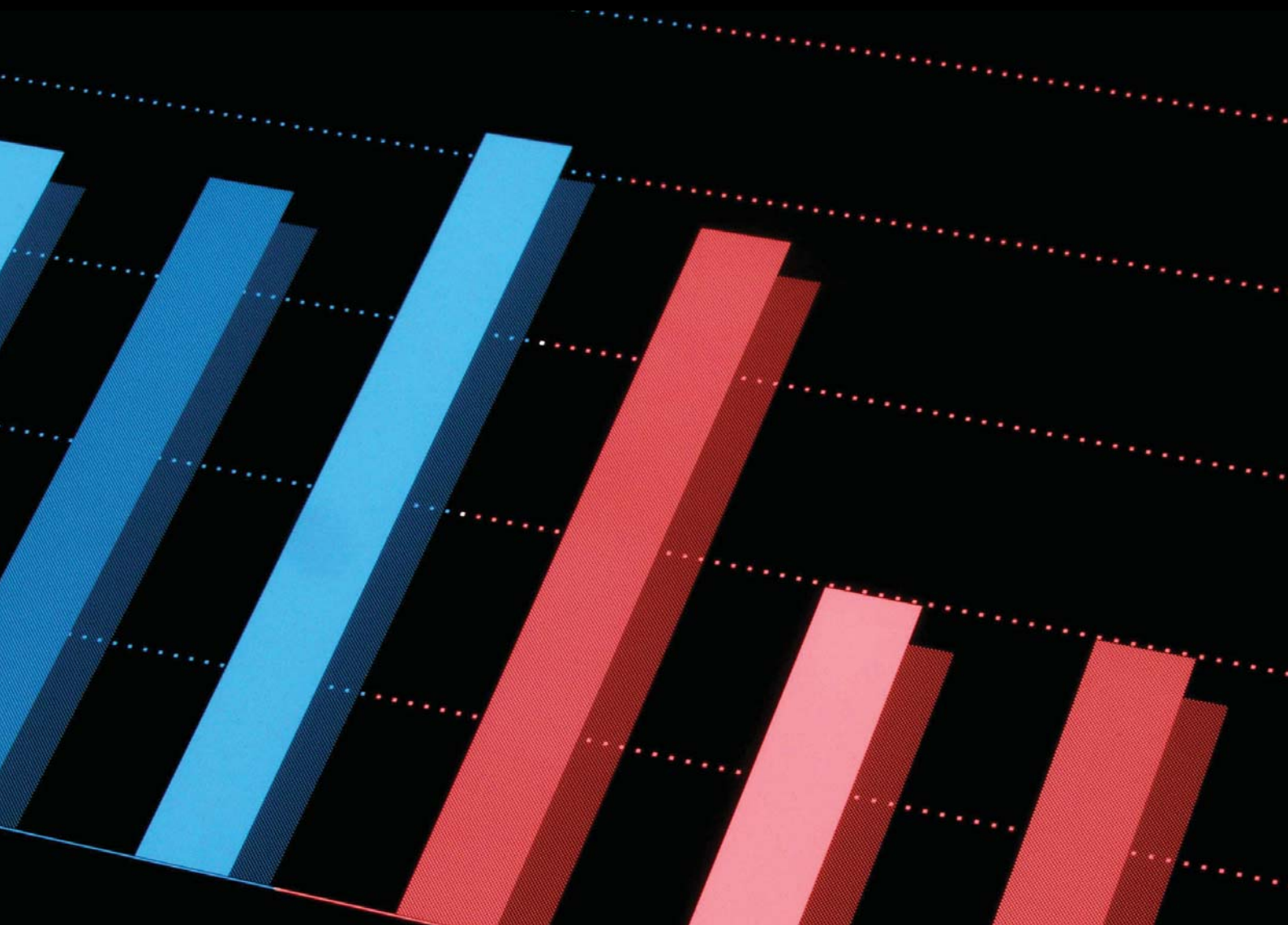


Credit management survey

February 2009



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Introduction

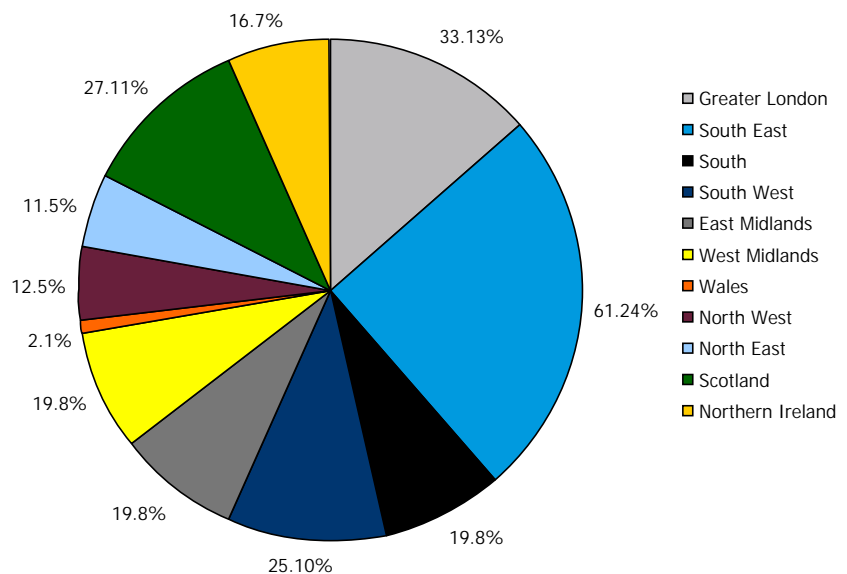
As the recession deepens, credit managers need as much data as possible to ensure their credit management strategies and processes reflect market conditions.



The problem is knowing what other credit managers are thinking. Business recovery and rescue specialists, Moore Stephens are now making this possible with our latest credit managers' confidence survey.

We contacted credit managers across the UK over a three week period in January 2009, asking them to complete a short web-based questionnaire. We are extremely grateful to those credit managers who responded.

We asked credit managers to provide information on where they worked to help us analyse the responses, as shown in the chart below.



Our commentary on the survey relates to statistics derived from the responses received. We believe the respondents represent a cross-section of the credit management profession and, therefore, that our analysis is a good representation of credit managers as a whole, but it is not possible to guarantee that this is the case.

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February 2009

Summary

Our survey reveals a further drop in business confidence levels in the past three months. It also reveals an expectation that Days' Sales Outstanding will increase in the next twelve months, and a worrying trend towards restrictions on limits, and, in some cases, withdrawal of cover altogether by credit insurers.



On a scale of 1 to 10, respondents to the survey expressed an average confidence level of 5.3 in the industries in which they operate. This compares with an average score of 5.8 recorded in the previous survey (data collected in September 2008 and published in November 2008). The biggest fall in confidence – from 6.0 in the last survey to just 5.1 now – came in the South East. Northern Ireland returned the highest confidence level (6.5), followed by the North East (5.8). Well over half of all respondents recorded confidence of 5 or less, compared with 41% in November.

Overall, 58% of respondents expected their DSO (Days' Sales Outstanding) to increase over the next twelve months, up sharply from the 41% recorded in the previous survey. Expectations of an increase were highest in the West Midlands (68%) and in the South East, where the 66% of respondents anticipating an increase was in marked contrast to the 50% who responded last September.

Meanwhile, 55% of respondents thought that the settlement periods imposed by their key customers would get longer, whereas only 47% anticipated so in September. Increases in DSO can have a significant impact on overall business confidence. Many businesses are expecting debtor days to increase throughout the coming year. We expect to see a surge in the number of disputes between customers and their suppliers; a typical tactic to delay payment. As one respondent noted, "Customers are looking for every excuse under the sun to delay payments. It doesn't get any easier with time". Another commented, "Sales may not increase, so we are making sure that we get in what cash is out there a lot quicker".

The survey, meanwhile, showed that the number of respondents who expected to have to agree to demands for increased discounts from their major customers over the next twelve months remained broadly stable at 28%. One respondent noted, "We will resist any attempt to take invoice discounts – they are already as high as we should go". The figure of respondents expecting customers to demand deeper discounts was highest in the North West, at 42%, even though this in itself represented a significant fall on the 58% when last surveyed. Confidence levels were also seen to be falling in the South, where there were 22% of respondents expecting to be faced with increased discount demands compared to just 14% in September last year.

Our latest survey shows just how hard the credit crunch is starting to hit the UK business sector.

The proportion of respondents that expected to ask for an increase in limits under their insurance policies fell from 47% in September to 36% now. Of this 36%, the proportion that expected their insurer(s) to grant an increase in limits fell from 25% to 17%. The majority, 58%, expected their insurers to reduce limits and 14% even expected them to withdraw cover altogether (this figure rises to a quarter in the South).

Elsewhere, the survey showed that the number of respondents who expected the overall cost of credit-managing their key accounts to increase over the next twelve months had increased from 53 to 60%. The West Midlands and North West were the most pessimistic in this regard, with expectations of increased credit management costs running at 74% and 83% respectively. In Greater London, 58% of respondents anticipated an increase, compared to 61% in the South East and just 47% in the South.

Overall, 54% of respondents expected their export volume turnover to remain the same through the coming year, compared with 46% in November. Those forecasting an increase totalled 15% overall, but there were wide regional variations, for example, 24% of respondents in the South were expecting export volume turnover to increase, as opposed to just 10% in Greater London and 15% in the South East.

Our latest survey shows just how hard the credit crunch is starting to hit UK credit managers. The fall in confidence, particularly in London and the South East, which the previous survey foreshadowed has fed through into this one, and we must realistically expect things to get worse before they start to get better. The contraction in insurance cover is worrying, because it could exacerbate the stress on many credit managers. But there will have to be some form of rapprochement. If the tightening terms of credit insurers are perceived to be arbitrary or disproportionate, these insurers may undermine the credibility of their own industry.

Results

This section of our report sets out the survey's results.



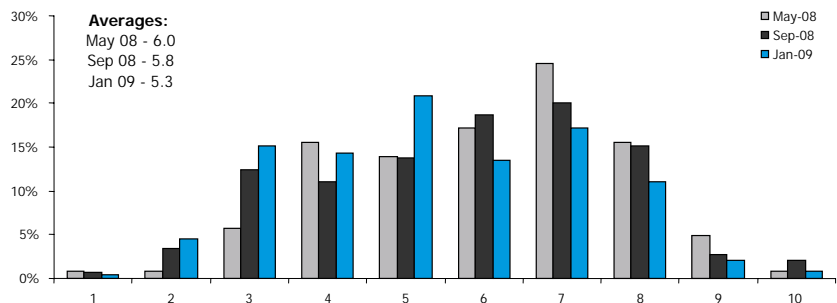
We asked respondents to answer a series of questions under the following headings:

- Overall confidence
- Days' sales outstanding and settlement periods
- Export volume turnover
- Discount terms
- Cost of credit managing key accounts
- Insured limits.

1 Confidence

We asked respondents to tell us on a scale of 1 (low) to 10 (high) how confident they were about the industry in which they operate.

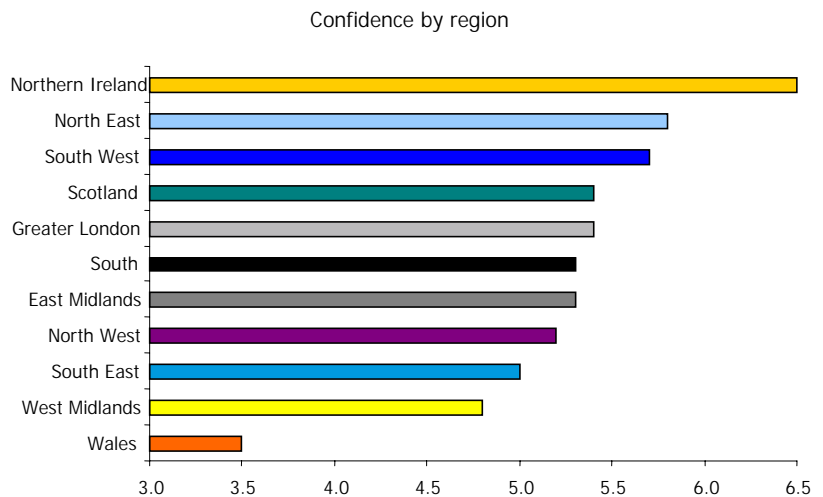
Respondents to the survey expressed an average confidence level of 5.3 in the industries in which they operate, compares with an average score of 5.8 recorded in the previous survey in September 2008 and 6.0 in May 2008. Well over half of all respondents recorded confidence of 5 or less, compared with 41% in September, as shown in the graph below.



The biggest fall in confidence – from 6.0 in the last survey to just 5.1 now – came in the South East. Northern Ireland returned the highest confidence level (6.5), followed by the North East (5.8) as shown in the graph on the following page.

One respondent commented, "Good credit management is more vital than ever in these difficult times. It is imperative to obtain as much up-to-date information as possible and to get as close as you can to your customers to ensure that you can spot any changes and take action as necessary. I am very concerned about the lack of finance from the banks for good, credit-worthy, profitable customers".

“The toxic cocktail of lower sales, lower margins, reduced support from the banks and other financiers is really starting to bite, with little prospect of short-term improvement.”



Another remarked, “The weaker businesses have gone and we are now seeing the stronger customers, who have traditionally been excellent payers, starting to struggle. The toxic cocktail of lower sales, lower margins, reduced support from the banks and other financiers is really starting to bite, with little prospect of short-term improvement”. Other comments covered a range of topics, from failure rates – “We expect things to be tough in early 2009, with a high rate of failures, but anticipate some stability returning later in the year” – to pressures on liquidity – “Although there is a general move to secure better terms by our customer base, this is being resisted. Cash is king”.

2 Days' sales outstanding (DSO) and settlement periods

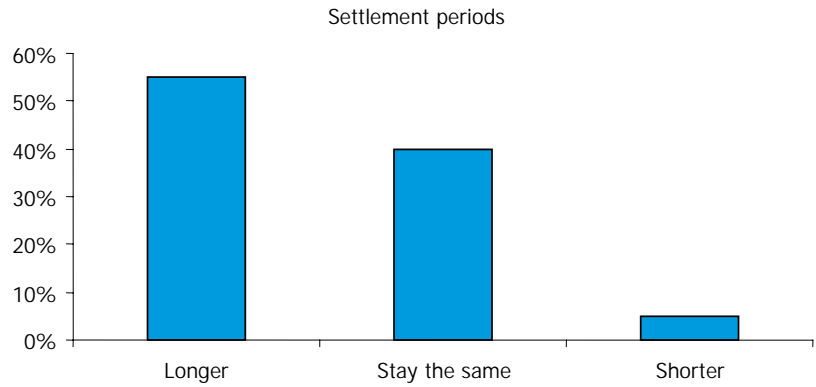
We asked respondents to predict the movement in their DSO over the next 12 months.

Overall, 58% of respondents expected their DSO to increase over the next twelve months, as shown in the graph below, up sharply from the 41% recorded in the previous survey.

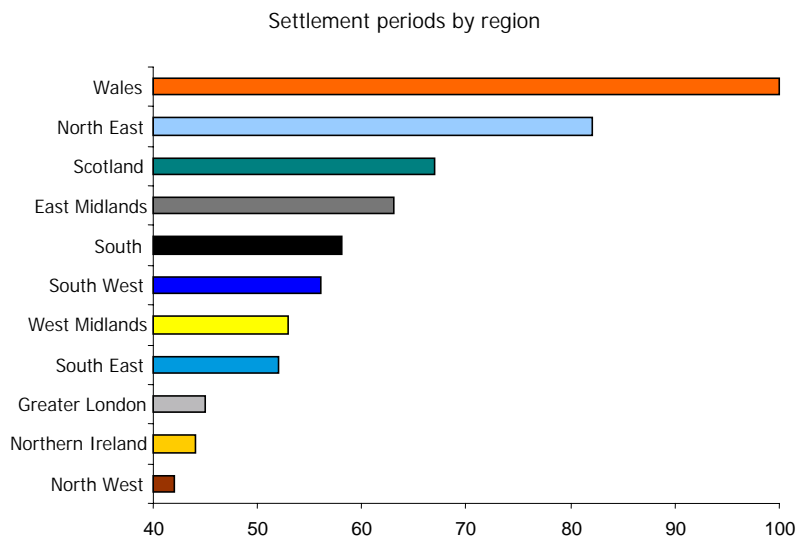


Expectations of an increase were highest in the West Midlands (68%) and in the South East, where the 66% of respondents anticipating an increase was in marked contrast to the 50% who responded likewise in September last year.

Linked to DSO, meanwhile, 55% of respondents thought that the settlement periods imposed by their key customers would get longer, as shown in graph below, whereas only 47% anticipated so in September.



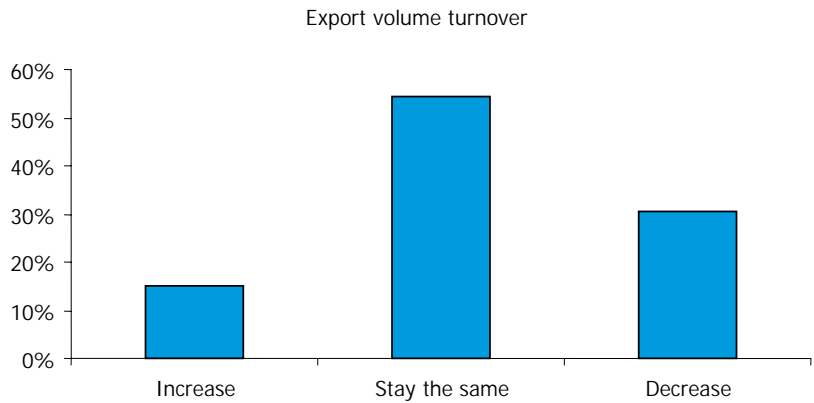
Regionally, all respondents in Wales and 82% of respondents in the North East expected that settlement periods would get longer, with less than 50% of respondents forecasting an increase in Greater London, Northern Ireland and the North West, as shown in the graph below.



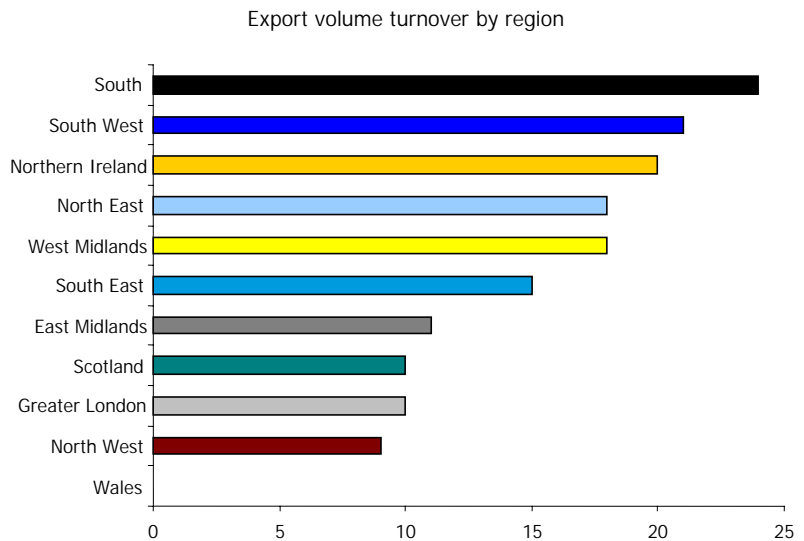
3 Export volume turnover

We asked respondents to predict the movement in their export volume turnover over the next 12 months.

Overall, 54% of respondents expected their export volume turnover to remain the same through the coming year, compared with 46% in November, as shown in the graph that follows.



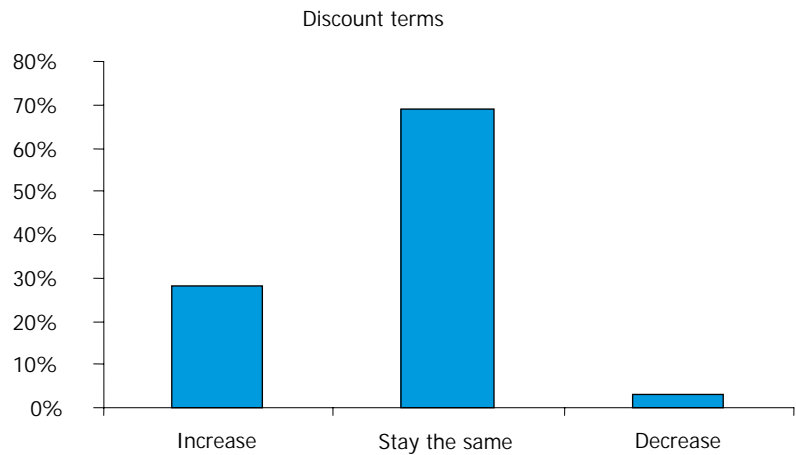
However, 24% of respondents in the South were expecting it to increase, as opposed to just 10% or less in Greater London, Scotland, the North West and Wales, as shown in the graph below.



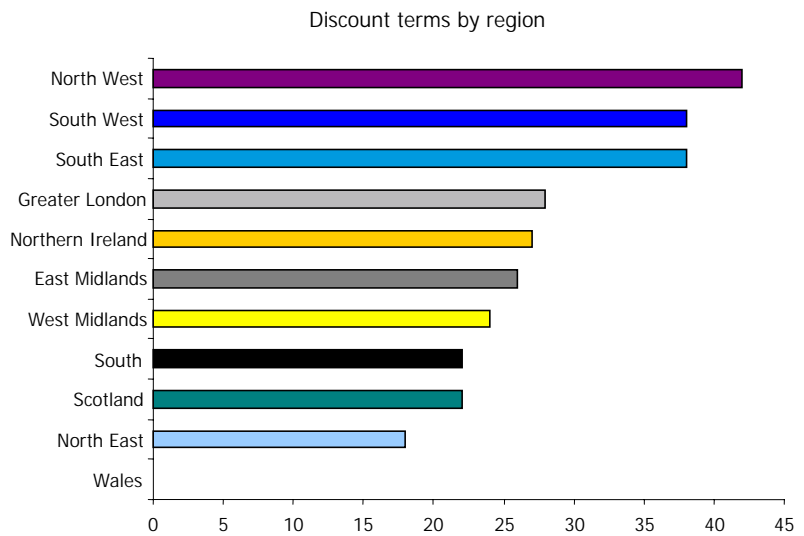
4 Discount terms

We asked respondents how, in the next 12 months, they expected the payment discounts required by key customers to change.

The survey showed that 28% of respondents expect to have to agree to demands for increased discounts from their major customers over the next twelve months, as shown in the graph on the following page. This response is broadly stable with our September 2008 data.



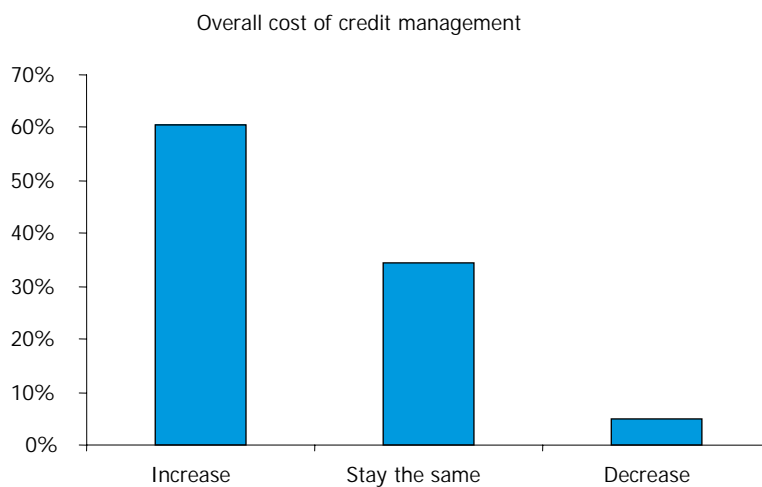
The figure of respondents expecting customers to demand deeper discounts was highest in the North-West, at 42%, as shown in the graph below, even though this in itself represented a significant fall on the 58% when last surveyed. Confidence levels were also seen to be falling in the South, where there were 22% of respondents expecting to be faced with increased discount demands compared to just 14% in November last year.



5 Cost of credit managing key accounts

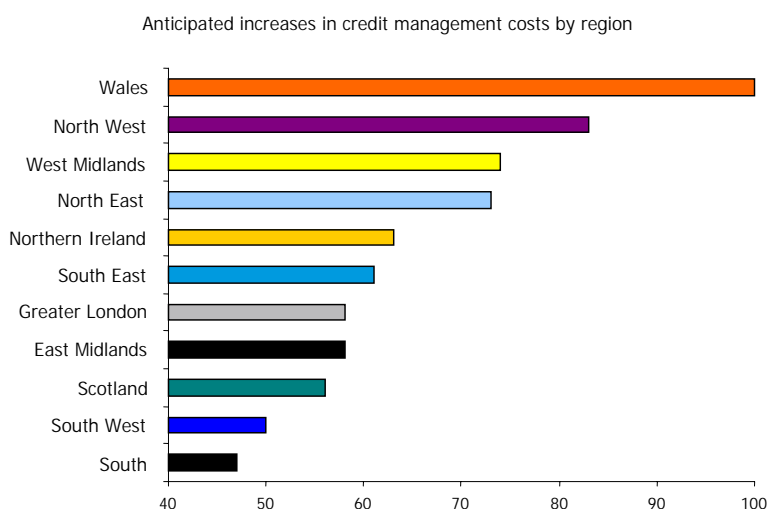
We asked respondents to tell us whether they expected the overall cost of credit managing key accounts to change in the next 12 months.

The number of respondents who expected the overall cost of credit-managing their key accounts to increase over the next twelve months climbed in the three months since the previous survey, from 53% to 60%, as shown in the graph on the following page.



Wales, the West Midlands and the North West were the most pessimistic in this regard, with expectations of increased credit management costs running at 100%, 83% and 74% respectively.

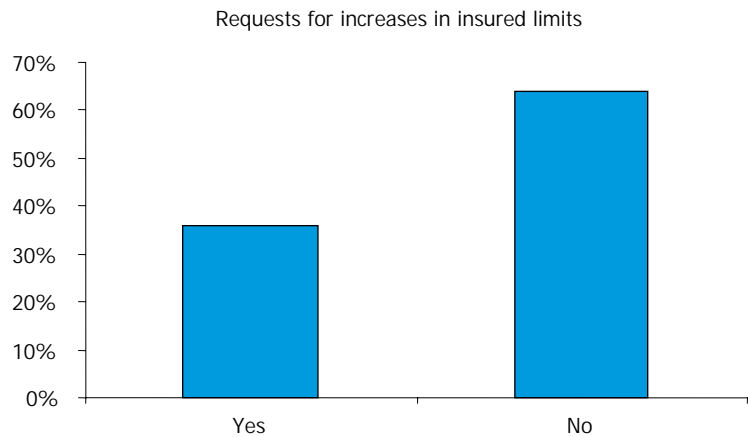
In Greater London, 58% of respondents anticipated an increase, compared to 61% in the South East and just 47% in the South, as shown in the graph below.



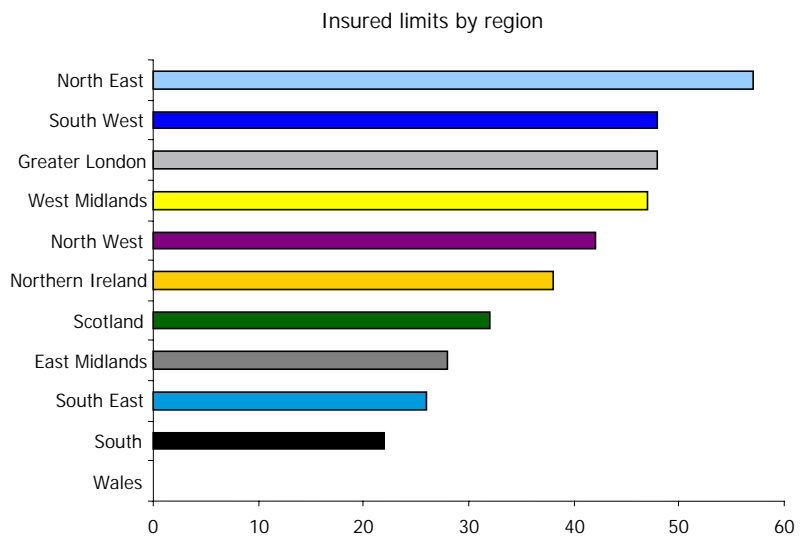
6 Insured limits

We asked respondents to tell us whether they expected to ask for an increase in insured limits in the next 12 months and if they did to set out the anticipated actions of insurers.

The proportion of respondents that expected to ask for an increase in limits under their insurance policies fell from 47% in September to 36% now, as shown in the graph on the following page.



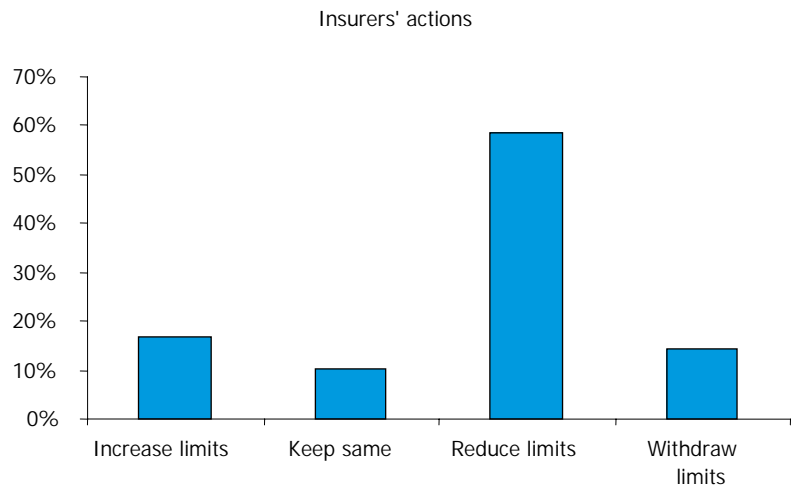
However, there were some significant variations regionally, with respondents in the North East (57%), South West and Greater London (both 48%) and the West Midlands (47%) the most likely to request an increase in insured limits as shown in the graph below.



Of the 36% of respondents who expected to request an increase in insured limits, the proportion that expected their insurer(s) to grant an increase in limits fell from 25% to 17%. The majority, 58%, expected their insurers to reduce limits and 14% even expected them to withdraw cover altogether, as shown on the following page.

"We are becoming nervous about the amount of insurance companies that are reducing or withdrawing credit insurance."

A large number of respondents commented on strains in the credit insurance market. One said, "We are becoming nervous about the amount of insurance companies that are reducing or withdrawing credit insurance. It is making the industry very nervous". Another noted, "Credit insurance companies are putting more fear and doubt into the market with knee-jerk reactions, with limits based on vague industry data or so-called confidential information". And yet another stressed, "We need to find other ways to secure risk. We know that insurance alone is no longer possible".



Credit risk insurance capacity is a reliable barometer of business confidence. It is also the dominant theme in terms of feedback from respondents to our report. Our survey shows that over a third of respondents expect to ask for higher insured limits, but only 17% of those anticipated being met with a favourable response. And, given what is happening in the insurance market, they may be accused of over-optimism. The insurance market typically takes longer than other sectors to register the effects of a severe economic downturn but, when it does start to register, its impact is likely to be more devastating. This is especially worrying for small and medium-sized suppliers because it leaves them very exposed in their trading relationships.

About Moore Stephens

Moore Stephens UK is a leading accounting and consulting association with member firms employing over 1500 partners and staff, with turnover of £126 million and corporate recovery offices across the UK



Our business recovery and rescue team provides the full range of debtor advisory, business recovery and restructuring services, in addition to acting in formal insolvency processes.

When customers delay payment, we can help. We offer credit management advisory services to suppliers and credit providers, enabling them to protect their interests and minimise the risk of bad debts. If suppliers are faced with a customer that has entered an insolvency process, we can assist by opening a dialogue with the office holder and, for example, ensuring retention of title rights are respected.

We have particular expertise in a number of sectors, such as property and construction, printing and paper industries, electrical trades, IT and telecommunications, financial services and regulated industries, shipping, transport and logistics, insurance, energy and natural resources, manufacturing, hotels and leisure, motor and retail.

Internationally

Moore Stephens International Limited is one of the world's leading accounting and consulting associations. With 647 offices of independent member and correspondent firms in 98 countries, clients can be confident that we have access to the resources and capabilities to meet their needs. 2008 fee income increased by some US\$2.24 billion.

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