

PRESS RELEASE

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CASH UPFRONT IS KING - AS SMEs EMPLOY CREDIT MANAGEMENT TACTICS TO GROW MARKET SHARE

- ***Companies working closer with business partners to ensure payments received on time, while extending terms of trade to increase competitiveness***
- ***Lack of transparency and access to relevant credit information a major barrier to enhancing domestic trade among SMEs***

The **2010 Corporate Credit Risk Management** study of 511 small-to-medium-sized enterprises by global credit risk management leader, Coface Australia, has found that in response to a drought of working capital, business owners are increasingly demanding payment upfront for their goods and services.

The survey found that cash on delivery (COD) was the most common payment condition offered to domestic clients of SMEs in 2010, though that figure decreased by 14 per cent year-over-year. Advance payment increased 45 per cent in 2010, with one out of six businesses demanding payment upfront compared with only one out of nine in 2009.

Christian Vollbehr, Country and General Manager of Coface Australia, said: "There has been a fundamental shift in payment terms in the past 12 months. Credit has become a precious commodity and therefore managing cash flows has been essential to mitigating a threat to survival for many businesses as a result of the Global Financial Crisis.

"Our research shows that SMEs with credit risk management practices in place have successfully engaged with their customer base to ensure receipt of payments, while also taking advantage of softer trading conditions by extending terms of trade to try and attract new business and grow market share.

"This practice does involve some risks, and a company needs to be in a relatively strong and confident financial position to lengthen credit terms. However, it is pleasing to see companies creating new opportunities in a challenging environment," he said.

Although businesses are prioritising quicker payments, the Coface Australia study also found that more than twice as many Australian businesses are offering their clients 60-day credit terms, with less than one out of three requiring customers to pay within 30 days, a 14 per cent drop from 2009.

The maximum credit terms offered to clients has also been extended, with a 15 per cent increase in the number of Australian businesses offering maximum credit terms of 60 days or more.

The research also highlights that responsibility for credit management procedures has shifted upwards, with either the owner or finance department more likely today to be responsible for credit management and all of its related functions.

The top four information sources used to evaluate a client's credit worthiness are past trading history (35%), a trade credit report (20%), financial statements (16%) and trade references (16%).

Mr Vollbehr said that it was concerning that more businesses were focused on a potential customer's past trade credit history than financial statements or credit references when evaluating the potential risk of doing business with a customer.

“This is due to a lack of relevant credit information being readily available to Australian SMEs, who deserve a more transparent credit reporting framework. SMEs have limited resources and budget to undertake sufficient due diligence on a potential commercial partner, and are too often required to take a gamble on who they do business with.

John Johnston, Senior Manager Risk of Coface Australia added: “There needs to be a greater commitment from Government, regulators and industry to improve the framework by which private companies are required to report and disclose their overall financial position”.

“The *Personal Property Securities Act*, due to come into effect in May 2011, will improve the disclosure of a company’s current borrowings and is a step in the right direction, but this is only one part of what requires a broader solution to improve transparency and therefore business-to-business trading conditions,” Mr Vollbehrr added.

Only 43 per cent of respondents said they were satisfied with the breadth and depth of current information available to enable credit risk assessment, with 79 per cent of those saying they wanted more access to credit risk scores. Nine out of ten companies outsource overdue receivables, with the majority using a collection agency.

Foreign companies and sole traders were the most likely to default in payments, with foreign companies up four-fold from 2009. Financial difficulty was the main reason clients gave for defaulting in their payments. Only 10 per cent of Australian companies defaulted because of external administration or insolvency. Sixty-five per cent of those who defaulted for financial problems cited cashflow as the main explanation for their difficulties.

“More than half (55%) of the businesses surveyed had more than 75 per cent of their business transactions on credit, leaving them highly susceptible to market fluctuations and macro economic problems,” said Mr Vollbehrr.

“We would like to see more companies employ proactive debt management procedures as standard form of best business practice to avoid being exposed to large amounts of bad debt. It is critical to assess the capacity of a client to meet its financial commitments prior to doing business.

“When customers do default in payments, it is great to see so many Australians using amicable negotiation to create a repayment schedule, but they must ensure they are always looking out for their bottom line. Interestingly, 91 per cent of respondents said they were not aware of all the implications of the new Personal Property Securities Act (PPS), which can help them significantly in questions on possession and enforcement of interests,” Mr Vollbehrr concluded.

Other findings included:

Credit Risk Management

- For nearly one in five companies (18%), the responsibility for credit management has not been clearly defined.
 - Of those companies with credit management procedures, just over one in three (37%) have a credit management manual.
- Of the companies with credit management procedures, just two out of five have applied a Retention of Title Clause or All Monies Clause.
- Less than half (43%) purport to being satisfied with the breadth and depth of information available to enable effective credit risk assessment.

Payment Trends

- The percentage of overseas customers who trade on credit terms increased 15 per cent since 2009.

- In 2010, around half of the companies surveyed state their Day Sales Outstanding (DSO) was less than 30 days for Australian clients (52%) and overseas clients (42%).
- Nine out of ten (89%) outsource their overdue receivables, mainly to collection agencies (73%).
- The majority of respondents (64%) said that amicable negotiation is the most effective in cases of non-payment; with fewer saying they would request third-party intervention. For domestic clients, only seven per cent would go to mediation and four per cent would go to litigation.

Export Trends

- The number of companies that export grew 30 per cent in 2010 compared with 2009, with 23 per cent of those companies saying exports accounted for at least half of their yearly revenue
- Credit terms for export clients lengthened significantly in 2010, with 65 per cent saying they offer their export clients 60 days or more to pay. This was more than double from 2009, when only 27 per cent offered their export clients 60 days or more.
- As a result, the average DSO for export clients also significantly lengthened with 37 per cent saying their average DSO was 60 days or more, compared with 23 per cent in 2009
- For cases of non-payment, more Australian companies focused on amicable negotiation (64%) rather than resorting to third-party intervention or litigation (18%) – both down significantly from 2009, when 34 per cent used one of those actions.

ENDS

Source: Coface

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***About the survey:**

The second annual Corporate Credit Risk Management in Australia survey was conducted to better understand the domestic and international payment behavior of companies in Australia. The fieldwork was undertaken between 12th and 15th October 2010 via an online survey. The survey was completed by business executives, business owners (including small business owners/general managers), CEO/CFO/Credit Managers/Financial Controllers across Australia. A total of 511 companies, mainly sole traders (47%) and Australian Proprietary Companies (32%), participated in the research. Survey respondents represented a wide range of industries such as Wholesale & Retail (14%), Other Service Activities (8%) and Arts, Entertainment and Recreation (9%).

About Coface – www.coface.com.au

Coface's mission is to facilitate global business-to-business trade by offering its 130,000 customers four business lines to fully or partly outsource trade relationship management and to finance and protect their receivables: credit insurance, factoring, ratings and business information and receivables management. Thanks to the worldwide local service delivered by 7,000 staff in 67 countries, over 45% of the world's 500 largest corporate groups are already customers of Coface. Coface is a subsidiary of Natixis whose share capital (Tier 1) was 13.4 billion euros end June 2009.