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2014 Credit Management Survey
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Deloitte Treasury Solutions, in collaboration with Hogeschool-Universiteit Brussel (HUB), performed an in-depth survey on today’s Credit Management processes and systems. Credit Management is part of the order to cash process and focuses on topics like credit risk assessment, payment behavior, complaints, cash flow etc. To manage the credit management function in an effective and efficient way there is, besides a need for a sound and market oriented credit policy and the right people, a need for automated processes supported by the right systems. Dedicated credit management software enables you to translate your credit policy and procedures efficiently.

For this survey we have queried 1200 companies from various industries of which 122 companies returned a completed questionnaire, which is considered a quite high response rate in a B2B environment.

General details on the respondents are as follows:
- Sector: a wide range of industries is represented in the survey.
- Number of employees in the Credit department: 80% have less than 10 employees.
- Usage of credit management systems: 53% of the respondents are not using a Credit Management tool.
- In some companies the dunning & collection process is outsourced and there is more personnel for credit analysis.

Overview of the respondents industries

<table>
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<th>Industry</th>
<th>Percentage</th>
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<tr>
<td>Automotive</td>
<td>9%</td>
</tr>
<tr>
<td>Banking &amp; Insurance</td>
<td>4%</td>
</tr>
<tr>
<td>Biotechnology</td>
<td>1%</td>
</tr>
<tr>
<td>Chemicals</td>
<td>13%</td>
</tr>
<tr>
<td>Construction</td>
<td>5%</td>
</tr>
<tr>
<td>Distribution</td>
<td>7%</td>
</tr>
<tr>
<td>Energy, Utilities &amp; Mining</td>
<td>5%</td>
</tr>
<tr>
<td>Finance</td>
<td>2%</td>
</tr>
<tr>
<td>Food &amp; beverage</td>
<td>6%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>6%</td>
</tr>
<tr>
<td>Media</td>
<td>1%</td>
</tr>
<tr>
<td>Pharma and healthcare</td>
<td>7%</td>
</tr>
<tr>
<td>Public Service</td>
<td>2%</td>
</tr>
<tr>
<td>Raw materials</td>
<td>1%</td>
</tr>
<tr>
<td>Real estate</td>
<td>3%</td>
</tr>
<tr>
<td>Retail</td>
<td>6%</td>
</tr>
<tr>
<td>Service</td>
<td>8%</td>
</tr>
<tr>
<td>Technology</td>
<td>2%</td>
</tr>
<tr>
<td>Tele-communications</td>
<td>5%</td>
</tr>
<tr>
<td>Textile</td>
<td>2%</td>
</tr>
<tr>
<td>Transportation &amp; Logistics</td>
<td>6%</td>
</tr>
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Credit Management systems used in Belgium
From the survey we can conclude that 47% of the respondents are using a Credit Management system.

Chart 1 gives you an image of the Credit Management systems used in Belgium. It is clear that SAP is currently the system which is mostly used, followed by Onguard with 13% and ‘Get Paid’ with 8%. The group “Other” contains systems that have been mentioned once. Additionally, 12 respondents replied not to have the need for a Credit Management system, due to a limited number of customers (subcontractors).

Reasons for implementing a Credit Management system
Of all the companies that don’t use a CMS, around 20% has expressed the desire to implement one. Chart 2 shows that reducing work pressure and improving control are the main reasons for implementing a CMS.
3. Average time spent on Credit Management activities

In order to improve the efficiency of the credit management process, it is important to know how much time is spent on the different aspects of the order to cash process.

Chart 3 shows the average time spent within a Credit Management department. Main activity is contacting the client followed by internal communication. This confirms that good communication with the customer is considered as a key activity to secure a good client-supplier relationship.

Risk analysis and dispute management are also considered as time consuming tasks.

Chart 3 - Average time spent within Credit management departments
4. Criteria for segmentation of customers

Based on received credit information, companies will allocate their customers into different risk categories. In this survey we investigated the most important segmentation criteria.

Chart 4 shows that companies consider the customer’s payment behavior as most important. Also other elements need to be taken into account in a segmentation analysis. The commercial impact, the turnover and the sales conditions of a customer are important factors to use in order to get a better segmentation. Two elements that seem to have less impact are the payment behavior of the competitors and the seasonality of the market.

Payment behavior may be an important factor but even more key is the evolution of it. If the payment behavior has a negative evolution it might be an indication of credit issues. Only 20% of the respondents use a system with a warning mechanism in case of changes in the payment behavior. A better solution to anticipate future risks could be a system that uses algorithms and trend analysis to forecast payment behavior. Only 7% of the companies is using such a tool today.

It is clear that market data providers are an important source for credit information. Chart 5 shows that more than 50% of the companies are using Dun & Bradstreet and/or Graydon. The remaining is using a fragmented group of different data providers. From our enquiry it was also clear that companies who work together with insurance companies, use the same sources for credit information.
5. Curative credit management

Curative credit management starts when, despite preventive measures, a payment problem occurs. We can distinguish five forms of curative credit management namely credit monitoring, invoicing, dunning & collection, dispute management and bad debt management.

Credit monitoring
Credit monitoring analyses the credit worthiness of the customers after the sale is done. Measures need to be taken when the customer’s credit position deteriorates. Monitoring credit limits regularly is crucial. For some customers the risk can increase whilst with others it can decrease. This however can be a temporary situation and having a good credit limit process in place will definitely help to prevent future issues. From chart 6 it seems that 71% of the respondents regularly revise credit limits, 29% are never revising their credit limits.

Credit limit management is often used in combination with order blocking. The customer cannot place any orders once his credit limit is exceeded, therefore the credit manager needs to urge the client to react immediately and pay his debt. Almost ¾ of the respondents use this method according to this survey (chart 7). Only ¼ of the respondents focuses on the financial health of the customer in the order block decision.

From this survey we learn that almost 90% of the sales and marketing department have a view on the activities and contribution of the credit management department. This is a positive sign since sales people get better insight in the payment behavior of their customers.

We also learn that 40% of the companies reward their Credit collectors if DSO (Daily Sales Outstanding) targets are achieved. Only ¼ of Sales employees is rewarded for a favorable DSO. This KPI (Key Performance indicator) is however a good instrument to urge sales people to take into account the payment behavior of their customer and be more careful in granting favorable payment conditions to their customers.
Invoicing
After the sale an invoice is made and sent out. The majority of the companies make use of an invoicing tool. From the survey it is clear that SAP is the main player next to a scattered market of invoicing systems. Own developments are the second biggest group.

E-invoicing becomes more important and is an essential aspect of modern credit management with time and cost savings as key benefits. Invoices can be sent automatically with little or no human interaction. E-invoicing is done by half of the companies.

From our survey we learned that around 75% of the companies are sending regularly invoices with mistakes whilst 18% never have any invoice errors and another 7% often have invoice mistakes (see chart 8).

The main reasons for wrong invoicing are errors in the initial data input (56%), bad communication between sales and invoicing department (40%) and wrong interpretation of the sales contract conditions (27%) (see chart 9).

![Chart 8 - Frequency of invoicing mistakes](chart8.png)

![Chart 9 - Reasons for invoice errors](chart9.png)
Satisfaction on dunning and collection process

This survey also investigated in which degree companies are satisfied about their dunning & collection process and the system linked to that process. Chart 10 shows the degree of satisfaction of the process and the system. It is clear that most of the companies are satisfied by the process but less by their system. It is striking that most of these companies are large companies.

Credit management departments mainly use software tools like Microsoft Word, Excel and email to support their daily activities. These tools are sufficient if the company has a small customer portfolio. Larger portfolios are more complex to follow-up. These portfolios demand a professional, more automated environment to avoid inefficiencies.

Chart 11 shows that around 46% of the companies go for a manual approach. 25% of the respondents make use of an integrated reporting tool at customer level, another 12% make use of a proactive data analysis where reminders are sent automatically to customers that have not paid. Another 17% makes use of a credit management software program.
Dispute management

Dispute management is the result of a customer dissatisfaction (disagreement) and/or the consequence of (partially) undelivered goods.

The survey indicates that the credit management department (83%) is responsible for resolving disputes.

Chart 12 shows that besides credit management, other departments might be involved in resolving disputes i.e. accounting (28%), sales (22%) and customer service (39%) departments.

Companies can handle disputes in a different way. The majority of the survey’s respondents claim that the reminder procedure is stopped automatically and the necessary actions are taken to solve the problem. 27% of the respondents do not stop the reminder procedure in case of a dispute. They continue sending reminders once the invoice passed the due date.
Bad debt management
When a dispute cannot be solved and the debtor becomes doubtful, companies might require support of third parties such as a lawyer or a debt collection agency.

Chart 13 shows that companies make more use of lawyers than debt collection agencies or credit insurance companies. 29% of the respondents use a combination of the three.

We see that a majority of companies write off a bad debt when the debtor is officially declared bankrupt. Others write off when all possible collection actions are used up.

Some Credit Management systems take into account judicial reorganization and/or bankruptcy of a debtor. In this way companies can work more focused but this only counts for 26% of the companies.
6. Conclusions

In this survey we tried to get better insight in the Credit Management processes and systems currently used within Belgian companies. Based on the results we can conclude the following.

In a lot of companies only a limited number of employees are working in the credit management department. Furthermore we noticed that in quite some cases the respective employees are only working part time on credit and collection activities. Moreover there is often no separate credit management department. The credit management function is often part of the accounting department. This could be an indication that the credit management function is not really seen as a vital function.

What credit management systems concerns, more than half of the respondents do not have a fully-fledged system and 1 out of 3 of the respondents is interested in implementing a credit management system because it will increase efficiency. We could thus say that there is a certain awareness of the importance of using a credit management system.

From this survey we conclude that more than 80% of the companies obtains credit information from a data provider. Most used providers are Graydon and Dun & Bradstreet. These market information providers are still the most important source for credit information in order to support the credit management process in both credit assessment and customer segmentation activities.

The payment behavior of a customer and the evolution of that behavior gets the highest focus from the credit manager. The majority of the companies could use the existing payment information in a better way.

Furthermore we saw that most of the companies revise credit limits regularly (71%) based on overdue payments and breaching the limit. Unfortunately the financial health of the customer as such is not always taken into consideration.

In general companies are rather satisfied with their dunning & collection process. Improvements in the dunning & collection system environment, to work in a more automated and pro-active way, is recommendable.

For what dispute management concerns we noticed that in 27% of the disputes the reminder procedure is not stopped which might harm the relationship with the customer.

We conclude that the Belgian credit management market is in constant evolution. However there is still a way to go to create more awareness on the benefits credit management systems bring to work in a more effective and efficient way.
We wish to thank all of the professionals who responded to our survey. Without their participation, Deloitte Treasury Solutions could not have produced this survey. We extend our thanks for the time and effort that respondents devoted to this project.

Moreover, we want to thank Xander Michielsen, who executed this study in an excellent way.

Acknowledgements
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