



# The **European** barometer of **SME-SMI**

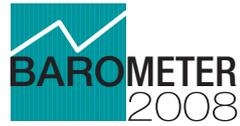
CONCERNS AND GROWTH TREND



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## Context of the study

In 1998, Eurofactor introduced a customer accounts management barometer, originally just for France but since 2001 extended to Europe as well. The Eurofactor barometer is realised by CSA and analysed by the Economic Studies department of Crédit Agricole SA.

This survey was conducted in October 2007 among 3,000 managers of companies with 5 to 600 employees in seven European countries (Belgium, France, Germany, Great Britain, Italy, Portugal and Spain).



**Eurofactor**, a subsidiary of Crédit Agricole SA, is France's **leading factoring** company, with **22.1%** of market share in 2007; it forms the **first integrated factoring network in Europe**.

The Eurofactor Group is thus present in Belgium, France, Germany, Italy\*, Portugal, Spain and the United Kingdom.

Eurofactor is a founder member of the International Factors Group that has 78 Partners in 49 countries and is a member of Factor Chain International, an association with 200 specialists spread throughout 59 countries on all continents.

Moreover, Eurofactor holds a majority share in the French company Clientys, specialised in outsourced customer account management.

\* From 1 April 2008



CSA is a benchmark institution in the field of published research. Due to the work of its "Opinion" department, it is one of the polling institutions, which publishes most extensively in the consumer and specialist press. CSA has a dedicated team of consultants in the finance area, which has worked for clients in the banking, insurance and finance sectors for over 20 years.



The **Economic Research Department of Crédit Agricole** carries out analyses of economics, financial markets, sector trends and the banking landscape, by conducting research into relevant data, trend analysis, economic monitoring and risk surveillance.

# Structure of the sample

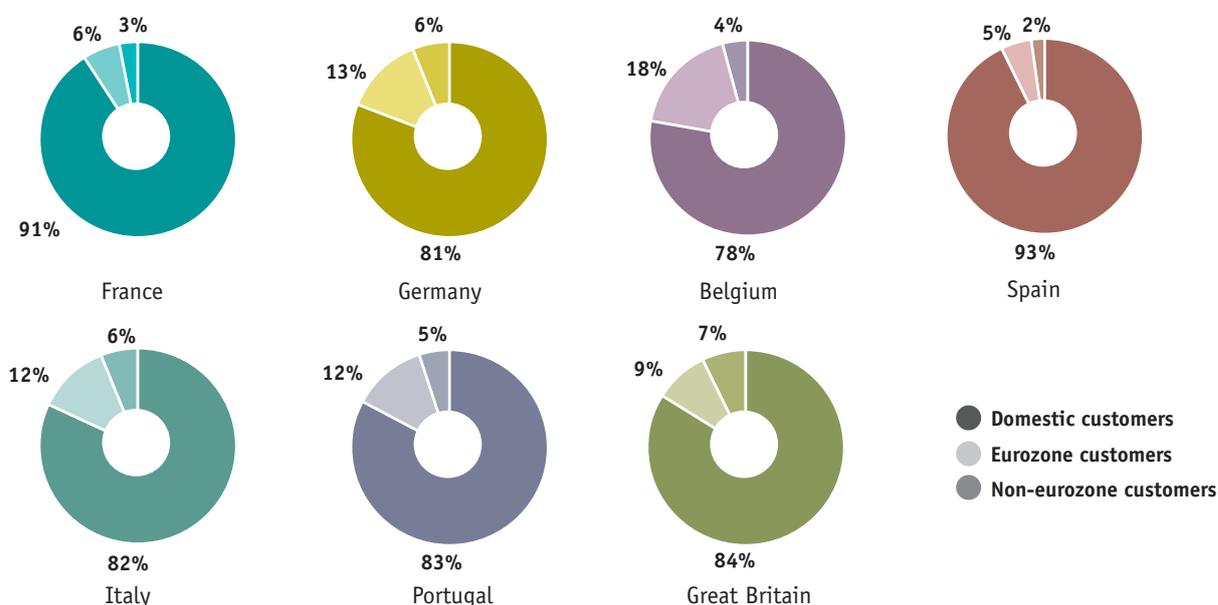
## → Structure of the corrected\* samples in Europe

In %	France	Germany	Belgium	Spain	Italy	Portugal	Great Britain
<b>BUSINESS SECTOR</b>							
Construction and public works	12%	22%	16%	10%	7%	8%	11%
Commerce	18%	20%	27%	28%	14%	28%	21%
Industry	38%	39%	33%	49%	67%	56%	37%
Transport/Services	32%	19%	24%	13%	12%	8%	31%
<b>PAYROLL SIZE</b>							
6 to 19 employees	69%	61%	64%	68%	71%	68%	63%
20 to 49 employees	20%	24%	24%	23%	20%	21%	22%
50 to 500 employees	11%	15%	12%	9%	9%	11%	15%
<b>YEARLY TURNOVER</b>							
Less than 500.000 €	18%	1%	10%	15%	5%	3%	3%
500 000 to 1 million €	19%	10%	12%	32%	18%	19%	11%
1 to 2 millions €	24%	16%	20%	17%	21%	22%	22%
2 to 5 millions €	17%	31%	21%	12%	32%	27%	26%
More than 5 millions €	22%	42%	37%	24%	24%	29%	39%
<b>GROSS NUMBER</b>	<b>807</b>	<b>373</b>	<b>308</b>	<b>300</b>	<b>337</b>	<b>300</b>	<b>502</b>
<b>TOTAL</b>	<b>100%</b>						

\* The sample was compiled on the basis of the distribution of SME-SMI by business sector and payroll size category observed in each country. In order to ensure that the sample is entirely representative, a statistical adjustment was made to the business sector and company size criteria. The persons surveyed were, depending on the company, the Chief Executive Officer, the deputy Chief Executive Officer or the Financial Director.

## → Description of companies' customer portfolio

Breakdown into national and international customers by percentage of revenues.



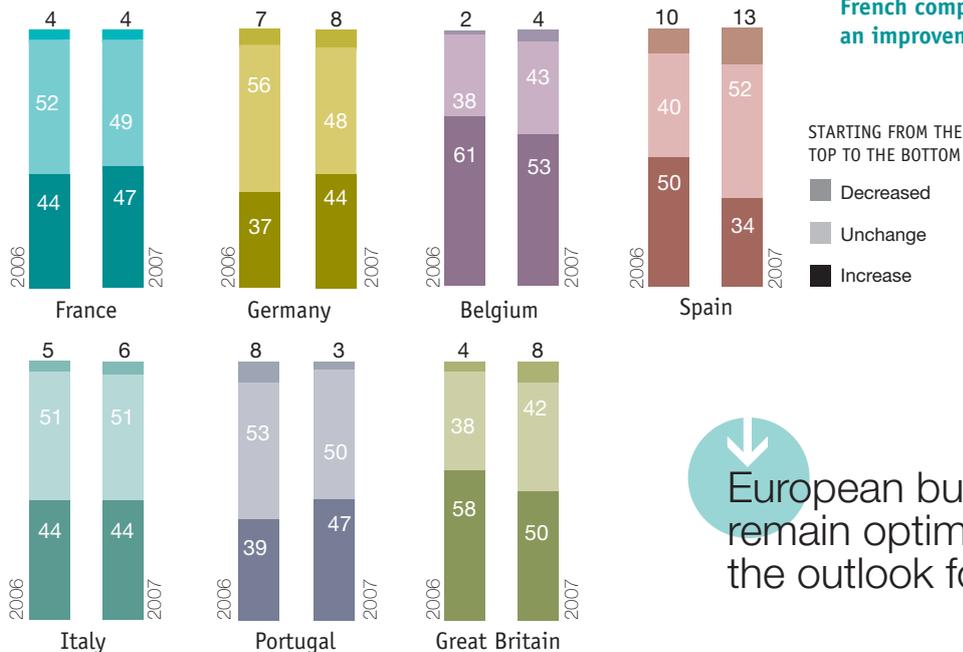
The geographic breakdown of the revenues of European SME-SMI generated from domestic and international customers indicates a low level of internationalisation. Nevertheless, compared to the other European countries and because of its small size and its position at the heart of Europe, Belgium has the highest proportion of SME-SMI engaging in export activity (22%), particularly towards the eurozone.

The customer base of European SME-SMI mainly comprises private businesses. The public sector represents on average 15% of revenues of SME-SMI. The proportion is lower in Portugal, Italy and Spain (9%, 11% and 12% respectively) and much higher in Great Britain (22%) and France (20%).

# 1/ The financial health and economic environment of SME-SMI

## ➔ Outlook for companies in the year ahead in terms of revenues and workforce

### Trends in revenues.



European business managers remain optimistic about the outlook for their business

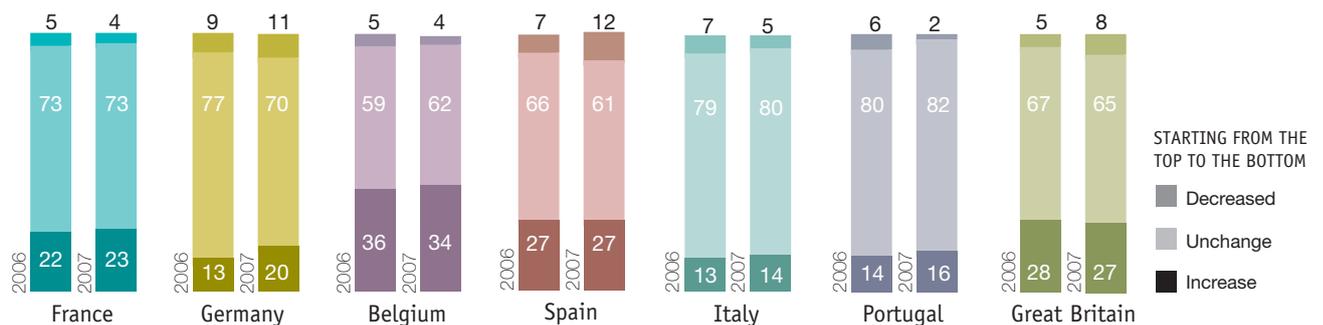
Most European SME-SMI expect their revenues to stabilise, but the proportion expecting an increase in revenues has risen.

The disparities evident in previous years have decreased, with most companies having benefited from the marked improvement in the European economy in the last two years.

- French SME-SMI are markedly more optimistic than in the previous year, despite the relatively mediocre performance of the French economy.

- The number of German and Portuguese business managers expecting a rise in their revenues in 2008 has increased sharply.
- Belgian and British SME-SMI are the most optimistic about the trend in the economic environment in the next 12 months.
- By contrast, Spanish companies are the least optimistic, probably due to the economic slowdown expected starting from 2008. Their 12-month forecasts have deteriorated sharply.

### Trends in salaried workforce.



Overall, the optimism reflected in the expectations of growth in turnover should be weighed against the caution of companies in hiring new staff.

In France, the proportion of companies planning to increase their workforce remains the same as last year (23%). That can be explained in particular by the rigidity of the labour market in France, which leads companies to exercise greater caution in recruitment. In their quest for productivity gains, they are leaving employee levels unchanged in order to offset the rapid rise in wage costs. In Germany, employment is expected to continue to rise, albeit at a slower rate than in the past. More companies say they are ready to recruit. Nevertheless, over 70% of companies now expect no change in employee levels.

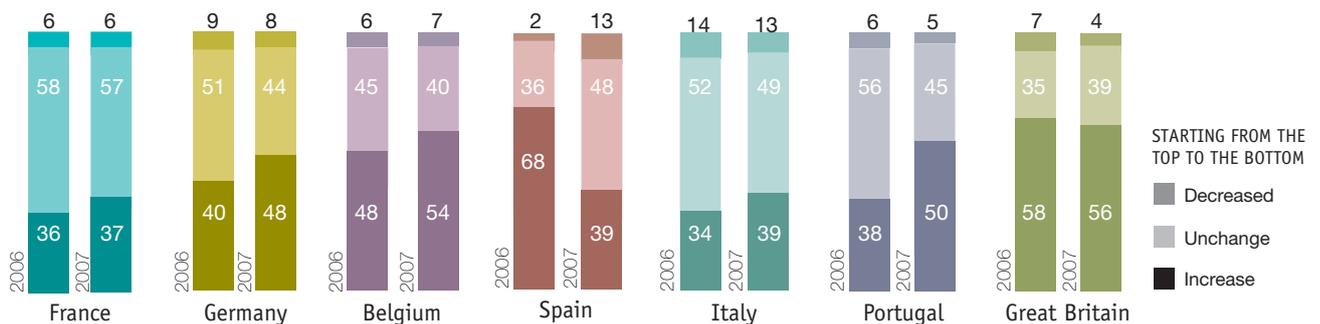


Companies are doubtful that they will be able to increase their workforce, reflecting a certain degree of caution

In Italy and Portugal, employment is expected to remain stable, with more than 80% of companies stating they intend to leave employee levels unchanged. The workforces of Belgian and British companies are expected to continue to grow at a sustained pace.

## → Outlook for companies in the year ahead in terms of financial situation and profitability

### Trends in profitability.



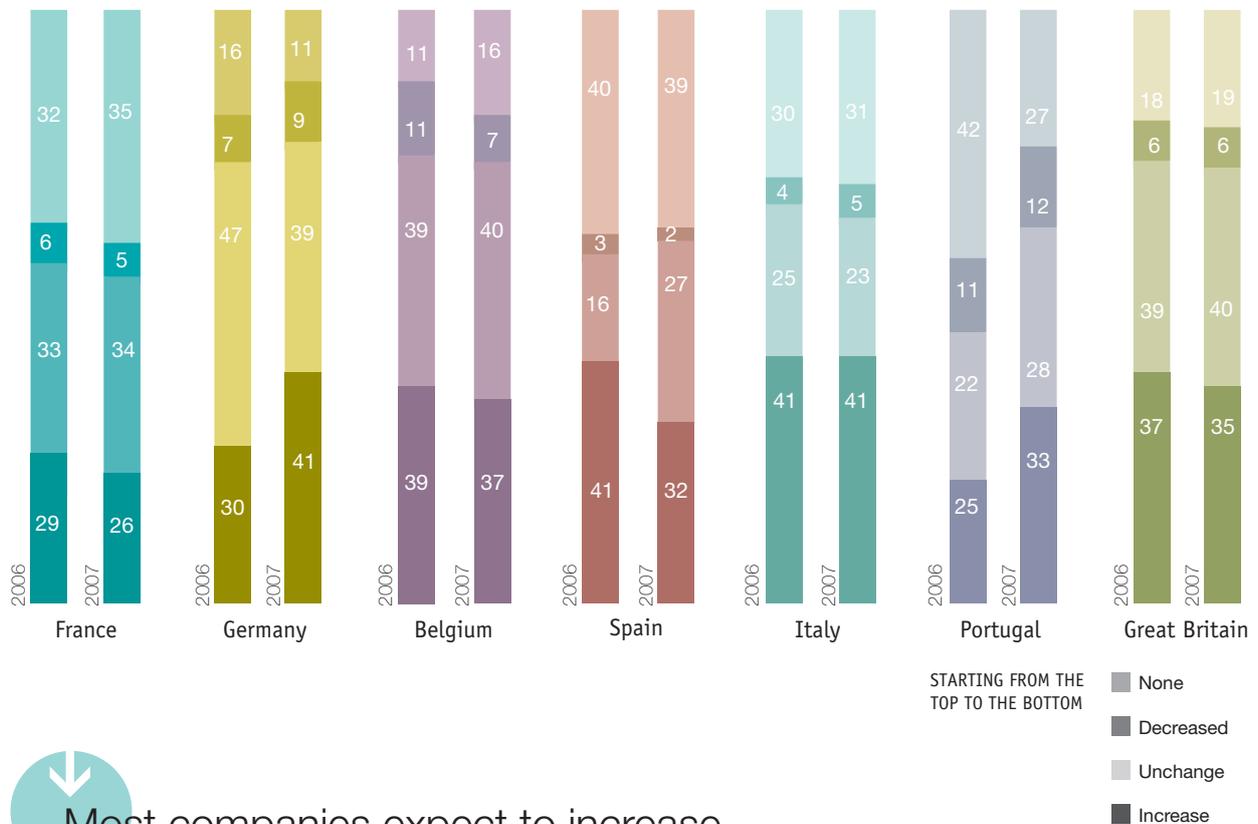
The proportion of companies expecting an improvement in their profitability in 2008 has increased sharply

European companies are optimistic about the trend in their profitability. Overall, the proportion of companies counting on an improvement in their profitability in 2008 has increased sharply compared to last year. The improvement in the economy in 2007 enabled them to find new openings. In addition, the new efforts made since the beginning of 2006 (debt reduction, restructuring) will enable them to improve their financial health, and that is reflected in the results of the survey. Finally, although interest rates rose in 2007, they remained low overall, enabling companies to continue to benefit from favourable financing conditions.

Although companies in most of the countries concerned report an improved outlook in terms of profitability, some are more cautious, even slightly pessimistic.

- French companies do not expect any significant improvement in their profitability.
- Positive opinions have also fallen suddenly and sharply in Spain.

## ➔ Outlook for investment expenditure



### Most companies expect to increase their investment expenditure in 2008

The pick-up in the investment cycle has been the main driver of the recovery under way in the eurozone since the end of 2005. The Eurofactor Barometer shows that this trend has every chance of continuing in 2008, albeit at a slower rate. Most companies are expecting their investment expenditure to remain unchanged in 2008.

However, it is expected to remain unchanged at a high level, since productive investment was particularly strong in 2007 (+4.8% on average).

Furthermore, despite some pressures on production resources in most countries, an increase in the production capacity for existing goods will not be a reason to increase investment expenditure.

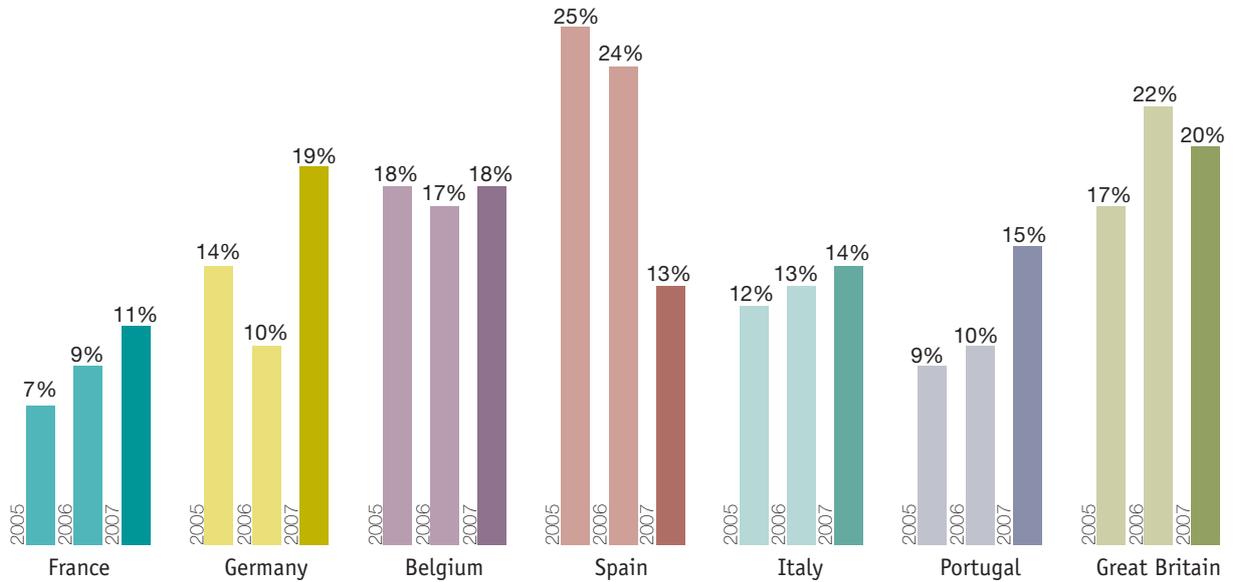
On the other hand, companies are expected to devote the bulk of their expenditure to the modernisation of existing equipment.

Certain disparities exist between the various European SME-SMI:

- The proportion of German companies planning investments has risen (41%, +11 points), which is rather promising for growth in the rest of the eurozone.
- In France, the proportion of companies planning to increase their investments has fallen slightly compared to the previous year (26% vs 29%).
- In the other countries, only Spanish companies are expecting a slight increase in their investment expenditure (32% vs 41%).
- Finally, around one-third of French, Italian, Spanish and Portuguese companies are planning no investment in 2008.

## → The Eurofactor growth indicator

The Eurofactor growth indicator reflects the proportion of companies simultaneously expecting growth in their revenues, an improvement in their profitability and a rise in their investment expenditure.



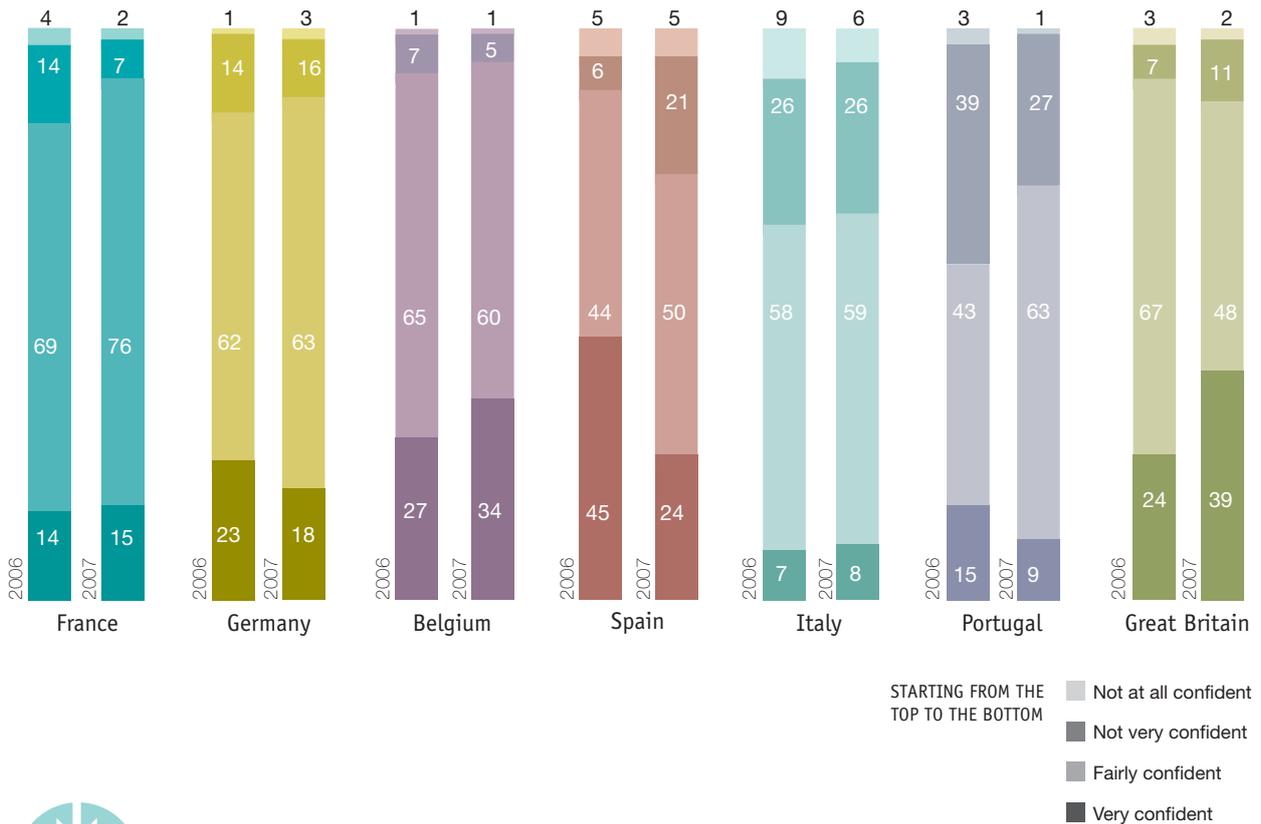
The Eurofactor growth indicator has risen in five out of the seven countries surveyed. Disparities can be seen among the various countries, however, with the biggest fall being seen in Spain, whose companies are the only ones that expect their economic and financial situation to deteriorate in 2008.


 The indicator has remained stable since 2005, at an average of 15%

## 2/The concerns of European companies

### → Level of confidence

Companies confident about their economic environment.

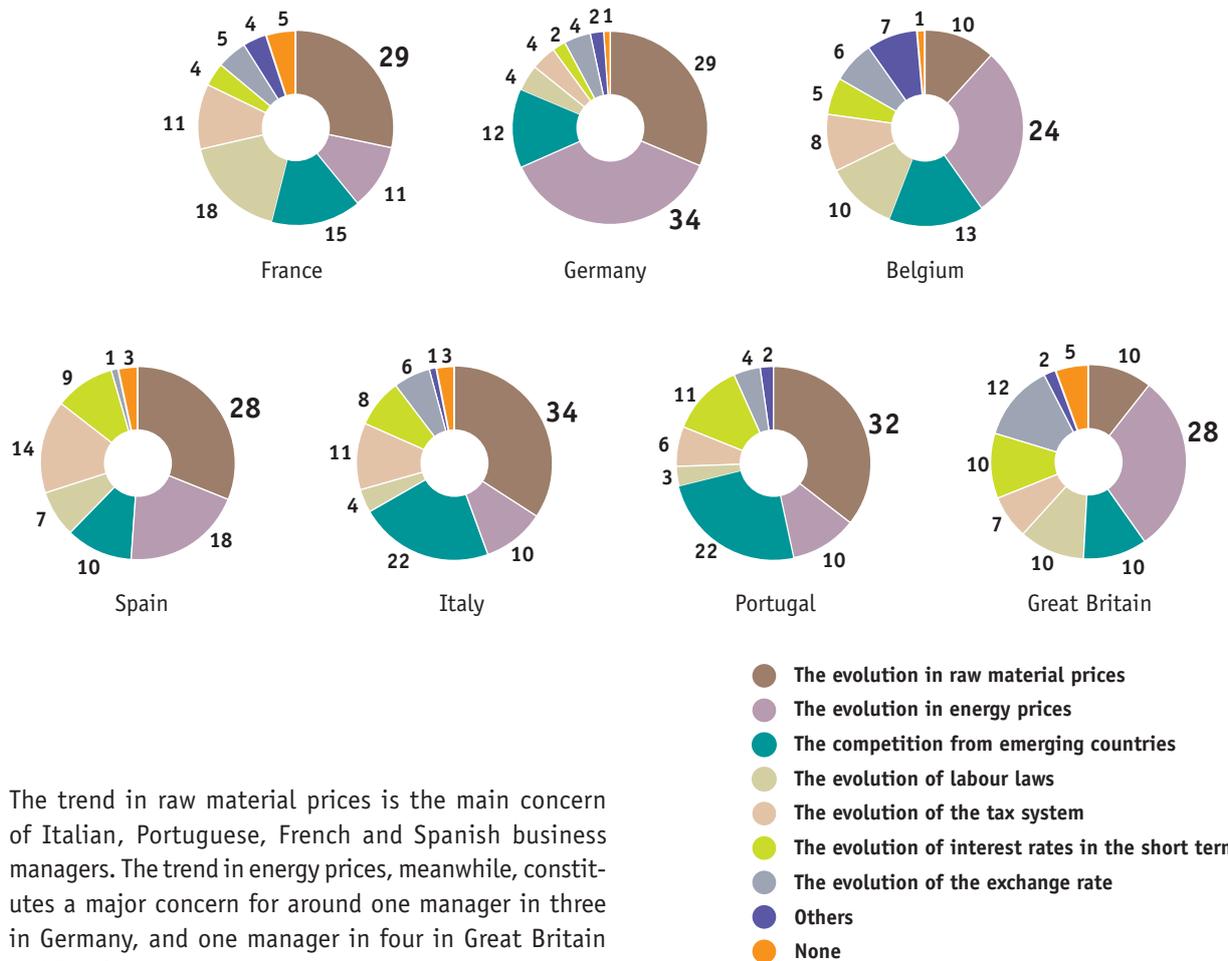


Managers of European SME-SMI are confident on the whole

Managers of European SME-SMI are on the whole confident with regard to the economic environment in the short term. However, major differences exist between Belgium, France and Great Britain, which are the most confident, and Portugal and Italy (28% and 33% "not confident" respectively).

This should be seen in the context of the relative caution of business managers referred in the first part of the survey, which is explained by the increase in the risks weighing on the global environment since the second half of 2007: the financial crisis and its consequences for credit conditions, the surge in oil and agricultural commodity prices, the strength of the euro etc.

## → Main concerns



The trend in raw material prices is the main concern of Italian, Portuguese, French and Spanish business managers. The trend in energy prices, meanwhile, constitutes a major concern for around one manager in three in Germany, and one manager in four in Great Britain and Belgium.

On the other hand, exchange rate trends do not constitute a major risk for the competitiveness of exports by SME-SMI. In the case of companies in the eurozone, this is explained by the fact that the bulk of their trade is conducted within the Economic and Monetary Union area or with other European countries whose currencies are more or less tied to the euro.

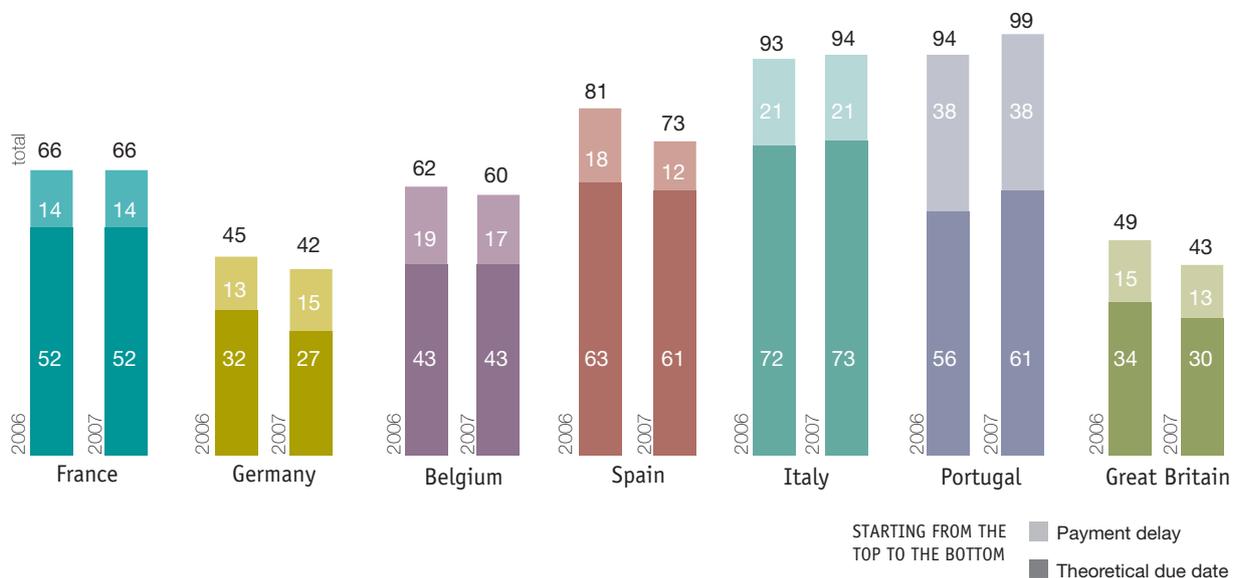
Furthermore, European companies remain highly sensitive to competition from emerging countries, principally China and the Eastern European countries. It is interesting to note in certain cases that these same countries also represent an opportunity.

Finally, as in 2007, European companies plan to increase their productivity to cope with the competition from emerging countries.

↓  
Trends in raw material and energy prices have become the main concerns of business managers

# 3/Receivables management

## → Payment periods



Payment periods are calculated on the basis of the following assumptions: theoretical due date + payment delays for the customer categories in proportion to their breakdown in terms of revenue percentage.

- Germany and Great Britain remain the countries with the shortest payment periods (one and a half months, a slight improvement compared to the previous year).
  - In France and Belgium, companies are paid on average at 66 and 60 days respectively. These periods are unchanged compared to the previous year.
  - In Spain, average payment periods have been reduced from 81 to 73 days.
  - In Portugal and Italy, payment periods have remained almost unchanged at 99 and 94 days.
- Germany therefore remains the European country with the shortest payment periods, despite its high level of exports to high-risk countries.

Finally, it should be noted that the payment periods in the public sector are close to those in the private sector in Great Britain, Germany, Belgium and France, where major efforts have been made in this regard. By contrast, they remain 20 days longer in Spain, Italy and Portugal.

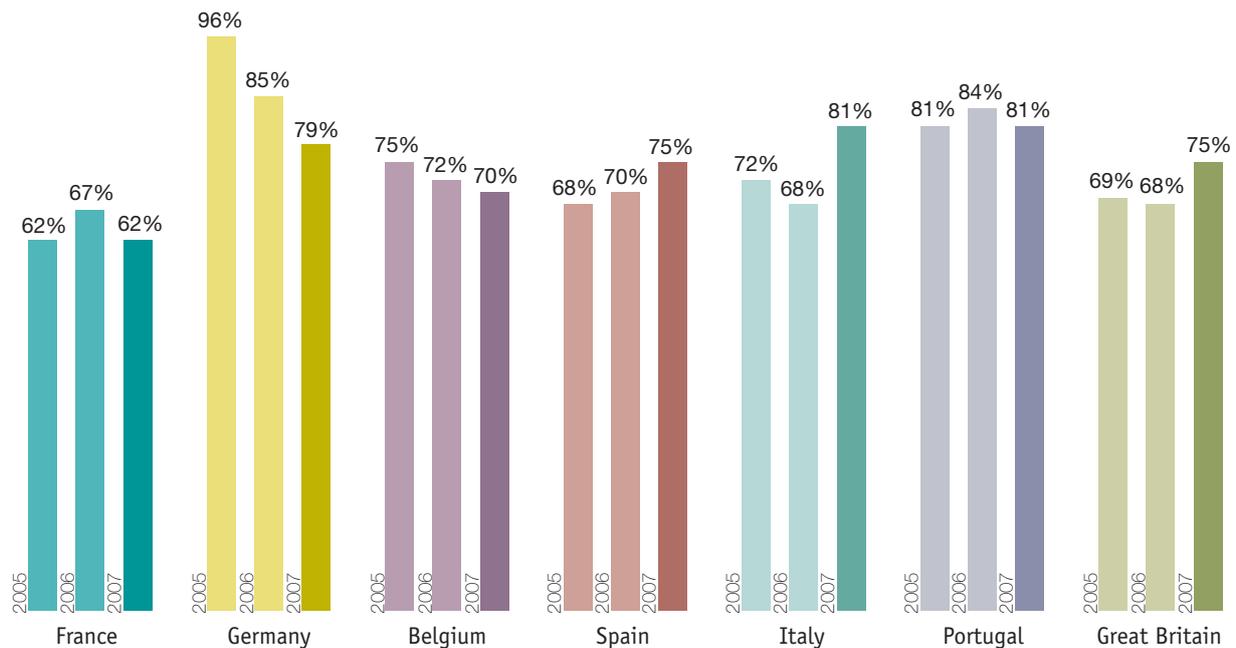


Overall, a European SME-SMI receives payment on average after two months and one week

## → Bad debts

### Percentage of companies having bad debts

(Unpaid debts: these are real debts, i.e. amounts that are definitely not going to be paid.)



↓  
Bad debt risks  
mainly concern  
European countries

While payment delays have a negative effect on companies in terms of their available cash, the rate of bad debts has a direct impact on their competitiveness.

Three-quarters of European companies are directly exposed, particularly in Italy (81% of SME-SMI suffered at least one bad debt in 2007), Portugal and Germany.

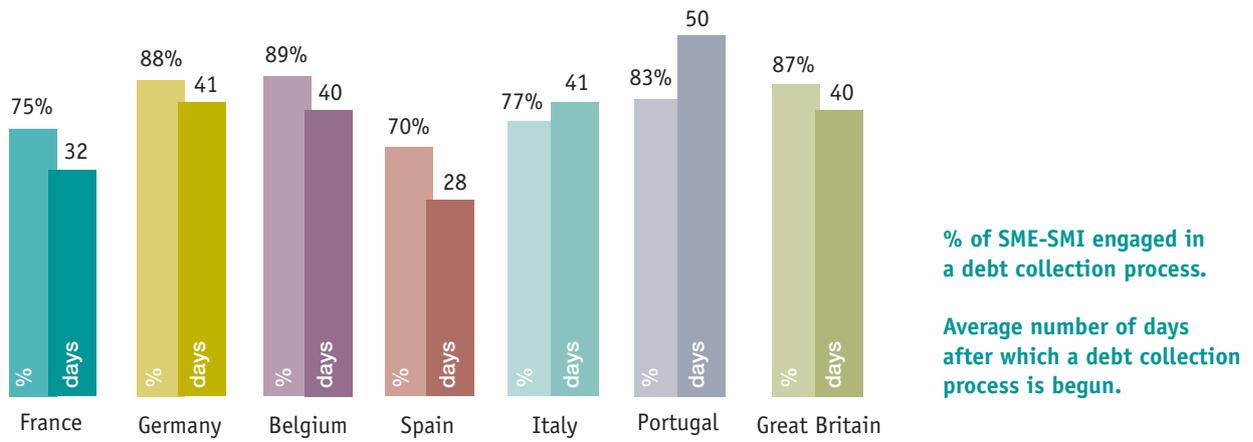
On average, bad debts represent almost 1% of revenues of European companies.

It is in France, where the percentage of companies with bad debts is the lowest (62%), that the average rate of bad debts as a proportion of revenues is the lowest of all European countries, at 0.7%.

## → Collection methods used

While close to nine SME-SMI out of ten in Germany, Belgium and the U.K. begin a debt collection procedure after expiry of the due payment date, only seven out of ten SME-SMI in Spain do so.

Percentage of companies involved in collection methods and average number of days after which a debt collection process is begun.



In general terms, the debt collection process is usually launched well beyond the theoretical due date for payment. This is explained by the desire to maintain inter-company commercial relations, by the production cycle within the sector concerned and by the relationship between buyer and seller. This is nevertheless an increased risk factor for non-payment.

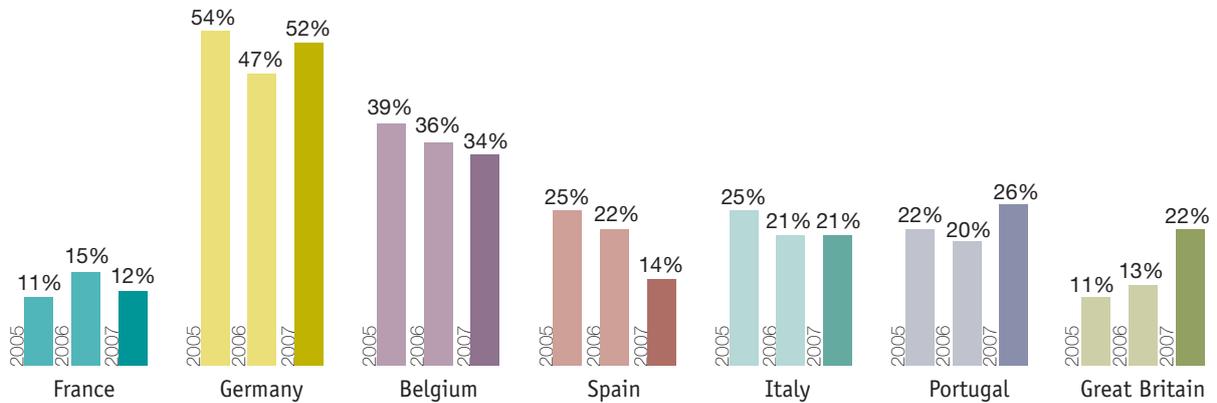
Although Spanish companies are slower to initiate the debt collection process, they are faster in doing so with an average of 28 days of non-payment whereas France takes action after 32 days of non-payment.

Moreover, over half of Portuguese companies launch queries after an average of over two months of non-payment. They are followed by a third of Italian and Belgian SME-SMI. The other countries are within the European average, around 38 days.

↓  
The debt collection process is launched long after the theoretical due date

## → Companies charging interest on late payment

### Charging.

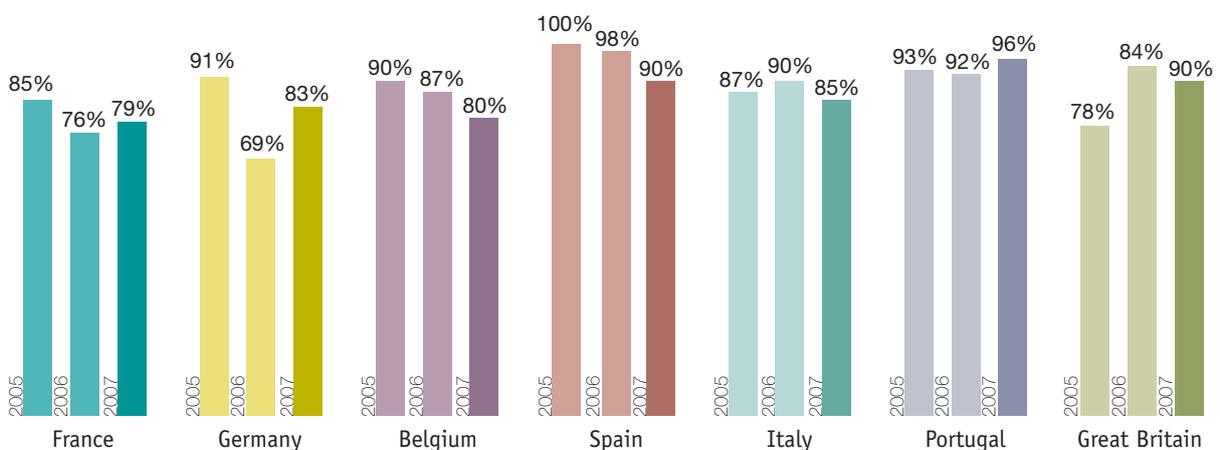


The charging of interest on late payment varies from country to country:

- In Germany and Belgium, 52% and 34% of companies respectively charge interest on payment after the due date.
- It is charged far less in Portugal, Great Britain and Italy (26%, 22% and 21% of companies respectively).
- France and Spain have the lowest proportion of companies charging interest on late payment (12% and 14% respectively).

↓  
The practice of invoicing interest for late payments varies from 1 to 4 according to the country

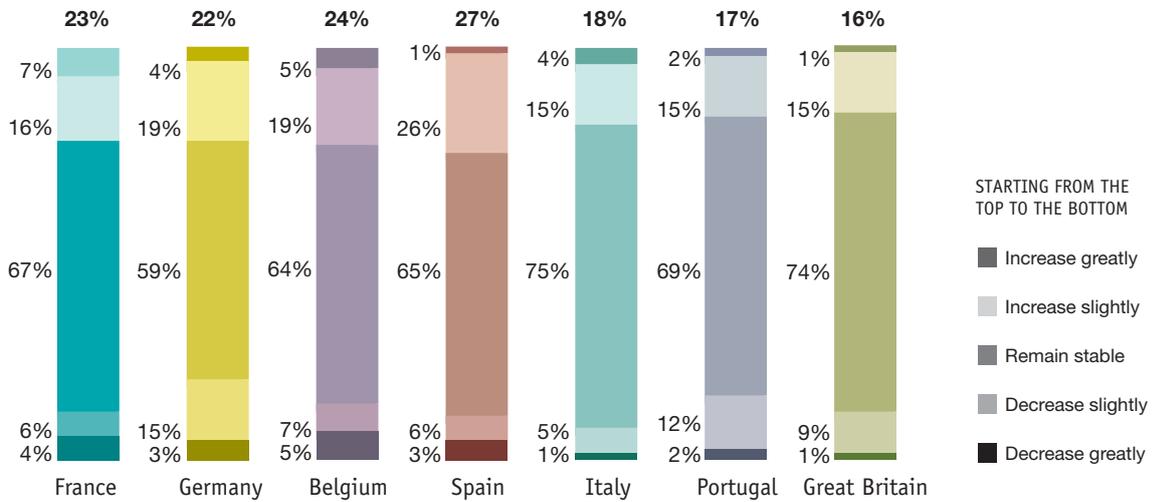
## → Companies receiving interest on late payment



When it is charged, late payment interest is actually received in the great majority of cases.

## → Short-term financing requirements

Percentage of companies expecting their financing requirements to increase.

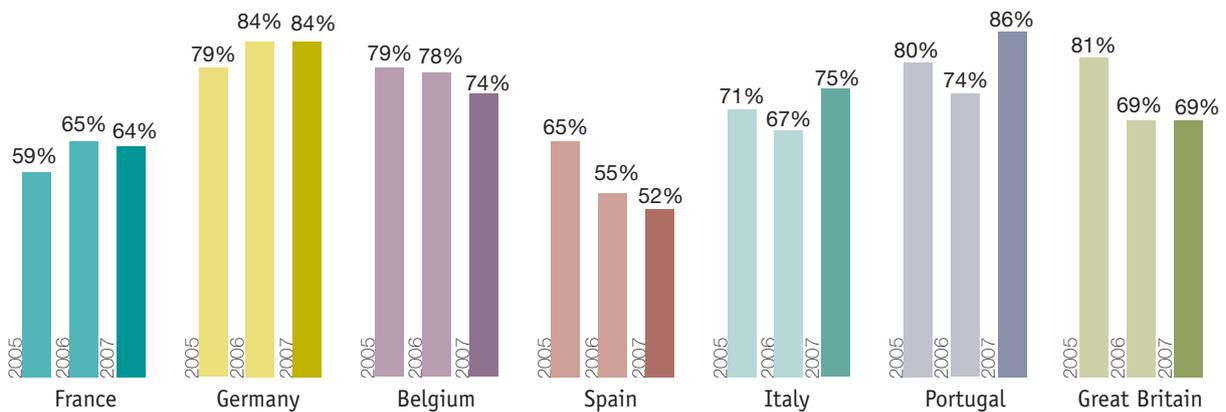


For 2008 the financing requirements of European SME-SMI are tending to rise, even though most managers surveyed are opting for no change.

Each country has its own preferred method of financing. The discount is widely used in Italy (56%) while debt financing is preferred in Spain (38%), unlike in Great Britain (8%) where overdrafts are more commonly used (54%). Germany, Portugal, Belgium and France lean heavily on the lever of supplier leadtimes.

## → External services used

Percentage of companies using external services.



- Accountant
- Law firm
- Credit insurance
- Subscription to credit reference agency
- Collection company
- Bailiffs
- Factoring company
- Credit management consultant

Two-thirds of companies in the surveyed countries use external service providers to manage their receivables. A fairly wide range of services are used, depending on the customary practices in each country.

The situations vary: France and Spain have the lowest level of outsourcing of receivables management.

A decrease is seen in most countries, except in Germany and Great Britain, where a significant decrease occurred in 2006 (-12%).

By contrast, the use of external management services in Portugal has risen sharply in the last three years, particularly recourse to law firms (60% of companies). Overall, the main services used are law firms, followed by accountants and approved management centres and finally credit insurance companies.

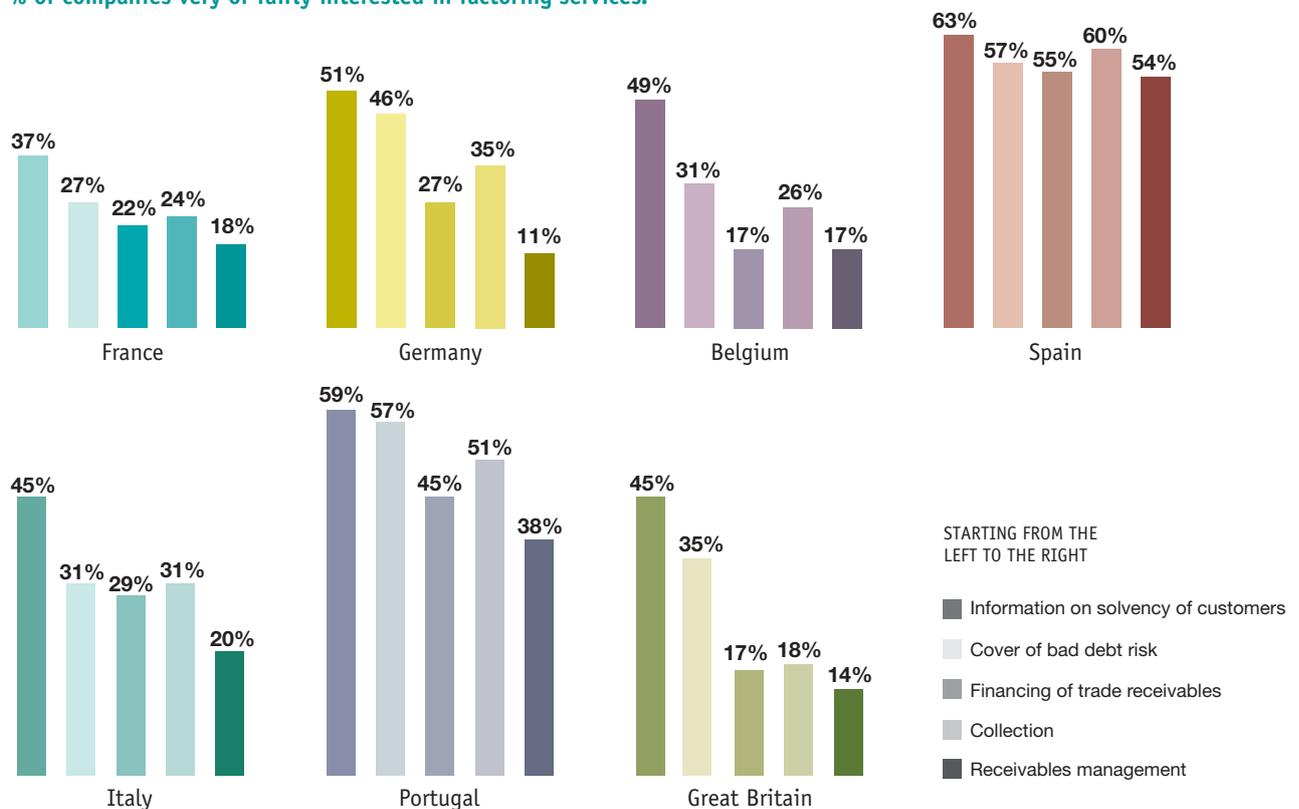
Collection companies are used by one-third of companies in Germany (31%). In Spain, almost one-quarter of SME-SMI use bailiffs.

Credit insurance is used by one in five European companies, except in Italy, where it is used by only 15% of SME-SMI.

## → Factoring

Factoring arouses clear interest, although the degree of interest varies depending on the country. Interest is most widely expressed in Portugal and Spain.

**% of companies very or fairly interested in factoring services.**



SME-SMI are mainly interested in factoring for its preventive dimension, i.e. information on customers' solvency and cover for bad debts

### Average interest scores in Europe:

- Information on solvency: 50%
- Cover of bad debts: 41%
- Financing of trade receivables: 30%
- Collection: 35%
- Receivables management: 25%

# Eurofactor's locations

## Belgium

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Fax : +32 - 2 643 6364  
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Montpellier, Nancy, Nantes, Orléans, Rennes,  
Rouen, Saint-Etienne, Strasbourg, Toulouse

### → CLIENTYS

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\* From 1 April 2008

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