Intrum MAGAZINE

THE CREDIT MANAGEMENT MAGAZINE FROM INTRUM JUSTITIA

NO.1 | 2010

ACADEMY
The credit management insights you need to succeed

BRAZIL'S BLACK GOLD

Recent oil findings can help Brazil become one of the world's biggest economies

LOSING MONEY?
Loose those unpaid bills

5 GOLDEN rules of crisis management

Editorial:

Time to plan for the future

The decade behind us is one probably many of us would rather forget. From 9/11 to global financial disaster, the last ten years have been a stormy roller-coaster ride for governments, businesses and ordinary citizens alike.

The good news is that the economic signs indicate we are heading into a period of growth, albeit subdued, in most western countries. But, although we are out of the storm, we must not forget many economies still need to cope with massive unemployment, deficits and public debt.

Short-term survival has been the name of the game for Europe's business community during the turmoil. Now, with a refocus on the long-term, we need more than ever to set and keep our companies on the right course by constantly improving our credit management skills and discipline. On page 12 you can read how this lesson is a being successfully applied by Swedish transportation company MLT, as it applies specialist skills for its collection process.

There is nothing easy about turning an organisation into a credit management powerhouse. Changing ingrained habits requires constant effort in altering expectations, attitudes and methods to avoid falling back into familiar patterns.

For some insights into managing through and after turbulent times, we have turned to Dr. Ram Charan, whose frenetic pace, fierce intelligence, and deep access have made him an unrivalled source of real world insights into what business does right - and all too often wrong, according to Fortune magazine. Discover his uncanny ability to help senior executives around the world solve their toughest business problems on page 14.

On a more upbeat note, not all the world is dark and gloomy. Brazil is one country that is doing rather well right now. On page 6 we take an indepth look at what is driving the Brazilian economy towards becoming one of the world's largest economies by mid-century.

Finally, just in time for the second decade of the new millennium we bring you a new, highly useful tool to help improve both cash flow and customer relations – the Intrum Credit Management Academy, available free on our website at www.intrum.com. Take a look at the Academy section (launched on page 20 as a regular feature), which delivers practical knowhow on core credit management issues that we hope you will find interesting and useful.

LARS WOLLUNG, PRESIDENT AND CHIEF EXECUTIVE OFFICER, INTRUM JUSTITIA

IN THIS ISSUE:

HOW CAN WE HELP YOU?

We have several key reports, white papers and business cases that can give you insight into payment behaviour, trends and risks. We can also assist you in the acquisition stage.
Want to know more? Email us at intrummag@intrum.com so we can send you the necessary information and/or reports..
Better business for all.

Intrum Magazine no. 1 March 2010 **Publisher** Intrum Justitia AB, ISSN 1652-5620 **Editor-in-chief and responsible publisher in Sweden** Fanny Wallér **Editor** Madeleine Bosch **Assistant editors and production** Anne Smitt and Björn Enström, Tidningskompaniet **Printer** Trydells, Laholm **Cover Photo** Getty Images. The next issue of Intrum Magazine will be published in June 2010. **Subscriptions** info@intrum.com **Change of address** Intrum Justitia shareholders should advise their account-operating institutes. Others should contact the editorial desk: Editorial desk Intrum Magazine, SE-105 24 Stockholm, Sweden, info@intrum.com Phone +46 8 546 10 200 Fax +46 8 546 10 211

intrum justitia

Top of the auctions in 2009

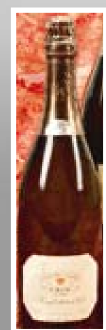
During the gloomy days of 2008 many shareholders lost confidence in the stock markets. Some started to look for tangible assets to invest in to diversify their portfolios.

Gold is often considered a safe haven. Other examples of traditional alternative investments are raw material, currency or corporate bonds. Other investors looked to "good life" investments like fine wine or art.

But how did the latter group of tangible investments turn out? Let's take a look at some of the most expensive items auctioned in 2009.

Watch
The Patek Philippe Calibre 89 watch brought in five million dollars.

Painting
The bagpipe player in profile by Hendrick Ter Brugghen, painted in 1938, was sold for 10 million dollars.



Wine
A bottle of Krug champagne from 1928, sold for 21,200 dollars, has broken the world record for the most expensive champagne ever sold at an auction.

Europe rocked by fears about member country debts

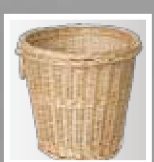
A wave of social unrest swept across Greece as 2009 closed with pensioners, students and public-sector unions protesting against government plans for greater control and fiscal rigour to put the troubled Greek economy right. An article in the *Wall Street Journal* noted how the unrest mirrored growing fears around Europe that the continent's economic recovery was threatened by huge budget deficits and very low growth prospects in the weaker economies. Shaky investments in Eastern Europe have sparked major ripples in several European countries, including Austria, wich recently nationalised yet another local bank at the request of the European Central Bank. Simon Tilford, chief economist at the Centre for European Reform, a London think tank, told the *Wall Street Journal* that it's "hard to see how Italy, Spain and Portugal are going to generate enough growth" to rein in their debts.

Misery index

Spain's, Latvia's, Lithuania's and Ireland's recession misery rank the worst in Europe, according to a new 'misery index' devised by credit ratings agency Moody's. The index is based on unemployment and budget deficits.

Automobile
The 1957 Ferrari 250 Testa Rossa has set a new record for cars sold at auctions. The winning bid was slightly over 12 million dollars.

Jewellery
This vivid pink ring, with a rare five-carat cushion-cut pink diamond, switched owners for 10.8 million dollars.



Wastepaper basket
This ordinary basket was sold at Bukowskis in Stockholm for 1,500 dollars. It's worth mentioning that its former owner was the famous director Ingmar Bergman.

Financial bubbles loom

Forbes magazine has identified looming financial bubbles:

- Gold
- China
- Emerging markets
- Treasuries
- College tuition
- Exchange-traded funds
- Copper

Q&A

CARMEN REINHART

Guess what, financial history does repeat itself. An astonishing book by two top US economic academics studies 800 years of government defaults, banking panics, and inflationary spikes in sixty-six countries across five continents.

From medieval currency debasements to today's subprime catastrophe, Professors Carmen Reinhart and Kenneth Rogoff prove that while countries can weather financial storms, short memories make it all to easy for crises to recur. Their book, *This Time is Different: Eight Centuries of Financial Folly,* (Princeton University Press) uses clear, sharp analysis and comprehensive data to document how financial fallouts strike with consistent frequency, duration, and ferocity. Reinhart tells *Intrum Magazine* why the historical study's panoramic view of the unending cycle of boom and bust leaves her feeling less than optimistic about the future.

Q: Tackling the vast and often obscure data and statistics of government debt defaults going back eight centuries must have been a huge task?
A: We actually started when we were both working at the IMF back in 2003. So, yes, it was a lengthy process of digging around involving a lot of legwork. Governments, you know, have a tendency to hide lots of stuff, but by 2006 the book had taken shape.
Q: What's your take on why it's so difficult to learn from the past when it comes to financial crises?
A: There are two universal traits of human nature – arrogance and ignorance. Each time a financial crisis looms, the experts chime 'this time is different'. They claim the old rules of valuation no longer apply and the new situation does not resemble past disasters. Somehow governments believe crises happen to other people, in other places and in other times. Well, our research proves that is wrong and shows many investment decisions are taken in blind ignorance. That is why crises recur.
Q: So could we have foreseen the latest crisis coming along?
A: Of course not every crisis follows exactly the same template as it unfolds. But there are patterns that flag a warning if you are open to them: easy credit, rapidly rising debt – as well as the cycles in housing and equity prices, and capital flows.
Q: Could governments in the US and elsewhere have acted differently in the current downturn based on your evidence?
A: I doubt it. There is a strong tendency when things are perceived to be going really well to ignore the bits that are not going great.
Q: What do we need to look out for to avert a future crisis?
A: I am not optimistic that we will. And as our research revealed, memories are short. Using the past as a roadmap, we'll soon have forgotten what's happening now.
Q: A period of grace ahead?
A: We are still not over the crisis and I have some serious concerns about the durability of recovery. I know the signs of recovery are widespread, but worrisome debt issues remain, in countries like Ireland, Iceland and in several Eastern European markets.

Words David Noble

5 DRIVERS OF THE BRAZILIAN ECONOMY

Brazil could become one of the world's largest economies by the mid-century. **Intrum Magazine** takes a closer look at what is driving the Brazilian economy.

WORDS PHILLIP HASTINGS / PHOTO SCANPIX

Currently ranked ninth globally in GDP terms with a 2008 figure of USD1,976,632 million*, Brazil could become one of the world's five largest economies by the middle of this century along with China, the United States, India and Japan.

"With its extensive and growing domestic market, rich natural resources, and diversified industry and export structure, Brazil is increasingly becoming a key player on the global economic and geopolitical landscape," confirms *The Brazil Competitiveness Report 2009* published by the World Economic Forum (WEF), a Switzerland-based independent international organisation.

In fact, according to another source, the latest *Brazil Watch* report published in late 2009 by the Economic Research Department of multinational banking and financial group BBVA (Banco Bilbao Vizcaya Argentaria), the South American country's economy is set to grow by around 4.5 to 5 percent annually over the next few years, possibly even by 6 percent if certain economic and financial structural problems are addressed.

"This growth will be driven by a dynamic expansion of domestic demand, which will be based on the expansion of credit, the incorporation of millions of people into the consumption markets and further advances in labour markets," the report says. "Moreover, in the longer term, the country will benefit from the recent oil findings and associated investment booms."

Analysis of information from a range of sources suggests that five of the most significant factors driving Brazil's economic growth are: macro-economic stability, a large domestic market, business sophistication, foreign direct investment (FDI) and oil resources/exports.

*GDP CALCULATED ON A PPP (PURCHASING POWER PARITY) BASIS. WORLD BANK, WORLD DEVELOPMENT INDICATORS DATABASE, OCTOBER 2009.

AN

1 FOREIGN DIRECT INVESTMENT

Brazil is the largest host country for foreign investment in Latin America and second only to China among developing countries. "Brazil enjoys a good image among international investors, due in particular to its market potential and its availability of natural resources," says the WEF.

That status looks set to hold in the years to come, with BBVA's Brazil Watch report, for example, saying foreign direct investment (FDI) flows into Brazil should continue to be "robust". "More precisely, in 2009 FDI flows should amount to USD28 billion, more than the USD25 billion observed in 2008. And in 2010 they could reach more than USD35 billion."

Particular factors encouraging foreign investment in Brazil include the size and growth rates of that market. "At the same time, the richness in natural resources displayed by the country makes it very attractive for resources-seeking, export-oriented FDI," says the WEF. "Brazil is the third largest agricultural exporter in the world, as well as a major exporter of mineral commodities."

In recent years, Brazil's world market share, in terms of FDI projects, has been especially high in metals, minerals, business machines and equipment, wood products, chemicals, rubber, communications, alternative and renewable energy and beverages.

2 OIL RESOURCES

Brazil's future oil production potential is highlighted in a section of BBVA's latest Brazil Watch report outlining a new regulatory framework presented by the national government last August for exploration of a 149,000-square-metre offshore area are called 'pre-salt' (the name comes from the fact that the oil lies beneath deep waters, around 3,000 metres of sand and rock, and a layer of salt). "It is estimated that it could potentially hold reserves of up to 150 billion barrels, ten times the amount of oil reserves attributed to Brazil prior to 2008."

The BBVA report goes on to point out that in relation to the new area, the Brazilian government is proposing a shift from the currently used concession-production system to a sharing-production system. In a sharing arrangement, explains the report, the government and the oil company share the ownership of the field and of the oil extracted, whereas in a concession system the government concedes the ownership of the field and the oil to a company in exchange for royalties.

"Overall, the project presented by the government aims to retain within the country a significant part of the resources generated from the pre-salt region," it concludes. "The government is also expected to announce measures to guarantee that the country becomes an exporter of oil-derived products instead of oil."

3 BUSINESS SOPHISTICATION

Another of Brazil's strengths when it comes to international business competitiveness, say analysts, is the "sophistication" of its commerce and industry.

"Brazil's business sector generally now has a degree of sophistication," confirms Irene Mia, a director and senior economist with WEF. "Exports are quite diversified, including a range of higher value goods as well as natural resources, and many Brazil-based companies are now international players."

Putting some numbers to that theme, the WEF report says that in a survey of 134 economies worldwide, the South American country was ranked 35th when it came to the sophistication of its business sector.

"Within the comparator sample, it clusters with Chile (31st), the best regional performer, and South Africa (33rd), and largely surpasses fellow BRIC (Brazil, Russia, India, China) country Russia (91st) and, to a lesser extent, China (43rd) as well as the other regional giant, Mexico (58th). Moreover, with a score of 4.58, it largely outshines the regional (3.97), EU Accession 12 (4.20) and BRIC (4.41) averages.

"In particular, the country displays important competitive advantages in the quality and quantity of suppliers (41st and 13th, respectively), in the presence of well-developed clusters (43rd), and, more generally, in different elements relating to the sophistication of its firms' operation and strategy (43rd)."

Brazil will benefit from the recent oil findings. Brazil´s President Luiz Inacio Lula da Silva (C) celebrates the opening of an oil platform south of Rio de Janeiro together with his wife Marisa Leticia and workers of the Brasil-Fels shipyard who built it in 2008.

4 DOMESTIC MARKET

With a population now reported to be around 195 million, Brazil is the fifth or sixth most populous country in the world. Significantly, that population is predominantly young, with more than 60 percent of Brazilians being under 29 years of age. Based on World Bank figures for 2008, the gross national income per capita, Atlas method and PPP (purchasing power parity), is USD7,350. Overall, Brazil has the largest domestic market in Latin America, a factor which is helping to both drive general national economic growth and provide a solid base for an ever-increasing range of foreign export trades.

"The size of the domestic market is something which is very positive for Brazilian industry, and many companies, for example in the automotive sector, have used that market to develop new value-added production," confirms Irene Mia, WEF.

The WEF report on Brazil's competiveness also points out that the country has seen

the emergence of a large middle class, up from 44 percent of the total population in 2002 to almost 52 percent in 2008, with stronger purchasing power. "This has been associated with an increase in monthly average household income, from USD1,569 to USD1,957 between 2004 and 2008," it states.

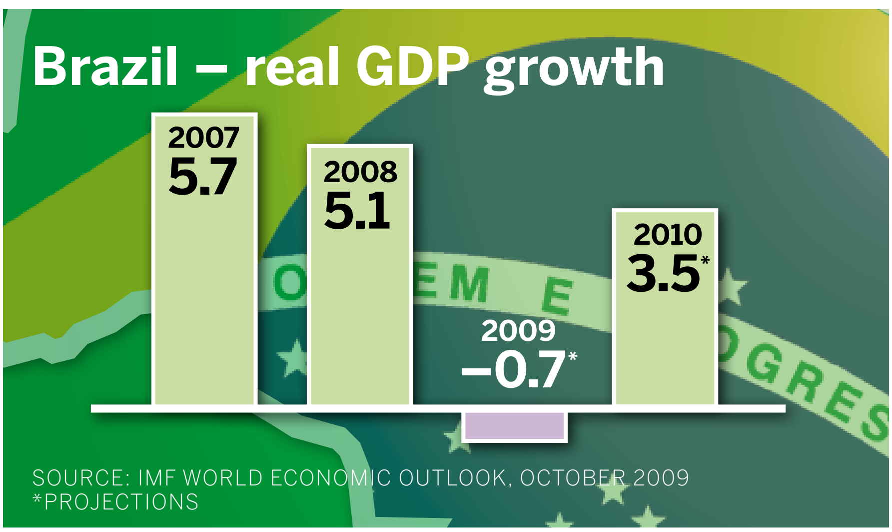
5 MACRO-ECONOMIC STABILITY

A feature of international reports on the Brazilian economy is the use of terms like "macro-economic stability" and "fiscal sustainability". In other words, the economy has sound fundamentals to support future growth.

That point is highlighted in the OECD's (Organisation for Economic Co-operation and Development) *Economic Survey of Brazil 2009*, for example. It says Brazil's economic fundamentals have improved considerably in the 10 years following the abandonment of exchange-rate management in 1999 and adoption of a policy framework "combining inflation targeting, rules-based fiscal management and a flexible exchange rate".

The report also suggests this framework and the "continued consolidation of macro-economic adjustment" has helped Brazil weather the effects of the recent worldwide economic downturn better than many other large emerging-market economies. Specifically, it says those policies have delivered gradually falling inflation and public indebtedness, and reduced external vulnerabilities.

"These factors have been essential for increasing resilience to external shocks and have laid the groundwork for raising the economy's growth potential." Another reason for relatively good performance in spite of the crisis, adds the OECD, is that Brazil's banking sector is in "good shape".



Outsourcing: MOVING FAS

Intrum Justitia has been handling transport company MLT's collection process for the past four years. "For us, it is both cheaper and more efficient to let a professional handle these bits," says Sara Andrén, accounting manager at MLT.

WORDS SARA GUSTAVSSON / PHOTO ALEX&MARTIN

MLT AB is a customer of Intrum Justitia's partner IBS, the transport company's business system supplier, and this is how MLT was introduced to Intrum Justitia. "Intrum has been handling our interest invoices, reminders and collection cases for four years now. We used to have someone on staff to do it all manually. The difference is huge. Not only do things get done faster, it is also cheaper than using internal resources. Plus, it's more secure and reliable since we don't have to rely on internal resources in the event of illness, vacation and other situations," explains Sara Andrén, accounting manager at MLT.

Mellansvenska Logistiktransporter AB, or MLT, is the result of a merger between two trucking centres, founded at the turn of 2001/2002.

"We provide transport and equipment services for two business areas, namely Construction & Industry and Courier & Distribution. Our ambition is to offer our customers effective transportation solutions that have the lowest possible impact on the environment while providing a safe and reliable form of transportation," says Sara Andrén.

MLT has about 40 employees today and works with about 450 people. "We cover a radius of 150 km around Uppsala,Sweden, which is home to our head office." As accounting manager, Sara is also in charge of employee issues, customer service, finance and economy and collection. "I can use Intrum's website to communicate and track the entire process. From that perspective, the difference between doing things in-house isn't that big. I can connect any time I want and run a check on a specific case by using my username and password. How much progress has been made in a certain collection case? What's the estimated interest? Has any case been put on hold? Have reminder's fees been added? The system is extremely convenient; I just send an online message and if there's anything I want to discuss, I call our account manager at Intrum. The system allows multiple users so both our CFO and I can access and receive the same information. This saves a lot of time and makes communication easy."

Intrum Justitia's partnership with IBS goes back several years. Adam Lewenhaupt, head of business area Transport at IBS explains:

"Instead of each company setting up functions in different systems, we created a network of partners. This gives customers a better selection of services and ultimately, a better product."

IBS is a world-leading supplier of business systems and supply chain management solutions. IBS Transport offers a complete solution for the transportation sector. The solution is module-based and focuses on logistics and distribution to give transportation firms full control over each vehicle's position, freight earnings and contribution margins. "Thanks to the partnership solution, our customers have easy access to Intrum's services to which they can quickly connect via their IBS system. From our perspective, the opportunity to offer our customers a tested and integrated service that makes their daily activities easier is an added value," says Adam Lewenhaupt.

"I can both communicate and track the entire collection process online," says Sara Andrén, accounting manager at transportation company, MLT.

TER

> Now we have a quicker, safer and cheaper collection process."

Sara Andrén, accounting manager for transportation company, MLT.

ABOUT MLT

The Swedish transportation company Mellansvenska Logistiktransporter AB (MLT) was formed eight years ago as the result of a merger between two truck centres. MLT provides transportation and equipment services in two business areas, Construction & Industry and Courier & Distribution. The company, which has about 40 employees and works with about 450 people, has its head office in Uppsala, Sweden.

THE BUSINESS GURU

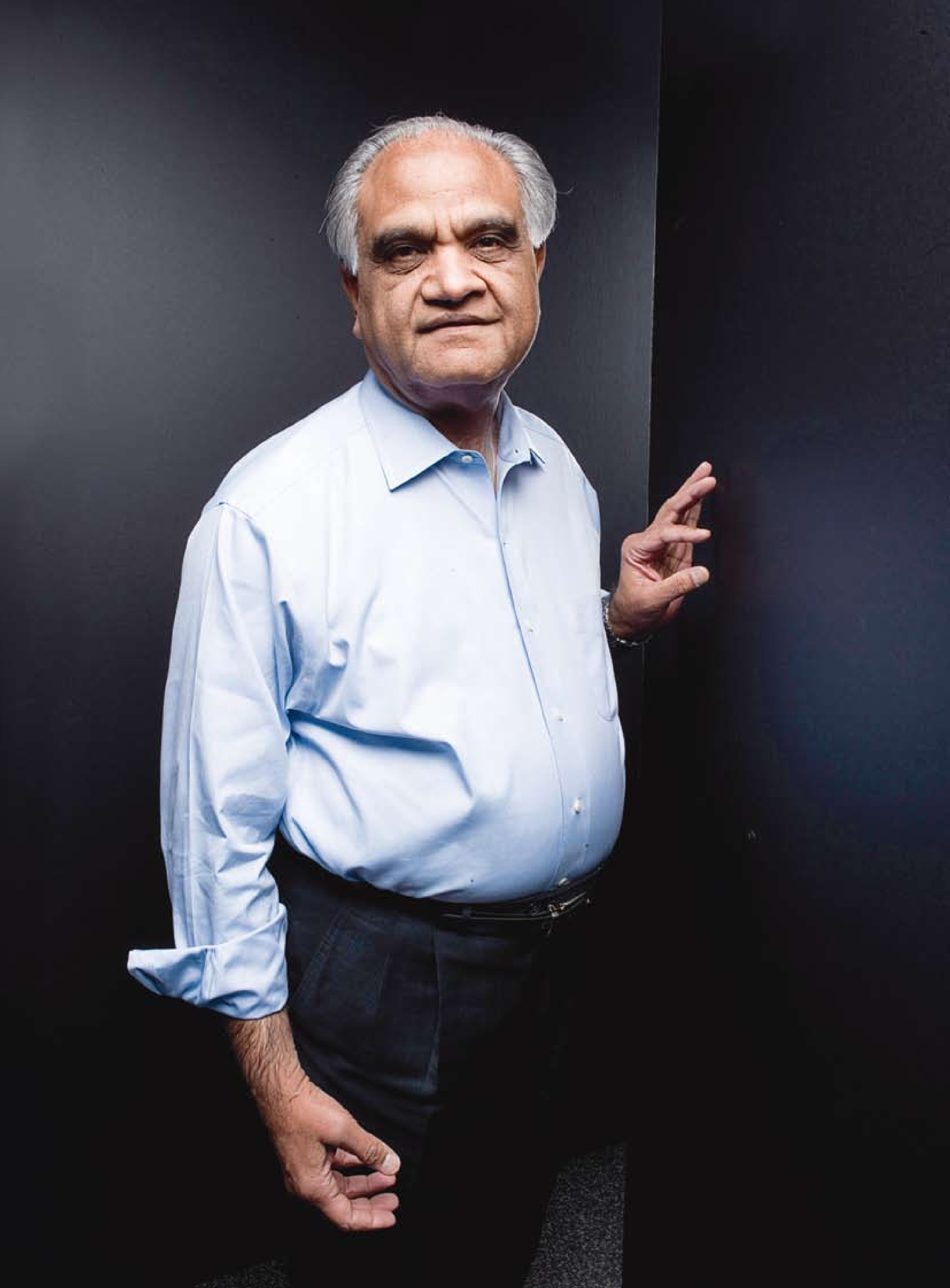
The deepest economic slowdown since the Second World War will herald a new era of compassionate and responsible business, according to **Ram Charan** – one of the world's leading management consultants. **WORDS DAVID WILES / PHOTO LORI REESE/SILVER**

It is monsoon season in a small town in 1950s India. In the town's family-run shoe shop there is not a customer to be seen – the incessant rain, the humidity and the mosquitoes tend to keep them away during this time of year. For the 12-year-old boy working in the shop, coping with the annual monsoon season will prove to be just as important a lesson in business as the MBA and DBA he will later earn on the other side of the world.

"During that ten to 12-week period you don't see a single customer," says Dr Ram Charan, who is today one of the world's leading management gurus. "So what do you do? You learn how to cope with it: you save cash before the season starts; you clean the shoes every day; you don't allow yourself to fall into depression. These are very important lessons."

They are lessons that Charan has been able to pass on to the top executives who turn to him, not least during the economic monsoon that has left strewn in its wake collapsed banks and failed businesses. In a long career as a highly-respected professor, board

"THERE WILL BE NO RETURN TO OLD GAME RULES"



"TO SURVIVE AN ECONOMIC CRISIS YOU HAVE TO PROTECT CASH FLOW"

member, consultant and author, Charan has developed a set of five golden rules for executives to deal with such an event.

The first is leadership itself. "They have to be resilient," he says. "They have to have faith in themselves that if they are knocked down they will be able to get up and find a way forward."

Rule number two, which Charan says is even more important than self-confidence, is the ability to instil confidence in those they lead. Rule three for surviving an economic crisis is to vigilantly protect cash flow – where it is coming from, where it is going, and how to conserve it. "Number four is you go to your customers, and your customers' customer, and your customers' customers' customer, to see the end demand, what is happening, what are their problems." Rule five is effective internal and external communications. "In these meltdowns there is a lot of confusion and you need to sort that out through communication," he says.

Charan's route from the storeroom to the boardroom started with an engineering degree in India. At the age of 19 he left for Australia, where he initially worked for a gas utility while studying part time at university. When his talent for business was discovered he was encouraged to pursue it, going on to do an MBA and DBA at Harvard Business School. Today based in Dallas – although he spends most of his time travelling – Charan is on the Forbes magazine list of the Most Influential Management Gurus and has been described by one CEO whom he advises as "my secret weapon".

While many people are waiting for business to return to normal after the most severe economic downturn since the Second World War, Charan says that there will be no return to old game rules and that we are now experiencing the "reset".

"The 'new normal' number one is that it's not going to be steady sailing, you will have continued volatility, and you have to learn how to deal with volatility," he says. "Number two is that the triad of the United States, Europe and Japan are going to have very slow growth for a number of years. There is a spike now but it is going to stabilise into a very slow growth. Number three is that in nations like Brazil, India and China you are going to have high growth with more investment coming in. There will be a shifting of the balance of economic power, and that has begun already."

Charan believes that the economic crisis has fundamentally changed the role of corporate executives and the organisations they lead. Corporations must become fairer, more compassionate and more responsible.

"Business leaders must come to terms with the fact that a business is a part of society," says Charan. "Their role needs to be broadened – they should not only build shareholder value, not only service customers, but they need to see their societal responsibilities. They need to think longer term, because social responsibility eventually helps achieve economic gains."

Back in the India of his childhood, those annual monsoon-induced downturns with the empty shop and the empty cash register

"SOCIAL RESPONSIBILITY HELPS ACHIEVE ECONOMIC GAINS"

influenced the basic leadership philosophy that Charan has followed ever since.

"The key for leaders is that they cannot succeed without customers," he says. "The customer demography, tastes, incomes and aspirations are changing. Their locations are changing, and the business leaders must be in touch directly with them."

Tenet number two is that executives must come to terms with the fact that maximising shareholder value in the short term is self-defeating.

"It can be shown mathematically that it is plain wrong," says Charan.

Tenet number three has echoes more of Eastern wisdom than Harvard MBA.

"They have to come to terms with putting purpose before self."

5 GOLDEN RULES OF CRISIS MANAGEMENT

Business guru Ram Charan has developed a set of golden rules for executives to deal with turbulent times.

1. **Strong leadership** – have faith in yourself.
2. **Instil confidence** in those you lead.
3. **Protect cash flow** vigilantly.
4. **Keep a close eye** on end demand.
5. **Practice effective** internal and external communications.

RAM CHARAN

Born: 1939, Uttar Pradesh, India.

Nationality: American.

Marital status: Single.

Education: Engineering degree from Banaras University, Varanasi; graduate diploma in Industrial Engineering from New South Wales University; MBA and DBA from Harvard Business School.

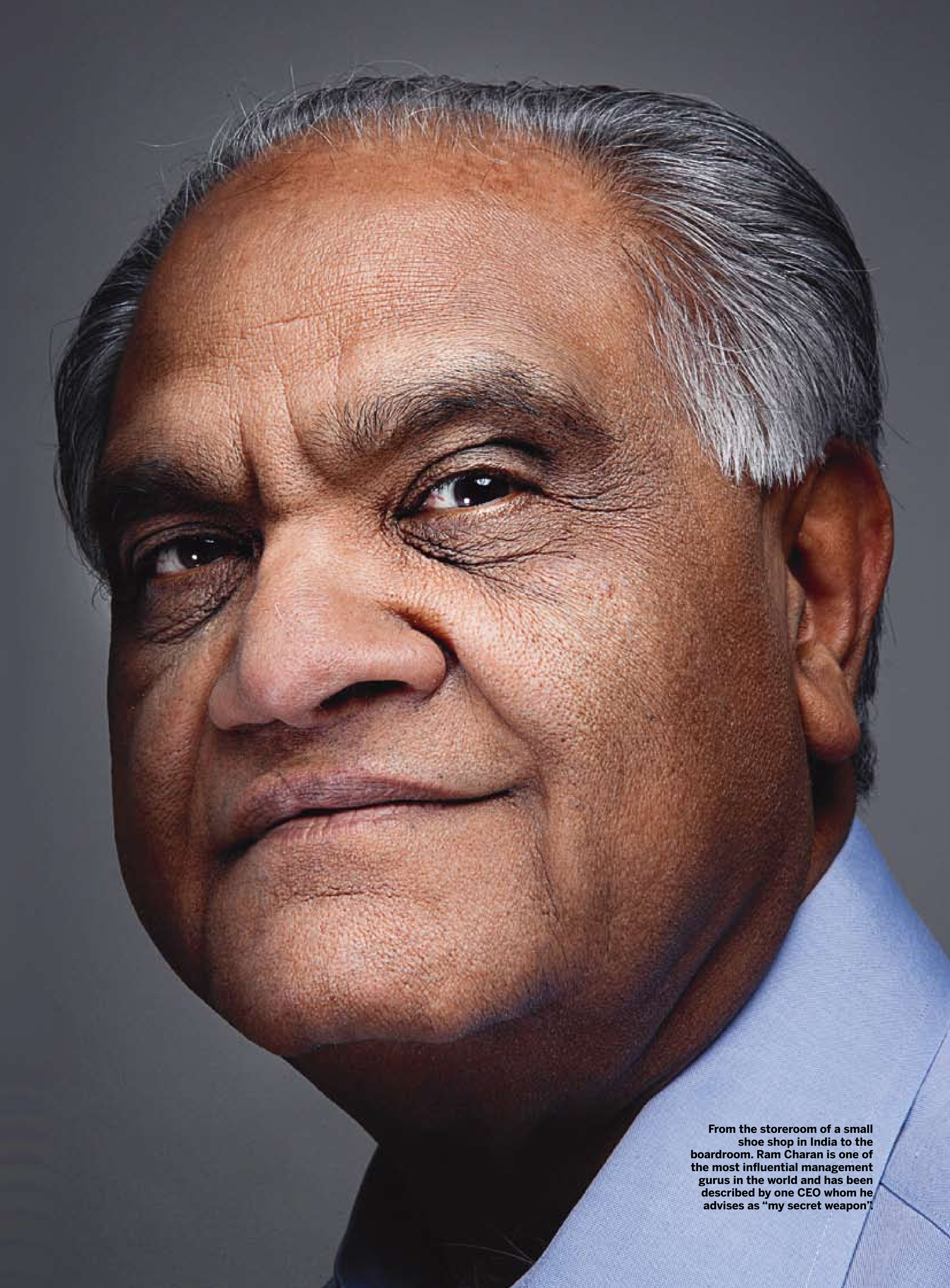
Career: Professorships at Harvard Business School and Northwestern University.

Consultancy clients: General Electric, DuPont, Novartis, Verizon, KLM, among others.

Board member: Austin Industries, Tyco Electronics, Emaar MGF.

Books: *Leadership in the Era of Economic Uncertainty; Execution: The Discipline of Getting Things Done* and *Confronting Reality*, both co-authored with Larry Bossidy; *What the CEO Wants You to Know, Boards at Work, Every Business Is a Growth Business, Profitable Growth,* and *Boards That Deliver.*

Praise for Ram Charan: "A wise man: Ram Charan's frenetic pace, fierce intelligence, and deep access have made him an unrivalled source of real world insights into what business does right – and all too often wrong." *Fortune magazine.*



From the storeroom of a small shoe shop in India to the boardroom. Ram Charan is one of the most influential management gurus in the world and has been described by one CEO whom he advises as "my secret weapon".

Losing money, **working harder?**

Mind those unpaid bills. Not only are they costing your business hard-won cash, but now new research by **Intrum Justitia** reveals just how much harder you will have to work to make up for the lost income.

WORDS DAVID NOBLE

A sad fact of business life is sometimes not getting paid on time or even not at all for products and services delivered. The collateral damage can be life threatening, leading to lower margins, increased prices, reduced R&D investment and, in the worst case, even putting a firm out of business and people on the street.

Even if you do survive not banking the money for the goods you've sold or the services delivered, there is another, less known dramatic knock-on consequence of written off debt: the extra sales effort needed to cover the loss suffered.

"Writing off a debt because your debtor went bankrupt or just disappeared causes an enormous burden on a business, large or small, apart from the physical loss of income," says Madeleine Bosch, Group Marketing Manager for Intrum Justitia.

"Our research has identified the amount in cash of extra sales that need to be generated just to cover written off debt. For example, if a company writes off 10,000 euros, and has a profit margin of five percent on that figure, then the additional sales needed to make up for that missing ten thousand amount to a staggering 200,000 euro!"

The Intrum research clearly demonstrates that the lower the profit margin, the higher the volume of extra sales required to cover the loss. Writing off 10,000 euros that had a two-percent margin will demand extra sales of a mind-boggling 500,000 euros.

"Those kind of irrefutable figures show that companies really need to take the initiative on tackling late or toxic payments before they become a write off," says Bosch.

"The urgency of this is underlined by the evidence from our pan-European research showing that written off debt in Europe rose by 20 percent in 2009 and the average amount of time it takes to get paid increased by 12 percent."

She explained the best solution available to canny firms is to ensure their internal financial management operations work more efficiently than ever before. That demands the creation of company-wide Credit Management Systems (CSM) whereby sales and marketing are fully integrated with the credit department to help sidestep bad payment risks before they can negatively impact cash flow.

"Firms must learn to focus on identifying and targeting those customers that will bring profit from day one, and ensure marketing and sales people have a profit-driven database to work from helps them shift their focus slightly from just selling to also getting paid," says Bosch.

If everyone paid on time it would hugely boost local, national and regional economies as well as helping firms save time, money and worry, which would be good news for consumers.

"Just imagine how much better off Europe's economic situation would be if we could avoid the 270 billion euros in written off receivables suffered in 2009 according to our research. It would be a win/win situation – for companies, consumers and society as a whole."

GET YOUR OWN FREE COPY

Want to get the full lowdown on the late payment situation in Europe? Get the Intrum Justitia European Payment Index on Late Payment in Europe on **www.intrum.com**


MARGIN: 2%
Written off amount
Extra sales needed
€ 500
€ 25,000
€ 10,000
€ 500,000
MARGIN: 3%
Written off amount
Extra sales needed
€ 500
€ 16,667
€ 10,000
€ 333,333
MARGIN: 4%
Written off amount
Extra sales needed
€ 500
€ 12,500
€ 10,000
€ 250,000
MARGIN: 5%
Written off amount
Extra sales needed
€ 500
€ 10,000
€ 10,000
€ 200,000
MARGIN: 6%
Written off amount
Extra sales needed
€ 500
€ 8,333
€ 10,000
€ 166,667
MARGIN: 7%
Written off amount
Extra sales needed
€ 500
€ 7,143
€ 10,000
€ 142,857

CREDIT MANAGEMENT ACADEMY

LESSON 1

Welcome to the Intrum Credit Management Academy, where we and our virtual professor Mary Jensen provide great credit management insights that will help you develop the skills you need to succeed in making your business more profitable – absolutely free of charge! In upcoming issues of **Intrum Magazine** we will summarise core issues related to credit management. The full lecture series will be available on the Intrum website.

1 CREDIT EVALUATION | 2 INVOICING | 3 DEBT COLLECTION | 4 INTEGRATION BENEFITS CASH FLOW

LEADING THE CREDIT MANAGEMENT REVOLUTION

ILLUSTRATION TOBIAS FLYGAR

You may be stressed out by the economy, but here is some good news. Good credit management stewardship is good business. A 2009 study by Intrum Justitia found that companies with a strong emphasis on sustained credit management outperformed the market, often by a large margin. Other experts have often noted that companies who pursue excellence in cash flow management can help unlock capital, transform bottom lines and safeguard a business' future in a downturn.

Whether you work for a big company or a small one or just for yourself, you almost certainly know that hounding clients to pay bills they are way behind on is an unpleasant task. But being a laggard in collecting late invoices can make or break a business, and not only in a recession. When a company goes down it is bad news for the owners, employees, suppliers and contractors as well as the local community as a whole.

Sound credit management is all about the tough discipline of successfully getting payment on time and avoiding the time consuming, money swallowing and soul destroying hassle of endless pleading and numerous phone calls and letters.

The first key to ensuring a customer will pay on time is to avoid difficult customers from the start. The nitty-gritty of credit management starts with making sure your marketing and sales efforts are targeting consumers and companies that are known to be creditworthy and able to pay. These are the kind of customers that will bring you profit from the very first day.

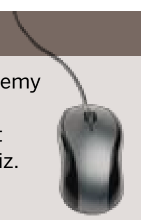
This does not necessarily rule out doing business with customers who are less obviously creditworthy or who have a bad track record from the past. You can avoid becoming vulnerable in these situations by asking customers for a down payment or requesting cash on delivery. Okay, you may risk driving off a few potential customers, but that is usually worth saving the effort of collection headaches.

Making a commitment to excellence in credit management demands recognising that there are no simple answers in what is a demanding and fast-changing business. But by expanding your knowledge about what is possible and doable, by looking at future trends and studying evolving strategies, you can demonstrate how credit management is essential to your business' survival and, most importantly, success. And avoiding or stopping credit problems by understanding the customer base and setting payment terms before they occur is the best practice key solution.

▶ LEARN MORE ONLINE

At the Intrum Online Credit Management Academy (IOCMA) you can learn more about credit evaluation, watch our expert interview and test your credit management skills in our online quiz.

www.intrum.com



IMPROVE YOUR CASH FLOW

Find out how credit management services can benefit your cash flow and improve customer relations. Go to www.intrum.com

–40 %

Art prices around the world have fallen by around 40 percent as a result of the global financial crisis, according to *The Economist*. The market at its peak in 2007 was worth some USD65 billion, but today may have fallen to around USD50 billion, says Clare McAndrew, founder of Arts Economics, a research firm. Last year China overtook France as the world's third-biggest art market after America and Britain.

Recession's social scars will linger

The social scars of the latest economic downturn are being widely predicted to spark greater inequality between the haves and have-nots across Europe. A recent article in the *Financial Times* noted that "the widespread view of Nordic countries as bastions of continuing equality, bolstered by high tax rates, significant redistribution and effective social safety nets does not stand up to closer scrutiny". The FT pointed out that since their banking crises in the early 1990s, Norway, Finland and Sweden have experienced rapidly rising gaps between the rich and poor. The prestigious financial daily reported how comprehensive data on US savings and loans and Nordic banking crises in the 1990s revealed "a general trend of rising inequality and rising shares of income received by the richest one percent" with similar trends evident in Japan later in the 1990s. According to the FT, US labour markets are already displaying worrying signs of similarity to the 1980s as those with little formal education suffer from a rise in unemployment and growing long-term worklessness.

Intrum Justitia can help you implement a global credit management action strategy.

Securing your overseas credit

As a cautious optimism re-enters the business scene after several really tough years, almost everyone in the business world is reflecting over the lessons learned from a financial crisis that was daunting in magnitude. But the memory of this massive downturn will not disappear overnight; there is no doubt that the experience gained and the mistakes made will shape many of our financial decisions for a long time to come.

How we manage credit will be scrutinised and this scrutiny will not stop at local borders for companies involved in international trade. As five of the world's leading exporting countries are European, making Europe an export powerhouse, this has huge implications for European companies. Likewise, Europe has much to lose if companies who engage in cross-border trading activities lack a satisfactory international credit management action plan.

"As payment behaviour outside your local market can vary greatly, a credit report that deems a customer stable with a favourable outlook is not enough to address outstanding receivables abroad," says Michael Donahue, Group international sales and partner manager at Intrum Justitia.

Dismayed by this reality many companies who work in the field of international trade are at odds when it comes to dealing with overdue payments on a global level, according to Donahue. Some take an active approach to tackling the issue, others react passively to the subject.

"Given the recent recession and the signals of an economic recovery, now is the time to re-evaluate your current policy for handling overseas accounts receivable," he states.

Intrum Justitia can help you implement a global credit management action strategy that will help secure the payment of credit granted to overseas customers.

"Our global network works with companies of all sizes to ensure they get paid on time, regardless of the debtor's geographical location," says Donahue.

WORDS DAVID NOBLE & PIA SKAERBAK

Fewer millionaires

The *World Wealth Report*, published by Capgemini and Merrill Lynch, says that the number of people with investible assets of USD one million or more has fallen to 8.6 million from 2007's level of 10 million as many scale back their "investments of passion" – yachts, jets, cars, and jewellery.

Sweden's CEOs earn less than European counterparts

Pay cheques for Swedish CEOs are fifty percent less than their counterparts in other European companies. A new study, carried out by Swedish corporate communications consultancy Hallvarsson & Halvarsson (H&H), also shows that the variable compensation paid to Swedish company chiefs is much lower than that paid to CEOs in other countries.

The heads of Sweden's 23 largest listed companies, excluding investment firms, earn an average of SEK 13.5 million in annual salary each year, excluding pension contributions. This is well below the SEK 36.6 million paid to the heads of other companies throughout Europe.

Bank bail-outs

Since the markets first tumbled in 2008, governments around the world have spent almost USD11 trillion bailing out failing banks and trying to repair the damage to the financial system. The BBC online news site looked at how the money was spent and what it means for the taxpayers in the US and UK who have funded it.

US – bail-out was 25.8% of GDP or USD 10,000 per person

UK – bail-out was 94.4% of GDP or GBP 31,250 (USD 50,000) per person

Recession can be good for your marriage

Web magazine recession-wire.com has concluded that there are several ways that going through a recession together can actually be good for couples. They've put together five ways in which the recession is turning out to be good news for some married couples.

1. Couples are focusing more on each other. A decreased emphasis on attaining "things" means that more people are spending their weekends at home with their spouses rather than on the golf course or out at clubs with their friends.

2. Impulse purchases as a thing of the past. Gone are the days when husbands can afford to come home with 3,000-dollar big screen TVs, or when wives can show up with shopping bags full of Louboutin pumps, meaning fewer domestic fights.

3. More women are bringing home the bacon. Male breadwinners have suffered most in the recession according to many reports. Although role reversals can be tricky in a relationship, if both people are working on turning things around that can make them stronger.

4. Couples are waiting longer to have kids. With new studies showing that women are delaying pregnancy due to fears over the state of the economy, couples have more years to devote to each other before the time comes to start worrying about how they're going to feed, clothe, and pay for a new baby.

5. Fewer people can afford to cheat. When you can barely afford your mortgage payments, there is a lot less of a chance that you'll be willing to splurge on expensive extra-marital dates.

Entrepreneurs looking for growth

Research from Ernst & Young indicates that entrepreneur-driven companies are actively seeking growth and opportunity in the economic downturn by adapting the way that their companies operate to position themselves for market leadership when recovery arrives.

Based on a survey of 250 of the world's best entrepreneurs in September 2009, the *Lesson from change: Future market leaders* study was designed to discover how entrepreneurs have dealt with recession and are preparing for recovery.

The answers revealed that growth is still the goal with some 78% of respondents saying they were still pursuing growth opportunities despite the downturn. Cash still counts, the survey revealed, although its preservation was not the central focus with just 24% saying they were seeking to secure their cash position.

An overwhelming majority of entrepreneurs (88%) had increased their focus on customer satisfaction/loyalty, while 60% said they were focused on implementing technology solutions to achieve greater business efficiency or accelerated growth. Risk was very much under review with 37% of respondents putting increased emphasis on geographic risk exposure; while 30% are combining risk processes to save costs.

"This survey confirms that, even in the worst times, future market leaders are looking for growth," said Greg Ericksen, Global Vice Chair, Strategic Growth Markets, Ernst & Young. "These are companies that look for opportunity in the unlikeliest of economic conditions and continue to proactively take calculated risks to grow."

Ericksen said such trailblazers will be vital to the world's economic recovery. "They are the companies that can see how the world is changing and possess the flexibility to adapt to meet new circumstances. Companies such as these will drive the recovery and provide confidence that, eventually, there will be a return to robust and sustainable growth throughout the world's markets."

EU plans to strengthen late payment directive

Almost a year ago in April 2009, the European Commission put forward a proposal to revise the existing Late Payment Directive (LPD), acknowledging that businesses rarely enforced their rights to claim compensation for late payments or, in many cases, were not aware of the legislation.

The Commission saw that the directive was both ineffective and fairly useless as late payments did not go down, but rather up as demonstrated in Intrum's annual European payment index (EPI) surveys. The EPIs reported year after year that the chance of getting paid on time by consumers, businesses and public authorities was dropping.

As the proposal to revise the directive is currently going through the legislative process, Intrum Justitia has encouraged lawmakers in Brussels to change some of the wording in the revised directive to ensure that the new directive will actually work.

Intrum Justitia wants the new directive to rather obligate the creditor to charge interest for late payments instead of, as proposed by the Commission to entitle the creditor to do so.

Intrum Justitia welcomes the fact that the directive for the first time incorporates late payment fees; however the text is vague and needs clarification.

The present LPD and the recast version only include commercial transactions between businesses and between businesses and public authorities, however Intrum Justitia argues for the inclusion of transactions that include consumers (B2C).

One of the elements that has attracted a lot of attention is the Commission's proposal to entitle businesses to claim five percent of the amount overdue from public authorities.

In its EPI surveys, Intrum Justitia has found that public authorities are the worst late payers, followed by businesses and consumers. Consequently, small and medium sized enterprises suffer as a result when having to wait months for their payments from public bodies. However, municipalities have argued that the financial penalty is too severe and unjust. They also oppose the 30-day deadline as too short. Intrum Justitia both favours the 30-day deadline for public authorities and a maximum payment deadline for businesses of 60 days.

When adopted in May 2010 the new directive probably will end up somewhere in the middle, as is usually the case. The real test is whether it will be enforced and become effective as a tool against late payments.

European Commission publishes new report on the pros and cons of e-invoicing

The European Commission wants to design a European e-invoicing framework, to initiate interoperable electronic invoicing within the EU. The report, which was open for public consultation early in 2010, defined e-invoicing as the electronic transfer of billing and payment information via the internet or other electronic means between the parties (businesses, the public sector, consumers) involved in commercial transactions.

Compared to paper invoices, e-invoices may offer huge advantages for companies; they are easier to process, they reach the customer faster and can be stored centrally at very low costs.

The main obstacles to the wider use of e-invoicing seem, according to the Commission, to be that e-invoices are produced in a wide range of formats and according to many different standards. This hinders the smooth transfer of an e-invoice from one part to another and prevents the full benefits and cost savings of e-invoicing from being realised.

E-invoices may offer advantages for companies.

Likewise, there is a variation in national rules which govern the validity and acceptability of e-invoices in legal, financial and administrative terms. This makes their use in cross-border transactions within the EU difficult.

Finally many potential users have concerns about the security of e-invoicing systems and the potential for misrepresentation and fraud.