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€176bn Punishment for the Largest European Companies for Giving Poor Customer Service

"The disjoint between accounts receivable collections and customer service operations has a significant negative impact on European corporate profits.

The traditional view that late payment is the customer's fault is no longer the case. Late payments can be avoided with more sophisticated responses to what customers are saying"

*Dickie Bielenberg, MD The
Customer Value Group*

There isn't a Finance Executive in Europe who wouldn't like to accelerate cashflow by reducing the level of overdue payments owed to his/ her company. However, in Europe's top 1000 quoted companies, nearly 4 in 10 invoices are paid late according to research carried out by The Customer Value Group (CVG)¹.

According to the research, customer disputes due to poor customer service (involving problems related to products, pricing, invoicing, delivery or documentation) result in €176bn in unpaid invoices across the top 1000 European companies. Furthermore, €140bn of accounts receivable goes uncollected because of customer queries and service issues, relating to poor account administration.

CVG also surveyed the Credit Managers of 230 European companies, showing that of the 36% of AR which is typically overdue, 42% of the overdue problem is caused by weaknesses in delivery of good customer service, while 58% can be put down to poor organisation of companies' cash collections processes.

Country	Number of companies	Avg Of DSO in days	Sum Of Value of disputed items	Sum Of Value of query items	Sum Of CUSTOMER VALUE CASH WASTAGE	Avg Of % Wastage vs AR	Sum Of Customer Value Profit Wastage @ WACC 10%
GERMANY	128	87	€ 43,751.08	€ 35,000.86	€ 215,052.35	45%	€ 12,356.45
FRANCE	147	94	€ 40,325.74	€ 32,260.59	€ 145,954.60	39%	€ 16,247.77
UNITED	255	64	€ 24,922.70	€ 19,938.16	€ 93,584.83	35%	€ 9,700.37
NETHERLANDS	56	68	€ 14,321.90	€ 11,457.52	€ 53,494.59	44%	€ 5,605.67
ITALY	68	108	€ 13,057.43	€ 10,445.95	€ 36,217.62	32%	€ 6,244.35
SPAIN	46	110	€ 8,638.61	€ 6,910.89	€ 22,204.71	30%	€ 4,377.32
SWITZERLAND	59	71	€ 7,621.87	€ 6,097.50	€ 32,710.15	47%	€ 2,579.60
SWEDEN	50	69	€ 7,063.16	€ 5,650.53	€ 34,610.02	45%	€ 1,998.27
FINLAND	38	67	€ 4,192.66	€ 3,354.13	€ 15,075.86	43%	€ 1,689.51
NORWAY	23	79	€ 2,703.75	€ 2,163.00	€ 8,998.19	47%	€ 1,148.35
BELGIUM	23	79	€ 2,277.40	€ 1,821.92	€ 9,992.38	48%	€ 762.56
DENMARK	24	82	€ 1,865.86	€ 1,492.69	€ 7,301.60	52%	€ 693.66
PORTUGAL	13	89	€ 1,353.95	€ 1,083.16	€ 3,482.36	23%	€ 674.52
GREECE	21	75	€ 1,275.36	€ 1,020.28	€ 1,893.43	17%	€ 781.31
AUSTRIA	18	69	€ 1,228.76	€ 983.01	€ 4,489.36	47%	€ 487.08
IRELAND	14	45	€ 782.43	€ 625.94	€ 2,476.88	29%	€ 345.62
POLAND	7	54	€ 418.05	€ 334.44	€ 124.22	11%	€ 319.26
HUNGARY	4	55	€ 214.84	€ 171.87	€ 52.96	6%	€ 165.17
CZECH REPUBLIC	4	34	€ 178.20	€ 142.56	€ 0.00	0%	€ 142.16
SLOVAKIA	1	52	€ 47.91	€ 38.33	€ 16.79	4%	€ 33.32

¹ The research was based on financial data from Thomson Financials, other publicly available sources and a survey of 230 credit managers undertaken and collected by CVG between June and September 2007. All companies analysed have turnover exceeding £500million per annum. A detailed breakdown of the results, data sets and methodology is available on request.

Findings:

CVG's analysis revealed that German businesses have one of the worst performance records amongst Europe's major economies, with an average wastage of 45% of accounts receivable (i.e. unpaid overdue invoices).

"Businesses need to think of customer relationships as an asset - 'Customer Value'- and take a holistic cross-functional management approach. Silo thinking and poor systems result in a considerable profit gap, as this research has revealed."

Dickie Bielenberg, MD The Customer Value Group

Of the top eight economies, only companies from Switzerland (47%) and Sweden (45%) had worse figures than Germany, and the best performers were Italian and Spanish firms (both averaging around 32%). The most efficient country in Europe at cash collection and customer service is the Czech republic (0% wastage).

From the perspective of Customer Value Cash wastage, the worst performers are Germany wasting € 215bn, followed by France wasting € 145bn and the UK wasting € 93bn.

One of the core inefficiencies identified within credit collections is related to disputes and customer service issues which prevent or delay the collections process and this is on the increase from year to year.

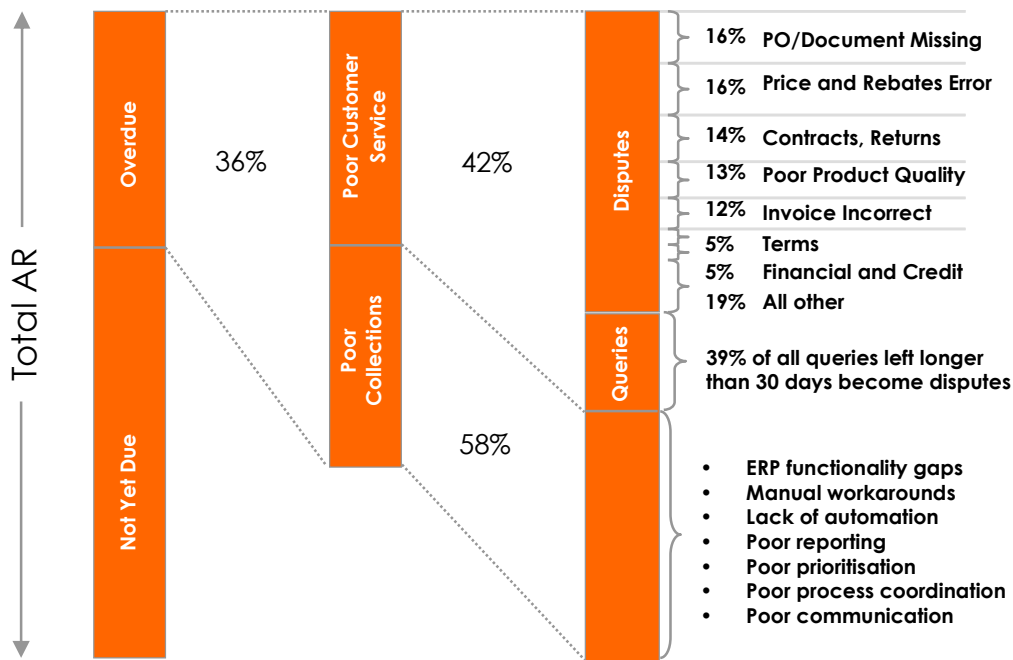
In 2005 disputes and customer service issues contributed to €286bn and this increased by €31bn in 2006 to a total of €317bn. Each year this figure has been increasing by more than 12%, which indicates that the management of disputes and customer service issues delaying payment may be a blind spot in the management of credit across Europe.

One in three Credit Managers participating in the survey commented that their company had not organized the key departments and business functions collaboratively, leading to issues around visibility and customer service.

CVG Conclusion:

Research shows that 42% of uncollected overdue payments are due to poor customer service and that 39% of all customer issues and queries which were not resolved in 30 days escalated to disputes leading to non payment. Some reasons for these deficiencies are as follows:

- Lack of focus on customer service queries and disputes and their impact on AR management is often due to disjointed systems and functions
- Companies do not have effective processes to ensure that simple queries ("please send a copy invoice for my goods") don't escalate into disputes unnecessarily due to poor resolution or long resolution timeframes
- In most organisations, disputes and queries are unearthed within the customer service department and have insufficient linkages and collaboration with credit collections agents systems. This means that one part of the organisation is still collecting even after the other is dealing with a customer's registered service issue.
- Companies still are unable to have a 360° view of their customers when they make contact.
- Poor systems control of AR management and Customer Service exists due to lacking IT expertise in the area of cash collections



About The Customer Value Group

The Customer Value Group (CVG) is a specialist software company focused on Best Practice in Accounts Receivable collections and Customer Service management.

Most of CVG's customers have ERP systems and have seen the shortcomings for themselves. CVG clients include large multinationals such as RWE, Xerox, Cargill and ArcelorMittal.

CVG delivers sophisticated workflow software that overlays clients' existing ERP or legacy systems to:

- Deliver enhanced cash flow through reduced AR
- Enable cost reduction through process automation and simplification
- Drive customer retention through shorter Customer Service cycle times and root cause eradication of customer queries and disputes

CVG's software is currently deployed to manage billions of euros in AR in 7 languages in more than 20 locations around the world. The Customer Value Group solution is implemented within a 3 to 4 month timeframe. Customers can typically expect a minimum of 5 to 10 times payback on their initial investment.

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