 1.5% written off.

Payment loss effect

Margin →	2%	3%	4%	5%	6%	7%
Wiritten off amount in €			Extra sales needed ↓			
€ 500	25,000	16,667	12,500	10,000	8,333	7,143
€ 10,000	500,000	333,333	250,000	200,000	166,667	142,857

For more in depth information and professional credit management advice visit www.intrum.com and select the country of your choice. Our professionals in your country have expert knowledge of their local markets and industry related issues and are more than happy to give you advice about how to ensure optimum cash flow.


EKONOMI
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WHAT THE EXPERTS SAY

To help capture the mood of grass roots businesspeople in the current economic climate, Intrum Justitia spoke to three independent accountants in France, Germany and the United Kingdom. All three were asked to respond to the same three basic questions.

Question 1
With the roller-coaster global economy sending gloomy signals about the state of national and regional economies, what should businesses - SMEs especially - be making their top survival priorities?

Question 2
Are you positive or negative about the ability of SMEs to cope with the current cycle of shrinking national economies, high unemployment and reduced access to short-term survival credit facilities?

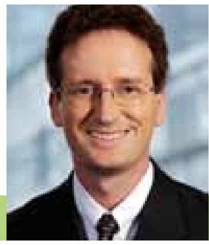
Question 3
What kind of pre-emptive action can an SME take to avoid stalling?

France - Philippe Dumartinet,
Former CFO Grunenthal France, based in Levallois (Paris region) +333614210664

Answer 1/ Philippe Dumartinet
Ensure cash availability. As during the 2007 crisis, there could be a liquidity shortage, which means that companies should count on their own cash resources, as banks may be reluctant to lend money for several months or even maybe 1 to 2 years.

Answer 2/ Philippe Dumartinet
Negative, apart from those SMEs with exposure to emerging economies. As consumer moral in the developed countries declines, prospects may stay positive in the emerging countries, which means SMEs with a presence in emerging economies may find a way to counter-balance a poor performance in their domestic markets.

Answer 3/ Philippe Dumartinet
They should develop a viable alternative plan in case of a new crisis scenario. In fact, this now probably needs to be considered as a central plan considering the latest developments on the exchange markets and growing pessimism among consumers and companies along with the never ending story about the Greek debt.
It is now likely that the developing economies for the next 2 years will see very weak growth, if not a recession - and companies need to get prepared for such gloomy prospects.



Germany - Stephan Gross,
Financial Advisor Company: Stephan Gross Financial Advisor Phone. +49 711 9454 9768

Answer 1/ Stephan Gross
Top Survival Priorities: Particular SME´s are flexible and fast enough to think about alternative/additional customer generation activities. Even service visits at existing customer sites will generate (a small) immediate turnover, but will also foster the relationship for when the next big orders are to be placed. From a financial perspective they

should reduce capital cost as much as they can to increase internal financing.

Answer 2/ Stephan Gross

With the exception to credit facilities, I believe SME´s are in a better position than large companies – they are more flexible, take less time to come up with and realize a new idea. I feel that access to credit facilities is a negative point in the SME environment. They usually do not think about securing hard credit lines when times are good. Once times are critical, SME´s have not the critical mass to convince bankers to give a helping hand. Of the minimum two banks an SME should have, there should always be the local small bank – they better know the local business, are more willing to help out and, despite their much smaller size, are usually willing to take more risk than the big multinational banks.

Answer 3/ Stephan Gross

Be aware of your size, run a risk analysis of a X% turnover drop, think about your customers in good times and they will think about you in hard times.

UK - John Lamond,
Founder/owner SmartFinancials Limited, London Telephone +44 20 3137 0690

Answer 1/ John Lamond

Cash-flow, ensuring they are generating sufficient funds to pay operating expenses in short term. Long term need to cut overheads and ensure products are profitable.

Answer 2/ John Lamond

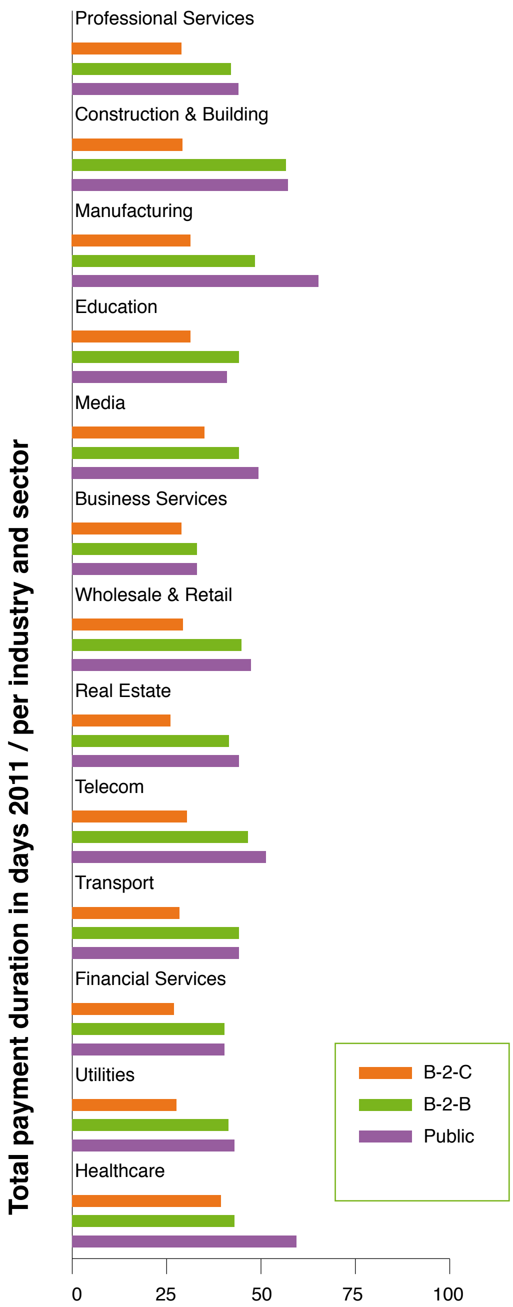
Micro market: certain sectors and companies are still doing well. In London, companies connected to far & middle east. Winners & losers in every sector all about positioning.

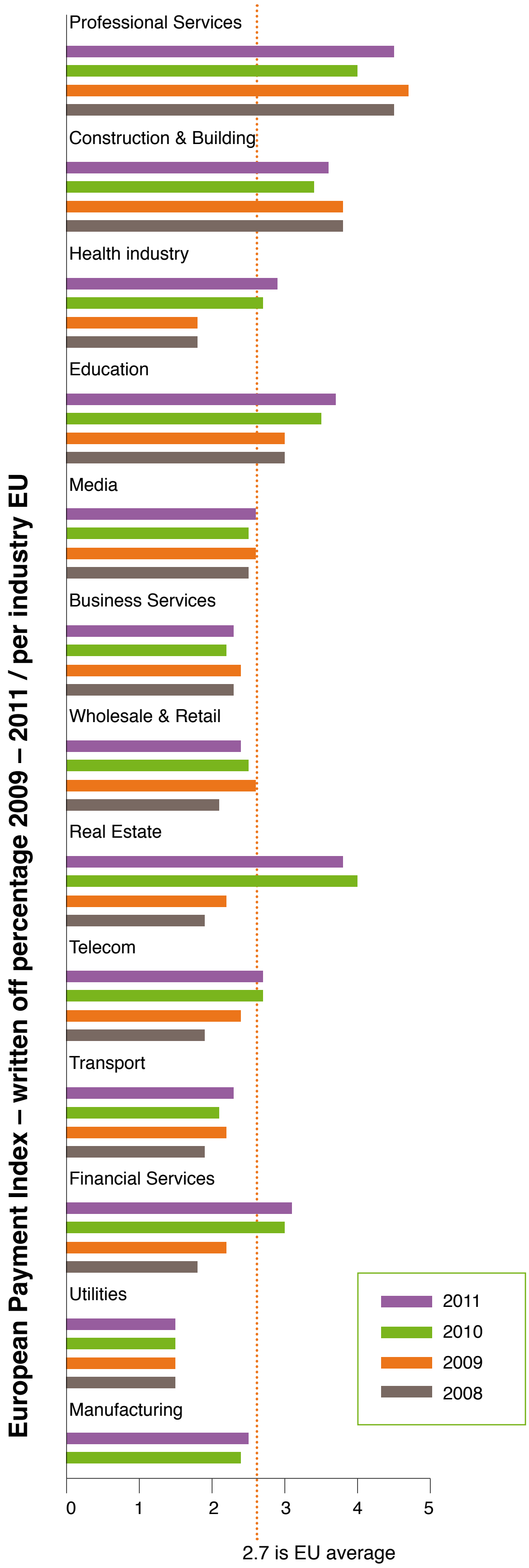
Answer 3/ John Lamond

Understand product profitability, focus on profitable products & clients. Reduce costs to minimum & turnaround unprofitable products/clients or cut. Develop networking and new business generation. Produce a business plan assuming the worst case scenario.

HOW ARE THE VARIOUS INDUSTRY SECTORS DOING?

The ongoing economic downturn is clearly having an impact on payment morality across the business spectrum in Europe. This only heightens the need for companies and public authorities to create and sustain ever more professional credit management systems and approaches, either themselves or with the help of external professionals such as Intrum Justitia. Below we look at how the various industries are faring in Europe in 2011 when comes to getting paid for their effort.





Professional services industry

Professional services embraces business activities carried out by widely diverse independent contractors or consultants. Typical examples of such professional services are accountants, actuaries, architects, attorneys, brokerage firms, engineers, law firms, physicians, recruiters, real estate brokers.

The professional services industry is vital to the European economy, yet suffers a higher written off percentage than any other industry. According to the EPI 2011, a very substantial 4.5% is being written off compared to the overall EU average for all industries and countries of 2.7%.

The past year has seen no improvements in the number of days it takes to get paid and payment delay is highest within the public sector, stretching an additional 15 days beyond the due date. Although 49% of invoices are paid within 30 days, some 51% are not paid on time.

Why such a high written off percentage in the professional services industry? One obvious reason is that the relationship between a professional services company and the client are not close, with infrequent contact and meetings. And the main reason cited for settling an invoice later is financial difficulty being suffered by a debtor.

However, another reason is that around 50% of professional services firms apparently do not work with a professional partner to get paid. And the other 50% wait an average 80 days before handing over outstanding invoices. Our study shows clearly that despite the vulnerability of the industry, not enough measures are being implemented to ensure payment for services delivered. It is very clear that insufficient effort is going into checking the creditworthiness of clients or their ability to pay prior to starting a work project.

Payment delay in days	B-2-C	B-2-B	Public Sector
Av contractual payment	20 days	30 days	30 days
2008	8	11	16
2009	10	13	18
2010	8	10	14
2011	10	12	15

Written off %	
2008	4.5
2009	4.7
2010	4.0
2011	**4.5**

Shares of receivables (%)	Up to 30 days	31 to 90 days	Older than 90 days
2008	75	19	6
2009	67	24	9
2010	70	21	9
2011	70	25	5

Construction & building industry

At a pan European level, the building and construction industry (builders, investors, contractors/suppliers to the building industry) had a recorded written off percentage of 3.6% in the 2011 survey, slightly worse than the 2010 figure of 3.4% but an improvement on the 3.8% seen in 2009 and 2008. The EU average over all industries and countries is 2.7%.

The public sector and B2B account for the longest payment delays, which worsened last year. This is yet another serious body blow to an industry suffering squeezed margins, especially as many large projects are public sector based.

Around 54% of invoices are paid late with just 46% being paid within 30 days. National bodies in a number of EU countries are taking a close look at how to improve this unhealthy trend.

The Intrum Justitia survey reveals that 32% of companies in the construction industry do not work with a professional partner to get paid, while the other 68% wait an average 80 days before handing over outstanding invoices to a professional partner. The survey underlines how vital it is to their financial wellbeing that building companies realise the importance of collecting outstanding invoices faster and with more pressure. They should also proactively consider other payment alternatives embracing part payments, upfront payment or staged payments, as well as professional invoicing.

Payment delay in days	B-2-C	B-2-B	Public Sector
Av contractual payment	20 days	30 days	30 days
2008	8	17	17
2009	6	18	22
2010	8	26	26
2011	10	28	28

Written off %	
2008	3.8
2009	3.8
2010	3.4
2011	**3.6**

Shares of receivables (%)	Up to 30 days	31 to 90 days	Older than 90 days
2008	57	30	13
2009	48	34	18
2010	47	41	12
2011	46	40	14

Manufacturing

The European manufacturing industry as a whole has a written off percentage of 2.5%, slightly below EU average of 2.7% across all industries and countries.

The longest payment delays are found in the public sector, with an average delay of 36 days. Some companies even mention horrendous delays of 180 days and more from the public sector.

Although some 65% of invoices are paid within 30 days, there is pessimism about the immediate future with 60% of respondents in this industry convinced the situation will worsen in the coming 12 months.

The Intrum Justitia survey shows 35% of companies in the manufacturing industry apparently never work with a professional partner to get paid with the other 65% waiting an average 66 days before handing over outstanding invoices to a professional partner. As with other industries, it is vital that manufacturing companies realise the importance of collecting outstanding invoices faster and more consistently. They also need to consider other payment alternatives such as taking part payments, upfront payment or staged payments.

Payment delay in days	B-2-C	B-2-B	Public Sector
Av contractual payment	20 days	30 days	30 days
2010	13	20	39
2011	12	19	36

Written off %	
2010	2.4
2011	**2.5**

Shares of receivables (%)	Up to 30 days	31 to 90 days	Older than 90 days
2010	63	24	13
2011	65	24	11

Education industry

The education industry comprises schools, universities, adult education, educational materials, book suppliers to schools/universities and the like. The Intrum Justitia survey shows the payment delay is the highest among businesses with an average of 15 days delay. The written off percentage increased from 3.5% to 3.7% in the 2011 survey, which is substantially higher than the EU's average of 2.7%. Today some 40% of the invoices are being paid late, with 20% even extending beyond 90 days.

The survey reveals 67% of the respondents believe the current payment situation will remain stable, although no respondent predicts any improvement in the coming 12 months. Some 90% believe they are getting paid later because their debtors have financial difficulties.

Traditionally, it has not been customary to work with a professional credit management partner in this "public sector" industry. In 2011, just 49% of education industry companies and organisations worked with a partner, while the average waiting period for payment is 110 days.

Payment delay in days	B-2-C	B-2-B	Public Sector
Av contractual payment	20 days	30 days	30 days
2008	7	5	5
2009	14	10	10
2010	11	15	11
2011	12	15	12

Written off %	
2008	3.0
2009	3.0
2010	3.5
2011	**3.7**

Shares of receivables (%)	Up to 30 days	31 to 90 days	Older than 90 days
2008	60	27	13
2009	50	30	20
2010	62	17	21
2011	60	20	20

Media industry

The media industry is pessimistic about any signs of improvement in national economies that will lead to them getting paid on time faster during the coming year. Some 65% of the respondents told Intrum Justitia that they expect payment risks will remain at the same level as now for the next 12 months. 93% believe that because their debtors have financial difficulties they are getting paid later.

Encompassing publishers, media subscriptions, film producers, movie producers, video, music, media producers, the media industry has an average written off percentage of 2.6% with some 49% of the invoices being paid after more than 30 days. The industry is in the midst of considerable change with radio, television, film and print being forced to quickly adapt to the new digital marketplace or to lose their market share.

Some 40% of companies in this industry still do not work with a professional credit management partner, while even the 60% that do work with a professional partner wait on average 90 days before receiving a late payment.

Payment delay in days	B-2-C	B-2-B	Public Sector
Av contractual payment	20 days	30 days	30 days
2008	13	11	13
2009	20	15	17
2010	15	13	21
2011	15	15	20

Written off %	
2008	2.5
2009	2.6
2010	2.5
2011	**2.6**

Shares of receivables (%)	Up to 30 days	31 to 90 days	Older than 90 days
2008	55	34	11
2009	45	40	15
2010	50	36	14
2011	51	35	14

Business Services

The Business Services industry encompasses research companies, intermediaries, consultancy firms and marketing/PR/advertising agencies. Overall, the industry is experiencing an average write off of 2.3%, a result that is substantially better than the professional services industry with a horrendous 4.5%.

The 2.3% level of payment loss in the business services industry is very much the result of the ongoing relationship firms in this sector tend to have with their customers, whereas in the professional services industry the relations ends after each problem/project is solved.
Intrum Justitia research has shown that stronger, more frequent and tighter relationships with customers generally lead to faster payments.

Some 55% of respondents forecast no change for the coming 12 months, while 40% see increased payment risks.

A majority of 62% of the respondents in this industry said they work together with a partner for credit management solutions. However, the average time before claims are handed over is 80 days, which is still rather late.

Payment delay in days	B-2-C	B-2-B	Public Sector
Av contractual payment	20 days	30 days	30 days
2008	10	12	10
2009	9	14	13
2010	9	13	13
2011	9	13	13

Written off %	
2008	2.3
2009	2.4
2010	2.2
2011	**2.3**

Shares of receivables (%)	Up to 30 days	31 to 90 days	Older than 90 days
2008	58	32	10
2009	60	26	14
2010	62	25	13
2011	65	20	15

Wholesale and retail industry

The Wholesale and retail industry has succeeded in reducing written off slightly during the past year by taking a more pro-active approach to getting paid. Businesses in this sector report an average written off percentage of 2.4%, a slight decrease compared to last year.

The average contract term in this industry is 30 days for B2B and public sector transactions and between 20 to 0 days for consumers. Payments have improved across Europe and are often cash on delivery. More invoices are being paid within 30 days, although there is an average 18 days delay for payment from the public sector. The Intrum survey reveals that more and more retail companies request pre- or direct payment on delivery to avoid late or non-payments.

Some 55% of the respondents believe the payment situation will remain unchanged over the coming 12 months, while 35% see increased risks. 91% believe they are getting paid later because their debtors have financial problems.

Interestingly, 71% of the respondents say they hand over outstanding invoices to a professional partner after an average 75 days.

Payment delay in days	B-2-C	B-2-B	Public Sector
Av contractual payment	20 days	30 days	30 days
2008	11	17	17
2009	11	20	18
2010	11	18	18
2011	10	15	18

Written off %	
2008	2.1
2009	2.6
2010	2.5
2011	**2.4**

Shares of receivables (%)	Up to 30 days	31 to 90 days	Older than 90 days
2008	55	30	12
2009	52	34	14
2010	64	28	8
2011	68	28	4

Real Estate and housing industry

The ongoing economic crisis is reflected in the payment trend in the Real Estate and housing industry (rental firms, investors, property management, real estate agents). More property is taking ever longer to sell and property prices continue to tumble. Rental rates seem untouched, although with higher unemployment numbers in various EU countries, consumers may have trouble paying the rent.

Written off percentage rose in 2010 to an awesome 4% compared to 2.2% in the 2009 Intrum Justitia survey. The 2011 survey shows a slight improvement with a written off percentage of 3.8%. Further decreases can be seen in payment behaviour with businesses and the public sector taking fewer days to make payments with more bills being paid on time than in previous years. In many countries, corporations have become stricter when it comes to late payment of rent.

Some 65% of respondents expect that this situation will not change in the coming 12 months.

On the upside, 75% of companies hand over their outstanding invoices after an average 40 days, which is very fast when compared to other industries.

Payment delay in days	B-2-C	B-2-B	Public Sector
Av contractual payment	20 days	30 days	30 days
2008	6	6	10
2009	6	13	10
2010	7	14	16
2011	6	12	15

Written off %	
2008	1.9
2009	2.2
2010	4.0
2011	**3.8**

Shares of receivables (%)	Up to 30 days	31 to 90 days	Older than 90 days
2008	79	19	2
2009	70	27	3
2010	62	32	6
2011	65	30	5

Telecom Industry

The Telecom industry written off percentage is stable at 2.7%, according to the EPI 2011 survey. However a majority, some 55%, of respondents believe payment risks will further increase over the coming 12 months.

Delay in payments by businesses and consumers have decreased.

Some 90% of respondents hand over their outstanding claims after 80 days, which means 10% are not yet working with a professional partner. One payment driving advantage held by the Telecom industry is the ability to switch off a number if payment is not implemented.

Payment delay in days	B-2-C	B-2-B	Public Sector
Av contractual payment	20 days	30 days	30 days
2008	9	14	20
2009	12	14	16
2010	12	18	22
2011	11	17	22

Written off %	
2008	1.9
2009	2.4
2010	2.7
2011	**2.7**

Shares of receivables (%)	Up to 30 days	31 to 90 days	Older than 90 days
2008	60	24	16
2009	50	29	21
2010	62	21	17
2011	63	20	17

Transport & Logistics

The European Transport and Logistics industry is directly impacted by higher oil prices, which means that speedy payments and low written off percentages are essential to the wellbeing of companies in this sector.

In France, legislation has been put in place to help an industry that suffers from low margins to get paid without lengthy delays, for example. The reality is that this is an industry that must look for every possible margin improvement – and optimised credit management would help considerably.

Some 65% of respondents to the Intrum Justitia survey think that the payment situation will remain stable over the next 12 months. Invoices are currently being paid slightly faster, although the written off percentage increased from 2.1% to 2.3%

Some 70% of respondents said their company handed over outstanding claims after an average 65 days, while 35% do not work with a professional partner.

Payment delay in days Av contractual payment	B-2-C 20 days	B-2-B 30 days	Public Sector 30 days
2008	9	13	15
2009	10	17	15
2010	10	17	15
2011	9	15	15

Written off %	
2008	1.9
2009	2.2
2010	2.1
2011	**2.3**

Shares of receivables (%)	Up to 30 days	31 to 90 days	Older than 90 days
2008	53	38	9
2009	56	34	10
2010	60	33	7
2011	65	30	5

Financial Services Industry

As the economic crisis continues to bite, the Financial Services industry (credit card companies, banks, financial advisers, bank mortgages, savings banks, loans companies and other financial services companies), saw an average written off percentage increase to 3.1% in the 2011 survey results compared to 2.2% in 2009 and 3.0% in 2010.

Delays in payment vary from 7 days for consumers to 11 days for the public sector. Some 65% of payments are currently being paid within 30 days and 10% after 90 days, according to the latest survey.

Some 49% of respondents in this industry hand over their outstanding invoices to a professional partner after average 90 days.

There is no sense of optimism, with 70% of the respondents expecting the current payment situation to continue over the next 12 months.

Payment delay in days	B-2-C	B-2-B	Public Sector
Av contractual payment	20 days	30 days	30 days
2008	6	7	10
2009	7	11	11
2010	7	12	12
2011	7	11	11

Written off %	
2008	1.8
2009	2.2
2010	3.0
2011	**3.1**

Shares of receivables (%)	Up to 30 days	31 to 90 days	Older than 90 days
2008	65	23	12
2009	59	30	11
2010	60	26	14
2011	65	25	10

Utilities (gas, water, energy) industry

The utility industry has maintained the low write off percentage of 1.5%, which is only to be expected as no one can do without water and energy. In addition, energy delivery can be stopped because of non-payment. Delay in payment is between 8 to 14 days.

Some 70% of invoices are paid within the contractual term.

Despite their somewhat envious position compared to other industries, some 50% of respondents to the Intrum Justitia survey nonetheless think that payment risks will further increase over the next 12 months.

Some 55% hand over their outstanding claims after an average of 80 days.

Payment delay in days Av contractual payment	B-2-C 20 days	B-2-B 30 days	Public Sector 30 days
2008	7	9	9
2009	7	11	12
2010	9	13	14
2011	8	12	14

Written off %	
2008	1.5
2009	1.5
2010	1.5
2011	**1.5**

Shares of receivables (%)	Up to 30 days	31 to 90 days	Older than 90 days
2008	62	26	12
2009	52	35	13
2010	71	20	9
2011	70	20	10

Healthcare industry

The healthcare industry comprises hospitals, pharmacies, pharma companies, vitamin companies, health product suppliers, and doctors. It is an industry that traditionally struggles with long payment delays, around 20 (16) days from consumers and 30 days from the public sector. Written off has increased to 2.9% in 2011 according to the latest Intrum Justitia survey compared to 1.8% in 2009 and 2.7% in 2010.

Worryingly, some 50% of invoices are not paid on time. It is clear from the survey that the healthcare sector lacks strong and efficient credit management practices. Some 60% of respondents say their organisation hands over their outstanding claims after an average 110 days; this does not help fast collection. Pessimism is widespread with a majority of the respondents believing they will see increased payment risks in the coming 12 months.

Payment delay in days	B-2-C	B-2-B	Public Sector
Av contractual payment	20 days	30 days	30 days
2008	16	9	25
2009	16	11	28
2010	16	14	30
2011	20	14	30

Written off %	
2008	1.8
2009	1.8
2010	2.7
2011	**2.9**

Shares of receivables (%)	Up to 30 days	31 to 90 days	Older than 90 days
2008	54	32	14
2009	52	35	13
2010	52	31	17
2011	50	28	22

Using credit management to optimize risks

Today businesses need to optimize risk and maximize turnover more than ever. That is our job at Intrum Justitia, helping businesses to avoid or better manage late payment with efficient, cost effective credit management solutions.

Our clients do business with minimal risk to achieve maximum turnover
Our Credit Optimization Services help weed out potential problems before they arise by helping businesses offer the right credit to the right customer. We also monitor existing credit to improve sales opportunities and profitability. With our help, invoices get paid and jobs are saved.

Our clients get paid faster
Our Payment Services speed up payment, decrease non-payment and lower collection costs down the line. By improving our clients' cash-flow, we give them more time to concentrate on building their business and a better future.

Our clients keep their customers when we do the collections
Our Collection Services help our clients get paid while maintaining the good relationships they have worked so hard to build up with their customers. Our long pan-European and world-wide experience ensures fewer write-offs and increased liquidity helping reverse negative spirals.

MEASURES COMBATING LATE PAYMENT

How to generate more cash flow in your company with sound credit management

10 rules that will improve your sales, reduce risk and losses and give you peace of mind

Powerful recommendations to boost your company

1. Create and implement a solid credit policy to manage your risks and increase revenue.
2. Follow up on every step in your credit management process
3. Make sure you identified the customer you are doing business with
4. Make a clear agreement with your customer stating all conditions for your business.
5. Integrate sales, marketing and financial department in avoiding defaults
6. Implement customer address checks regularly
7. Monitor economic & industry information, and the solvency of key customers
8. Implement swift reminders and possibly charge default interest.
9. Always extend and balance your customer structure
10. Never, ever wait, always take immediate action to get paid

Let us help you implement the above and start doing better business NOW!

The earlier the CMS becomes a front-end, customer facing function the better.
The credit management role should start before the sales function launches its sales pitch to a potential customer.

By implementing a sound review of a prospect customer, whether an enterprise or an individual, a commercially minded company can develop a sound business model perspective. This helps avoid selling to a customer who has a high probability of defaulting on an invoice. The CMS process is geared to identifying creditworthy business opportunities, promoting successful business, maximising the accuracy of a credit management decision and improving working capital efficiency.

To help companies combat or reduce late payment risks, Intrum Justitia's expertise built on many years of marketplace experience shows the following are critical requirements:

Credit policy: Create and consistently implement a clear credit policy tailored to the individual risk orientation and financial strength of the company. The core of the credit policy should include: requirements for delivery against invoice, solvency checks before decisions are made on whether deliveries can be made against invoice, payment targets, measures and consequences in the event of delayed payment, credit limits, and internal competence regulations. Customers and all staff in contact with customers must be made fully aware of the credit policy.

Credit limits: The development of the receivables of individual regular customer should be monitored with the help of credit limits. In practice, the provision of two limits of credit for each (key account) customer has proven to be particularly effective. The crossing of the lower limit serves as an early warning and permits gathering additional information and implementing suitable measures, while reaching the upper limit results in automatic delivery stoppage on the account.

Address + telephone numbers checks: Ongoing checks on the billing address. Experience has shown that preventing the use of invalid or out of date billing address is an important factor in optimising the credit management process. Addresses should be updated as an ongoing process and should be subject to routine checks. More and more important today is telephone numbers checks. The more actual working telephone numbers you have, the better! Companies with only a mobile telephone number should be double-checked!

Economic information: Ongoing solvency checks should be implemented before decisions are made on deliveries against invoice. If there is a lack of solvency, deliveries should be made against an alternative form of payment.

Routine solvency checks on key customers: Experience shows that the majority of payment losses arise from deliveries to key customers. The insolvency of a key customer has particularly has far-reaching consequences. Therefore, repeated solvency checks, integrated into operational procedures as a matter of routine, are an important element in the overall credit management process.

Flexible contractual payment terms: Offer flexible payment terms on the basis of the bonus-malus-principle. New customers are granted a shorter time period to settle than regular customers who pay by the agreed due date. At the same time, new customers are offered the benefit of a longer payment term to settle when they place repeat orders, provided the payment is made on or before the due date. However, even regular customers may lose their privilege of a longer payment term should they fail to pay on time.

Swift reminders: Reminders should be issued rapidly and firmly. The most successful formula in practice is the so-called '2-2-2-Formula':
- Issue the first reminder letter two weeks after passing of the due date
- Issue only two further reminders before taking legal measure or retaining Intrum Justitia for the collection of the debt
- Maintain a consistent cycle of two weeks maximum between reminder letters

Default interest and billing of operating costs: Invoice late payers for default interest and the operating costs caused by the payment delay (operating costs for bank transactions, administration costs, cost of third parties etc.)

Professional cooperation: Ongoing and consistent cooperation with Intrum Justitia, fully integrated into the company's customer management process, will ensure efficient credit management tailored to generating rapid receipt of payments.

Extending client structure: Reduce dependency on one or just a limited number of large customers.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Herald Tribune
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We are Europe's leading Credit Management Services (CMS) company. We save money and time for our clients. You too can grow your business by leveraging our expertise and the widest offering of standalone and integrated solutions. From credit decision, sales ledger services, reminders and collection to debt surveillance, collection of written-off receivables and purchase of outstanding receivables.
Intrum Justitia's shares have been listed on NASDAQ OMX Stockholm since June 2002. Founded in 1923, we have some 3.300 employees in 22 countries. Consolidated revenues amounted to SEK 3.8 billion in 2010.

For more information, please visit: Intrum.com or send an email to m.bosch@intrum.com intrum justitia

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