

Key success factors in the practical day to day cash collection

Summary of study

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Scope and target of study

- ✓ This is the first study which researched the accounts payable management in relation to payment behaviour and payment motivation

- ✓ This study was targeted to identify
 - ✓ in which way the accounts payable function can be attracted to pay on time
 - ✓ what are the influencers for payment delays
 - ✓ what the reaction to debt collection activities will be

The importance of payment conditions for the buyer decision

	Very much	considerably	A little	Not at all
Small companies	13,2 %	31,6 %	42,1 %	13,2 %
Medium sized companies	25,0 %	36,1 %	30,6 %	8,3 %
Large companies	11,9 %	54,8 %	28,6 %	4,8 %
Total	16,4 %	41,4 %	33,6 %	8,6 %

The agreed payment conditions

	Very often	often	seldom	Never
Prepayment	1,8 %	1,8 %	55,0 %	41,3 %
„Immediately“	4,4 %	31,9 %	54,9 %	8,8 %
Direct debit	1,8 %	24,1 %	49,1 %	25,0 %
Open credit (30 days)	24,8 %	42,5 %	22,1 %	10,6 %
Payment term more than 30 days	6,7 %	20,2 %	54,8 %	18,3 %
Cash / Quick payment discount	48,7 %	37,6 %	12,8 %	0,9 %

Payment conditions are important in the BtB sector. For a competitive edge the Credit Management should balance out the sales requirements. The sales function needs to be aware about this and should manage payment conditions in relation to company targets

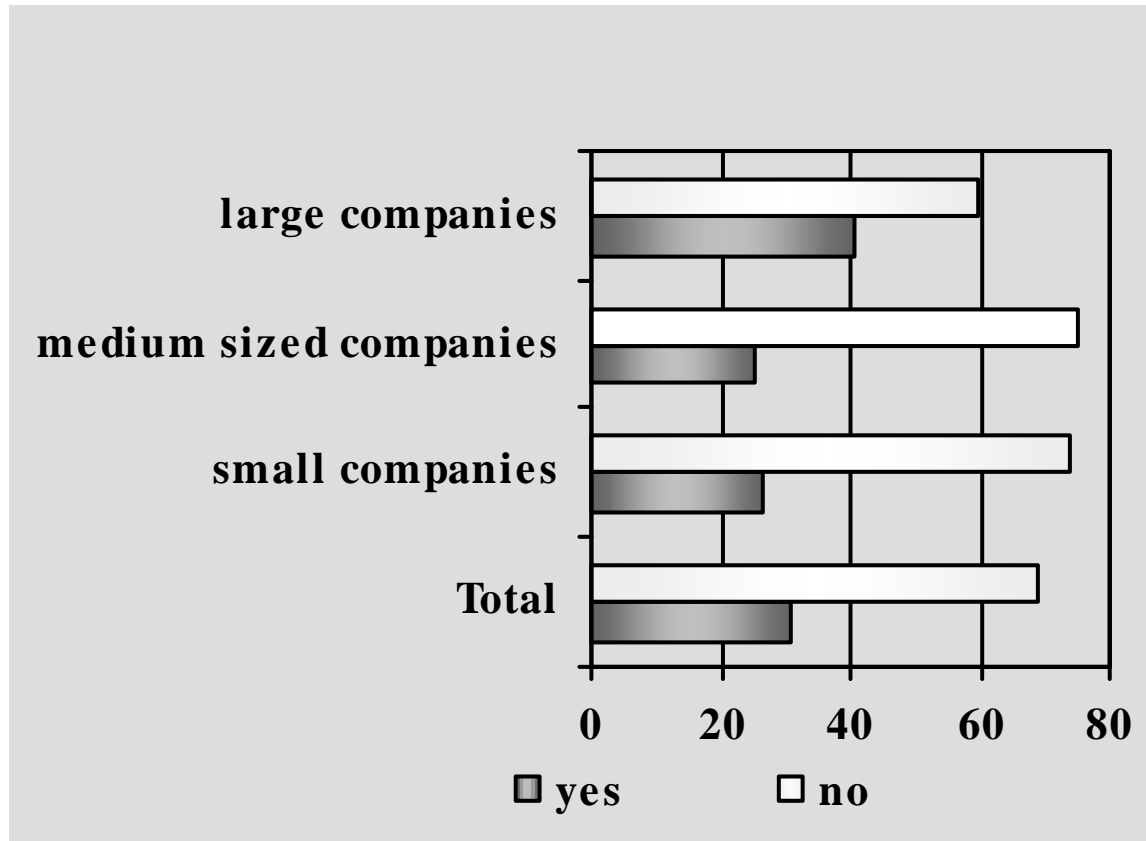
Follow up activities to payment delays and deductions

	Very often	often	seldom	Never
Payment delay by 5 days	47,7 %	38,7 %	10,8 %	2,7 %
Payment delay by 10 days	8,7 %	34,0 %	42,7 %	14,6 %
Payment delay by 20 days	1,0 %	11,0 %	32,0 %	56,0 %
Payment delay by 30 days	0,0 %	6,0 %	20,0 %	74,0 %
Payment delay by more than 30 days	1,0 %	2,0 %	12,2 %	84,7 %

Unexpected deductions are handled generous.

Deductions can be a very expensive revenue dilution and will have significant impact to the profitability, and shouldn't be accepted

Negotiation about securities



The securitisation of payment terms and credit limits by material securities is a significant weakness.

It can be confirmed that business customers do have enough experience to agree on securities and therefore this element should be included in negotiations

Required securities

Ranking	Securities	%
1.	Retention of title	97,1
2.	Extended retention of title	88,2
3.	Bank guarantee	64,7
4.	Assignment of claim	21,2
5.	Private guarantee	17,6
6.	Pledge as security	11,8
7.	Mortgage	8,8

Experiences with debt collection activities

	Very often	often	seldom	never
Friendly reminder	50,4 %	31,0 %	16,8 %	1,8 %
Dunning letters (up to 3)	12,0 %	34,3 %	41,7 %	12,0 %
Dunning letters (up to 6)	1,0 %	1,9 %	28,2 %	68,9 %
Dunning letters (up to 9)	0,0 %	2,0 %	12,7 %	85,3 %
Telephony cash collection	9,3 %	21,3 %	52,8 %	16,7 %
Change credit limit	0,0 %	1,0 %	23,8 %	75,2 %
Stop trade	0,9 %	3,8 %	31,1 %	64,2 %
Hand over to debt collection agency	0,0 %	2,9 %	28,6 %	68,6 %
Announce legal action	0,9 %	1,9 %	45,3 %	51,9 %
Hand over to solicitor	0,0 %	1,9 %	38,1 %	60,0 %
Start legal action	0,0 %	1,0 %	27,9 %	71,2 %
Writ of execution	0,0 %	0,0 %	14,6 %	85,4 %
Court action	0,0 %	0,0 %	9,8 %	90,2 %
End of contract relation	0,0 %	0,0 %	9,8 %	90,2 %

In the day to day cash collection practice the written dunning letter is still most dominant. It is recommended to use more innovative methodologies to motivate customers for payments!

The effectiveness of debt collection activities

	Very strong	strong	Small	Not at all
Friendly reminder	22,9 %	32,1 %	30,3 %	14,7 %
Dunning letter	9,7 %	44,1 %	37,6 %	8,6 %
Telephony cash collection	13,5 %	50,6 %	27,0 %	9,0 %
Credit limit change	24,0 %	44,0 %	32,0 %	0,0 %
Stop trade	32,4 %	32,4 %	18,9 %	16,2 %
Hand over to debt collection agency	38,7 %	32,3 %	22,6 %	6,5 %
Announcement of legal action	32,6 %	28,3 %	23,9 %	15,2 %
Hand over to solicitor	35,0 %	30,0 %	27,5 %	7,5 %
Start Legal action	50,0 %	14,3 %	21,4 %	14,3 %
Writ of execution	50,0 %	7,1 %	14,3 %	28,6 %
Court action	40,0 %	30,0 %	10,0 %	20,0 %
End of contract relation	40,0 %	20,0 %	30,0 %	10,0 %

Customers which have experienced practical debt collection activities confirm that strong actions are effective.

The more demanding activities are more efficient compared to reminder or dunning letters.

The telephony cash collection was confirmed as having the same effect as debt collection agencies or announced legal actions

Incentives for on time payments

Ranking	Motivation	Average	Very strong	Very strong to strong
1	Savings (cash discount etc.)	1,56	58,6 %	88,4 %
2	Good payment conditions	1,70	42,6 %	90,4 %
3	Important business partner	1,92	38,1 %	77,9 %
4	Maintained business partnership	2,12	29,5 %	69,7 %
5	Personell contact	2,21	25,7 %	63,8 %
6	Impact to credit worthiness	2,44	24,1 %	52,7 %
7	Stop trade	2,55	25,5 %	48,7 %
8	New customer status	2,68	12,6 %	44,1 %
9	Professional Credit Management	2,77	7,2 %	26,1 %
10	Small average amount per invoice	2,97	6,4 %	23,8 %

The results of this section are recommending to the Credit Management that payment conditions should be structured attractive to customers and the customer relationship should be maintained personally to minimise bad debt risks.

Reasons for delayed payments

	Very strong	strong	little	Not at all
Industry standard	7,0 %	15,8 %	34,2 %	43,0 %
Cash flow improvements	9,8 %	38,4 %	31,3 %	20,5 %
Internal policy	13,5 %	18,9 %	18,9 %	48,6 %
Difficulties in financing	3,6 %	12,7 %	24,5 %	59,1 %
Difficulties with other financing instruments	2,8 %	14,7 %	19,3 %	63,3 %
Experienced disputes	4,5 %	19,8 %	36,0 %	39,6 %
Knowledge about potential commercial settlement	1,8 %	13,4 %	39,3 %	45,5 %

In most of the cases companies want to strengthen their own cash flow performance by paying late or internal policies define payment delays as adequate instrument. Nearly 25% of the involved companies confirm industry standards or experienced disputes as strong reason for payment delays

Frequency and reasons for complaints

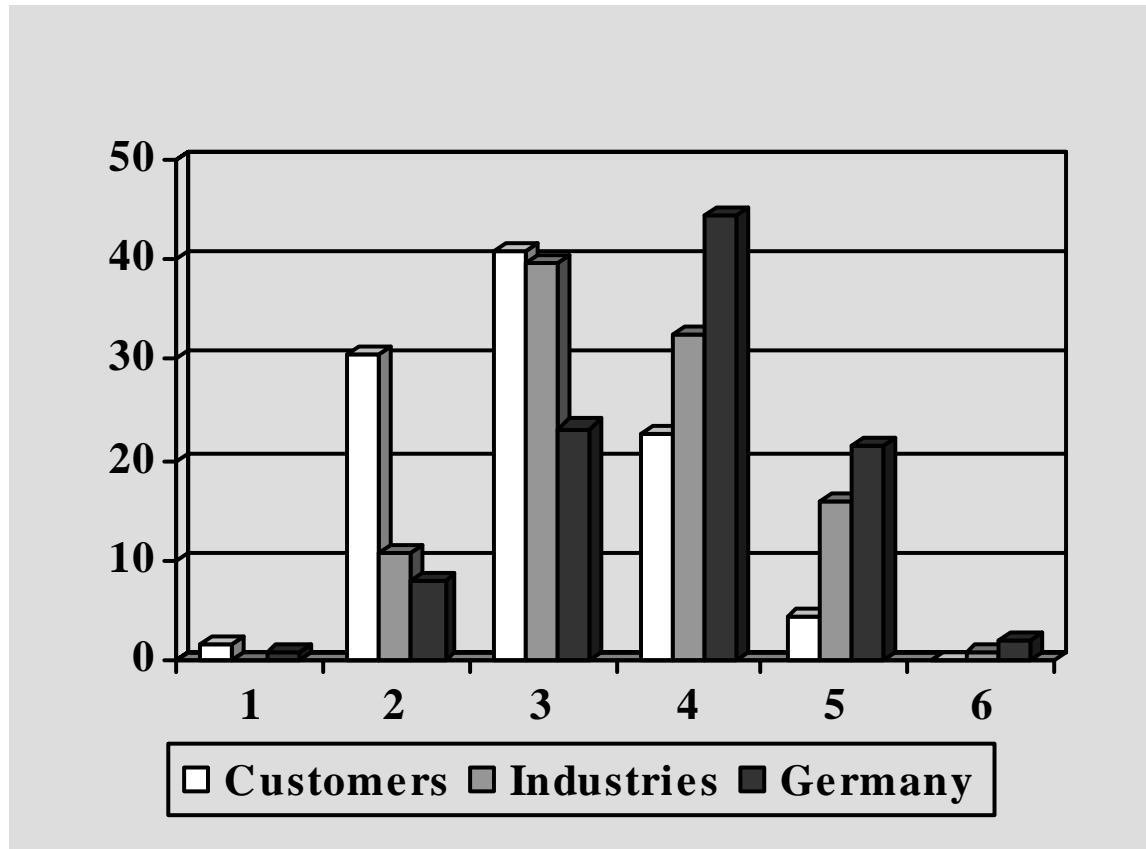
	Very often	often	seldom	never
Wrong address and company details	6,9 %	24,1 %	57,8 %	11,2 %
Quality of goods	0,0 %	19,5 %	77,0 %	3,5 %
Number of ordered items	0,9 %	18,3 %	74,8 %	6,1 %
Wrong goods delivered	0,9 %	13,3 %	75,2 %	10,6 %
Late delivery	0,0 %	15,8 %	73,7 %	10,5 %
Wrong price	1,7 %	31,1 %	62,1 %	5,2 %
Discounts missing	0,9 %	19,1 %	62,6 %	17,4 %
Wrong payment terms	3,4 %	11,4 %	59,6 %	25,4 %
Agreements not fulfilled	2,6 %	11,3 %	70,4 %	15,7 %
Reference data (account-, order-no...)	2,8 %	25,7 %	53,2 %	18,3 %

In most of the cases complaints are linked to formal issues.

Payment delays can be avoided if you maintain your customer database and contractual terms & conditions.

If you don't know the right company details of your customers, you don't have to be surprised if you receive complaints

Payment moral



It was noticed that companies see their own payment behaviour by far better as the industry payment behaviour and compared to the German economy.

Credit Manager as professional experts and key to success:

Credit Manager/in
Profile



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Source: www.x.henkel.com