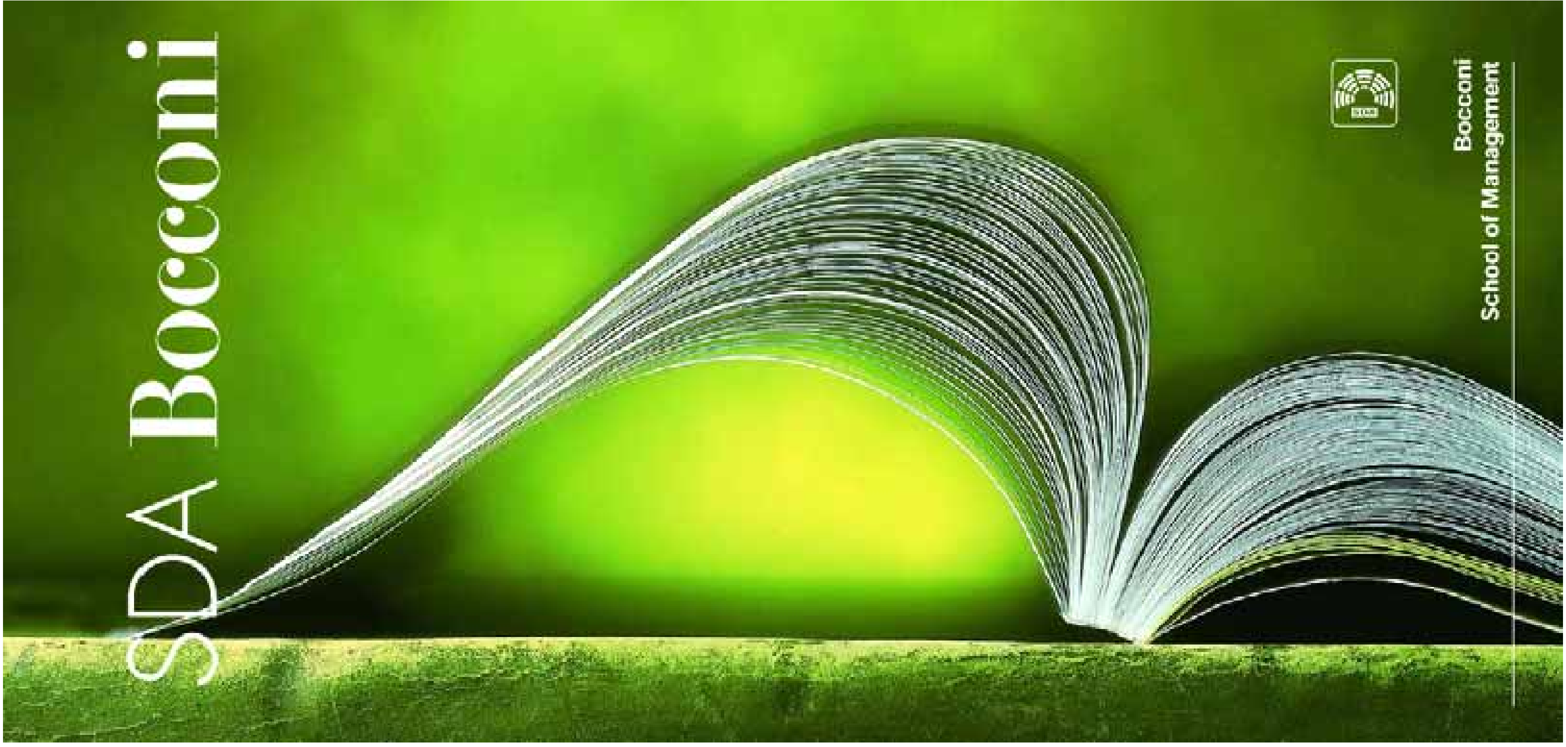

THE DEMAND FOR FACTORING

KNOWLEDGE, WAYS OF USE, EVALUATION OF ADVANTAGES AND OTHER VIEWS OF FACTORING BY ITALIAN COMPANIES

Edited by
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A research sponsored by Assifact: The Italian Factoring Association

"Claudio Demattè" Research Division

CONTENTS

Alessandro Carretta

1. Introduction

Factoring is a financial tool that has become widely established within economic and financial systems. On a worldwide scale, the factoring market has been growing at a consistent pace and by significant extents for many years. The European market represents more than two thirds of the world market and factoring companies within the Euro area have been producing annual business volumes that are more or less equal to the increases in corporate funding provided by the European banks.

The Italian factoring market is one of the largest worldwide, and Italian factoring represents approximately 8% of the national GDP and, on average, more than 10% of trade credit and 11% of short-term bank financing.

Despite the importance of the role played by factoring in Italy, and indeed the world, few studies have addressed the issues that characterise the demand for factoring. To date, the significant works conducted on both international (Mian and Smith 1992; Smith and Schnucker 1994; Summers and Wilson 2000; Asselbergh 2002; Klapper 2006) and Italian scales (Benvenuti and Gallo 2004) have focused upon the characteristics of companies that apply factoring, whilst dedicating little space to the analysis of how factoring is perceived, the ways in which it is used and the upshots of factoring from a company's points of view.

In 1996, the Italian Factoring Association (Assifact) conducted an important survey into the characteristics of the demand for factoring (Carretta 1997); focusing, in particular, on the knowledge and assessment of the characteristics of factoring as a financial product, the nature of relationships existing with the banks and financial institutions specialised in factoring who execute the factoring operations, and the implications of factoring upon the management, organisation and financial situation of a company.

This current survey, performed by the "Claudio Demattè" Research Division of the SDA Bocconi School of Management and sponsored by Assifact, presents the first revisit to this topic since the 1996 survey and the passing twelve years; it's aim is to elaborate the knowledge on the most relevant issues about the use of factoring from the perspective of Italian businesses.

One of the first areas of interest tackled by the survey is concerned with the terms of use of trade credit; indeed, such terms play an important role in a company's decision of whether or not to turn to factoring. The aspects highlighted in this study are: the value attributed to the trade credit granted to clients; growth as benchmarked against competitor companies; terms of payments for domestic and international clients; terms of payments for supplier credit and the most important problems connected to the management of trade credit.

A second area of the survey looks at the effective knowledge levels that Italian firms have about factoring, with particular reference made to its perceived usefulness, effective use (and the relative reasons), the way in which factoring is used and the main elements of satisfaction and dissatisfaction regarding their factoring relationships.

The survey continues by taking the administrative and financial consequences that result from the use of factoring into examination. The objective was to gain an understanding about the following issues. How is factoring regarded compared to bank credit? How can businesses be encouraged to use factoring? To what degree does the factor provide support/or assume responsibility for the management of trade credit? What is the most prevalent use of funds derived from the advances made against the factored receivables? Furthermore, companies' reflections on the use of factoring regarding its effects upon payment times, the regularity of payments, the levels of unpaid receivables (bad debt) and the operating costs of trade credit are addressed.

The survey also examines the points of view of the debtors, exploring the opinion that the debtors form following the assignment of their invoices by their respective suppliers. Finally, the survey considers the points of view of the companies with regard to the prospective of using factoring within the new regulatory scenario (Basel II and IAS) and market.

The sample that underwent the survey is composed of 100 companies that present highly variable characteristics and can be considered representative of the entire population of Italian companies and the current and potential composition of clients of factoring in Italy. The survey was carried out through the interviews, on the basis of a questionnaire (reported in the appendix), conducted by “expert” interviewers and directed at key figures concerned with the management of the administrative and financial functions of the company. Indeed, I would like to take this occasion to thank all the companies that kindly participated in the survey; the banks and the factoring companies associated with Assifact that supplied useful input for the configuration of the sample population of interviewees; the interviewers that physically carried out the interviews; Vincenzo Farina and Diego Tavecchia, the authors of the following chapters within this report, respectively dedicated to the determinants and characteristics of the demand for factoring as described in the literature and to the presentation of the main results of the survey, reported within the appendix; Barbara Perego, from the Assifact administrative office; Maria Custureri and Dania Faccio from SDA Bocconi.

The survey highlights some important aspects of the financial behaviours of Italian companies and supplies numerous confirmations on the beliefs about factoring and the ways in which it is used (that had already emerged in the precedent survey of 1996) that therefore become further validated by this research; it also offers further points of refection linked to new phenomena and behaviours that can be particularly useful for setting an appropriate supply of factoring in the Italian market.

It confirms the importance of trade credit for Italian businesses that highlights the well known problems of long time-scales and delays in the payment of accounts receivable by clients.

The survey also underscores, in a more lucid way compared to the past, the various uses of factoring that are able to satisfy the numerous needs of a company with regards to the management and the funding and guarantee of receivables in the different company and market contexts.

Companies declare that factoring is not always used in a systematic and generalised manner, but instead in a more periodic and recurrent way (in the majority of cases for many years); also employing the services of a number of different factors. On the whole, they express a more than positive judgment regarding their experiences with the banks and financial intermediaries involved in the supply of factoring services and signal well constructed reasons of satisfaction (and dissatisfaction) regarding the nature of their business requirements and the various functions that factoring is able to perform within the economics of the company.

They demonstrate, by more evident measures compared to the previous survey, their adequate abilities to correctly evaluate the costs of factoring operations, that are then considered in relation to the added benefits of using this tool (being that in such circumstances factoring seems to positively influence the regularity of client payments) and compared with the costs of traditional financial tools (like bank credit) and the in-house management costs of trade credit, that are not easy to keep under control even following the use of factoring.

From the point of view of the debtors, the assignment of their payables to a factor is considered as a normal act of corporate management, albeit perceived (and by a greater extents compared to the past) as an unpleasant situation that can result in the loss of direct contact with the supplier.

Regarding the implications of the new regulatory context, the companies interviewed signal, with reference to Basel II, a substantial optimism, probably also associated to the fact that they declare to be ready to increase their current levels of capitalisation (i.e. increasing company equity) and to enrich the corporate information that is made available to the providers of finance. Furthermore, the majority of the companies retains that the use of factoring can improve the prospective financial position of the company and also acknowledge the fact that the factors show a different approach to the evaluation of risk compared to “traditional” lenders. With regard to the introduction of the International Accounting Standards (IAS) (that interested the companies surveyed to only a limited extent considering their current situations) the perception that the overall attitudes of the finance providers have changed is still weak: an interest does emerge, however, towards the advantages that arise from the use of factoring through the elimination of accounts receivable from the balance sheet.

In conclusion, factoring continues to represent a tool that is relatively unknown, even if it is being used by an increasing number of companies. Nonetheless, the companies that took part in this survey seem to be well informed about the role of factoring as an instrument of administrative support and financial font for working capital. In particular, clients of factors, above all those that display a deep experience in its use, demonstrate an advancing financial culture that consents many companies to adequately evaluate the advantages, specifics and the prospects for the growth of factoring. Overall knowledge about factoring can still be improved, especially for the companies that do not yet use factoring. This knowledge gap needs to be filled through the publicizing of its characteristics and the provision of financial education focused on how to use factoring correctly in order to make the most of its potentials and benefits that it can undoubtedly bring about.

Vincenzo Farina

2. The determinants and features of the demand for factoring

Factoring is a contract that states the assignment of an account receivable, usually not yet overdue, claimed by company, public or private, to a specialised operator (the factor) being a bank or financial intermediary.

The factor can satisfy three kinds of client need (Carretta, 1980): i) administrative, through the administration of the transferred accounts receivable and completing all the necessary proceedings when payments are due; ii) finance, by advancing an agreed proportion of each receivable prior to the relative due date; iii) non-recourse factoring whereby the factor guarantees the receivable and assumes the risk of debtor insolvency.

The different contract types of factoring operations (that combine the functions of this instrument) can contribute to the satisfaction of needs that have higher or lower specificities. With this outlook, the use of factoring can be considered in light of the specific needs expressed by the company that in turn depend upon the company's specific characteristics and context.

Empirical surveys that address the relationships between factoring and companies are few and restrictive, even if those that do exist are indeed characterised by the importance of their findings (Mian and Smith 1992; Smith and Schnucker 1994; Carretta 1997; Summers and Wilson 2000; Asselbergh 2002; Benvenuti and Gallo 2004; Klapper 2006).

The majority of these studies are concentrated on the characteristics of the companies that use factoring and pay little attention to uncovering what businesses know about the tool, its ways of use and the effects that factoring can have upon companies in terms of the effective fulfilment of business needs – the important issues that form the basis of the present survey.

Table 2.1 summarises some of the results from previous studies that have addressed the relationships between environmental and corporate determinant variables and the consequent needs of the companies (i.e. determined by such characteristics) that can be satisfied through factoring and affect a company's decision of whether to use factoring or not.

A wider analysis that took place preparatory to the planning of the present survey is presented later on within the present chapter.

Table 2.1 – Relations between determinants, needs and the decision to use factoring

Determinants	Needs	Impact of the decision to use factoring
Large company sizes	Administrative	***Negative*** (Carretta 1997; Summers and Wilson 2000; Soufani 2002; Smith and Schnucker 1994; Mian and Smith 1992) ***Unsure*** (Benvenuti and Gallo 2004)
Financial stress	Financial	***Positive*** (Carretta 1997; Soufani 2002)
Credit reasons	Financial	***Positive*** (Summers and Wilson 2000)
Initial phases following start-up	Financial	***Positive*** (Mian and Smith 1992; Carretta 1997; Soufani 2002; Asselbergh 2002; Summers and Wilson 2000; Benvenuti and Gallo 2004)
Deficiencies in Information Infrastructure	Guarantee	***Positive and direct*** (Benvenuti and Gallo 2004) ***Positive but indirect***, via the positive impact upon trade credit (Mian and Smith 1992; Summers and Wilson 2000; Klapper 2006)
Deficiencies in judicial efficiency	Guarantee	***Positive and direct*** (Benvenuti and Gallo 2004) ***Positive but indirect***, via the positive impact upon trade credit (Mian and Smith 1992; Summers and Wilson 2000; Klapper 2006)
High specificity of goods or services	Guarantee	***Negative*** (Mian and Smith 1992; Summers and Wilson 2000; Benvenuti and Gallo 2004)
Direct distribution channels	Guarantee	***Negative*** (Mian and Smith 1992; Smith and Schnucker 1994)
Large numbers of clients	Guarantee	***Positive*** **(**Mian and Smith 1992; Smith and Schnucker 1994; Benvenuti and Gallo 2004**)**
High geographic dispersion of clients	Guarantee	***Positive*** **(**Mian and Smith 1992; Smith and Schnucker 1994; Benvenuti and Gallo 2004**)**
Seasonality of sales	Guarantee	***Positive*** **(**Mian and Smith 1992; Carretta 1997; Asselbergh 2002; Benvenuti and Gallo 2004**)**

2.1 The variables that affect administrative needs.

With regard to the satisfaction of administrative needs, the use of factoring can be read in the light of the characteristics of company dimensions.

The literature shows how factoring is a useful tool above all for companies that want to entrust the management and control of a portfolio of clients to a specialised firm and that it is frequently used by companies of small dimensions. In particular, the issue of the dimensions can be considered from the standpoint of the greater contractual power for accessing different forms of finance and from the “make or buy” viewpoint (i.e. the choice between in-house management and out-sourcing).

From the first analysis perspective, Soufani (2002) identifies that small- and medium-sized companies (whether in the relation to sales volumes or number of employees) face more difficulty in accessing other sources of finances compared to large and medium-large companies.

Smith and Schnucker (1994), Mian and Smith (1992) and Summers and Wilson (2000) have considered what affects companies’ decisions to use factoring and out-source functions occupied with the management of accounts receivable. Factoring can involve the externalisation (out-sourcing) of client management functions and can therefore permit the company to focus more attention on the *core* aspects of the business. However, in the choice to "make or buy" a company must always consider the possible impacts upon transaction costs and assess the convenience of increasing the production scale of its products and/or services: will the decision to increase the volume of operations affect cost efficiency and is there a risk of organisational diseconomy should the structure become too large to control?

Benvenuti and Gallo (2004) highlight that the influence of a firm's size upon its decision to use factoring or not cannot be assessed *a priori*, since larger companies could decide to maintain the functions connected with the management of trade credit within the company (if they are able to make the necessary investments for the large-scale training of specialised personnel) or otherwise make provisions to establish a specialised captive company.

As a rule, the two perspectives of analysis previously studied are not so distant. Thanks to the possibility to free up the financial resources for the development of the business, the use of factoring can lead to an increase in the volume of business for the company, and therefore also to its size. However, if on one hand it is true that larger company sizes enables access to larger sources of finance (and therefore render the assignment of trade credit, i.e. factoring, less necessary), on the other hand one must not neglect the fact that growth also requires a well organised administrative structure and, depending upon an evaluation of convenience, it may be necessary to out-source this area either to an independent factoring company or to a "captive" company within the corporate group.

2.2 The variables that affect financial needs

With regards to meeting the financial needs of the company, the use of factoring can also be considered in light of some characteristics of the company that influence its financial policies.

Factoring has effects upon the dynamics of a company's working capital, accelerating the process and shortening the cycle that starts from the acquisition of raw materials and concludes with the payment of accounts receivable. From one financial point of view, the tool allows the expansion of a company's liquidity through the supply finances derived from the assignment of trade credit to the factor, and that act as the factor's guarantee (Carretta 1980). Moreover, Carretta (1997) has shown how factoring very often becomes considered as a form of finance that is complementary to bank credit, able to satisfy temporary necessities for funds, optimise payment collection planning (i.e. the planning of when payments will be received) and to facilitate the growth of sales.

A prime variable that the literature considers to affect the probability that factoring is used is, for this type of need, the level of financial stress that the company is under. To this sense, Carretta (1997) found that the funds advanced by the factor were principally used to settle the company's outstanding debts. The perceptions of the businesses' clients are not always orientated at a negative judgement of their suppliers' use of factoring; clients often consider the use of factoring as a normal act of corporate management and only in some cases as a sign that the company is in financial difficulty.

Still referring to Italy, Benvenuti and Gallo (2004) showed that it is usually businesses with higher levels of debt and less liquidity that are more likely to resort to factoring. In this case, the variables observed were: the level of leverage; the actual level of liquidity; the level of non self-liquidating receivables covered by guarantee; the level of use of agreed credit limits with banks; the presence of overshoots on these types of credit.

Making use of the results of a survey performed on English businesses, Soufani (2002) demonstrated that factoring users tend to be companies in financial difficulty.

Furthermore, in the case of small-sized companies, factoring could also provide the solution to credit rationing problems caused by the high difficulties faced by traditional finance intermediaries in performing credit rating evaluations. Summers and Wilson (2000) follow this line of thought; they showed that the bank credit ratings positively influence the probability that companies turned to factoring.

The financial requirements of companies are also influenced by the stage at which they are at within the business life-cycle, measured by proxy by the age and the growth rate of sales (Mian and Smith 1992; Carretta 1997; Summers and Wilson 2000; Soufani 2002; Asselbergh 2002; Benvenuti and Gallo 2004).

In general, it emerges how the probability that a company uses factoring is higher during the first phases of a company's life, characterised therefore by the young age and by the higher growth rates of sales.

2.3 The variables that affect needs for risk protection

With regard to the satisfaction of a company's needs for guaranteeing accounts receivable manifested by the companies, the use of factoring can be considered in light of the environmental and some other features of the companies.

2.3.1 Environmental features

On the theoretical level, the contribution of environmental features can be either direct (through their impact upon the guarantee needs) or indirect (through their impact upon the growth of finances in a certain context).

With regard to the direct contribution, Benvenuti and Gallo (2004) show how factoring is well adapted in contexts of poor counterparty information infrastructure and low judicial efficiency.

First of all, in contexts of poor information transparency, the use of factoring is justified by the use of out-sourced professionals (typically finance intermediaries with, or without, banking origins) that are able to treat the information on the counterparty about a business transaction in a more effective and efficient way. On the basis of such information, the factoring company, without reprisal on the client, can decide to accept the receivables offered or not and in this way limit their risk. Regarding the possibility of opportunistic behaviours by the clients, if from one side it increases the convenience of factoring for the company, from the other it diminishes the that the factor will guarantee the receivables (i.e. factoring without recourse)[1].

Secondly, a low level of protection against creditors can enhance the risk protection function of factoring against the risk of insolvency for operations without recourse (i.e. with bad debt protection).

With regard to the indirect effects that environmental characteristics can have upon guaranteeing accounts receivable, it is necessary to consider in what way the financial system's information infrastructure and the protection systems in operation are able to affect the growth of trade credit in certain contexts (that represents an important presupposition en route to the use of factoring) rather than other forms of short-term finance (Mian and Smith 1992; Summers and Wilson 2000; Klapper 2006).

[1] In general, problems of asymmetry can condition the relationships between:
- supplier companies of goods and services and receiving client companies;
- the transferring companies and factoring firms;
- factoring firms and the debtors.

Trade credit gives companies the possibility to initiate, expand or consolidate their relationships with their clients (current and potential clients), but with the renunciation of immediate injections of liquidity. The reasons for employing trade credit often regard the institutional, economic or social characteristics of the context (Bussoli 2008).

Indeed, from one point of view, trade credit represents a supporting tool for sales policy aimed to reinforce client relationships, guarantee the quality of the products or discriminate price. From another point of view however, the use of trade credit can be motivated by the possibility of reducing transaction costs and configure itself as a form of alternative finance to bank credit or to other types of short-term finance. In fact, in the markets with low information transparency (that is, with a low presence of public and/or privately run risk centres and poor accounting transparency), where there are higher costs in the acquisition of credit information on the counterparties and the risk of opportunistic behaviours are greater, the financial intermediaries are less disposed to grant credit. Furthermore, even if a good legal protection system should act as a deterrent to such behaviours through the threat of sanctions, the respecting of contracts obtained through the recourse to the justice system entails costs and does not offer a guarantee against the incidence of opportunistic behaviours by the counterparties. Indeed, even in the case of vigorous judicial sanctions, it remains very difficult to recuperate unpaid receivables.

Hence, compared to the other forms of short-term finance, trade credit is more independent of the information infrastructure of the financial system and of the level of legal protection for creditors in as much as that the subject of the finance is formed by specific input and the threat of suspending supply of merchandise represents an important sanction at the disposal of companies in the case of non-fulfilment on the client's side.

As confirmation of the above, Rajan and Zingales (1995), Petersen and Rajan (1997), and Demirgüç-Kunt and Maksimovic (2001) assert that trade credit is more developed in countries with civil law (that includes Italy), where the investors benefit from lower judicial protection compared to countries of common law. Right in Italy in fact, the weight of commercial debts upon the firm's liabilities is particularly high and greater compared to that of short-term bank debt (Cannari, Chiri and Omiccioli, 2005; Finaldi, Russo and Leva 2004; Carmignani 2004). Sopranzetti (1998) observed that in similar situations the use of factoring by a company is more probable if its risk of bankruptcy is low and it debts demonstrate a critical financial situation.

2.3.2 Company features

Some company features, like the level of specificity of goods or services on offer, the number and the geographic distribution of its clients and its distribution channels, can also affect its guarantee needs (credit protection requirements).

The high specificity of goods or services diminishes the probability that a company uses factoring, both from the "demand" side, as the supplier is better enabled to protect itself against the opportunistic behaviour of its clients, and from the "supply" side, as the factoring companies may be reluctant to put themselves into operation with complex supplies (goods/services) due to the higher risk of opposition by its clients (Mian and Smith 1992; Summers and Wilson 2000; Benvenuti and Gallo 2004). The same considerations are valid for the companies from the Industry business sector where their use of factoring can be tightly correlated to the level of specificity of their goods or services.

The distribution channels affect the possibility to use factoring due to the higher or lower possibilities of collecting information on the credit worthiness of clients. In these cases, if the client is considered credit worthy, the decision might be taken to not resort to factoring in order to guarantee the receivables; if, on the other hand, the client is not regarded as very credit worthy, the decision might be made to not do business at all with the company in question. Some studies (Mian and Smith 1992; Smith and Schnucker 1994) claim that the use of direct distribution channels allows a company to acquire more information on the credit worthiness of potential clients. The advantage arising from information should found a reduced probability that the company resorts to factoring.

The presence of a significant number of clients and their geographic dispersion would also involve greater convenience in the use of a factoring company, due to the factor's superior ability to obtain information about the credit rating of a potential client at a lower cost (Mian and Smith 1992; Smith and Schnucker 1994; Benvenuti and Gallo 2004).

With regard to the seasonality of sales, Mian and Smith (1992), Carretta (1997), Asselbergh (2002) and Benvenuti and Gallo (2004) claim that the use of factoring could result as being more advantageous for businesses with seasonal sales. Indeed, the frequency of transactions increases the knowledge about client and therefore, for the aforementioned reasons, determines a lower rate of use of factoring. Similarly, if the frequency of transactions is low and the company possesses a large number of clients, the use of factoring increases.

Diego Tavecchia

3. The survey on the demand for factoring

3.1 Objectives and methods

The aim of the survey was to answer the following research questions:

- What do Italian companies think about factoring?
- How do Italian companies use factoring and how do they rate its convenience?
- What are the aspects of satisfaction or dissatisfaction regarding companies' experiences with factoring?
- What are the perspectives of factoring with respects to the new IAS and Basel II scenarios?

The survey involved the interviewing of a sample of 100 companies using a specially prepared questionnaire. The sample of companies surveyed was extracted from a larger list of companies, partly formed from a database of clients and debtors of factoring companies and partly from companies randomly extracted from official archives. To stratify the final sample the following points were considered:

- geographic area;
- economic sector;
- category (user, ex-user, debtor, non-user);
- the size of the company.

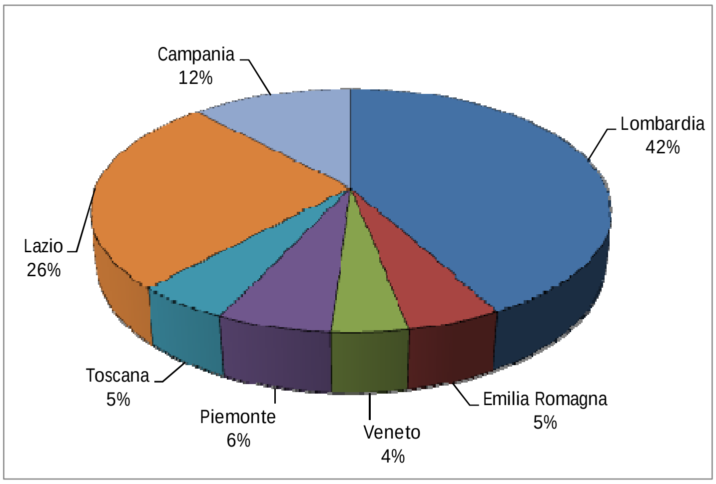
These segmentations were stratified further in order to obtain a distribution of the sample numbers representative of actual and potential numbers of factoring clients in Italy.

As regards the distribution by geographic areas, some "relevant locations"[2] were selected for the factoring sector that were then grouped into the following 7 geographic areas:

- Lombardia;
- Piemonte;
- Veneto;
- Emilia Romagna;
- Toscana;
- Lazio;
- Campania.

[2] By "relevant locations" one intends a province that represents at least 2% of the total factoring outstanding in existence on 31st December 2006.

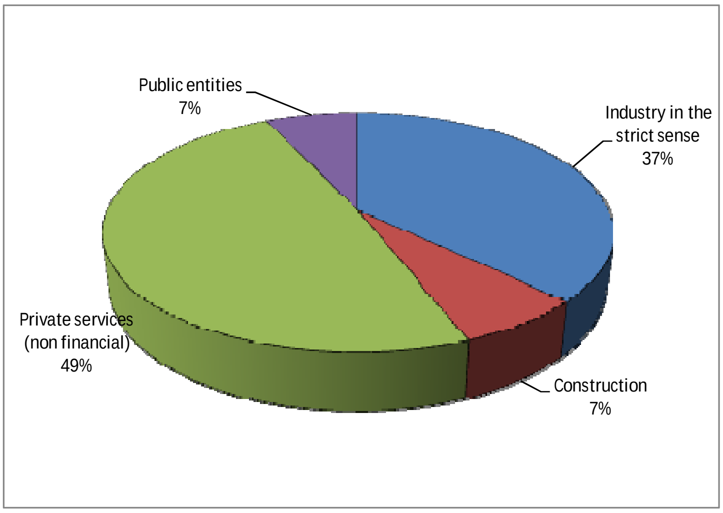
Fig. 3.1 - The sample: percentage distribution of companies interviewed by geographic area



For the economic distribution, the different business categories were grouped into four macro-sectors[3]:

- Industry (in the strict sense);
- Constructions
- Private services (non-financial);
- Public entities

Fig. 3.2 - The sample: percentage distribution of interviewed companies by macro-sector of economic sector



The companies were also classified by size, measured in terms of the previous year's volume of sales; the identified categories are considered to be coherent with the profile of the actual and potential users of factoring.

[3] For the definition of the macro-sectors, cf. Bank of Italy: Survey of industrial companies and services, 2006 and Newsletter no. 140, of the 11th February 1991.

Table 3.1 – Company classification by sales volumes

Classification	Sales volumes	Distribution of companies interviewed
Small	Less than 25 million euro	37%
Medium	Between 25 and 250 million euro	40%
Large	More than 250 million euro	23%

Various categories of subjects can be distinguished within the sample in relation to the nature of their relationship with factoring:

- companies that are current users of factoring;
- companies that have used factoring in the past;
- companied involved with factoring as debtors;
- companies that have never had experiences of factoring nor been assigned to a factor.

It is possible to compare the distribution of the sample with the data, supplied by Assifact, about the economic and geographic distributions of the accounts assigned to factoring companies[4] (assuming that the population is composed i) of only private companies, i.e. excluding the public entities, and ii) of only the geographic areas considered in the sampling, that cover 85% of the factoring outstanding on 31st December 2006 with reference to the client and 82% with reference to the transferred parties).

Table 3.2 – Comparison between the sample analysed and the whole factoring market: distribution by macro-sector economics (excluding public entities)

	Survey sample	Factoring outstanding with regard to clients	Factoring outstanding with regard to debtors
Industry (in the strict sense)	40%	41%	40%
Contruction	7%	8%	1%
Private services (non-financial)	53%	51%	59%

Table 3.3 – Comparison between the sample analysed and the whole factoring market: distribution by geographic area (excluding the areas not considered in the sample)

	Survey sample	Factoring outstanding with regard to clients	Factoring outstanding with regard to debtors
Piemonte	6%	10%	10%
Lombardia	42%	41%	30%
Veneto	4%	7%	6%
Emilia Romagna	5%	9%	8%
Toscana	5%	7%	7%
Lazio	26%	15%	31%
Campania	12%	11%	8%

92% of the accounts receivable transferred by the companies within the survey sample regards domestic factoring and the remaining 8% regard international factoring, mainly related to export. As regards the nature of the transfer, 44% of accounts receivable are assigned with recourse, while more than the half

[4] With reference to factoring outstanding in existence on 31st December 2006.

of accounts receivable subject to factoring are assigned without recourse. The distribution of the accounts receivable assigned by the companies interviewed to factoring companies appear to be in line with the distribution of the global pattern of factoring operations in Italy as well as worldwide. 52% of the factors' clients opt for "non-notification" transfer on an average of 45% of the accounts.

Table 3.4 - The accounts receivable transferred by the companies that compose the survey sample

Type of operation	**Percentage distribution of transferred accounts receivable (sample average)**	**Percentage distribution in Italy (source: Assifact)**	**Percentage distribution worldwide (source: FCI)**
Domestic factoring	92%	90%	89%
International factoring	8%	10%	11%
Total	*100%*	*100%*	*100%*
Recourse factoring	56%	52%	58%
Non-recourse factoring	44%	48%	42%
Total	*100%*	*100%*	*100%*

The sample analysed can therefore be considered as representative of the actual and potential clients of factoring in Italy.

The banks and financial intermediaries belonging to the factoring industry and affiliated to Assifact had no active involvement in the survey; the collaboration of these bodies was limited to the supply of business information about the companies used in the initial phase of structuring of the population from which the sample was extracted (the final composition of the sample was not made known to them). SDA Bocconi has also assured that the anonymity of the companies participating in the survey will be respected.

The subject selected to be interviewed was primarily a manager or employee concerned with administrative and financial functions; when addressing the small-sized companies, the company owner or a general director was occasionally selected to take part in the survey.

The results presented in this current research report were elaborated with reference to different aspects of analysis:

- the total sample of companies;
- segments of the sample - according to economic sector, geographic zone and company size.

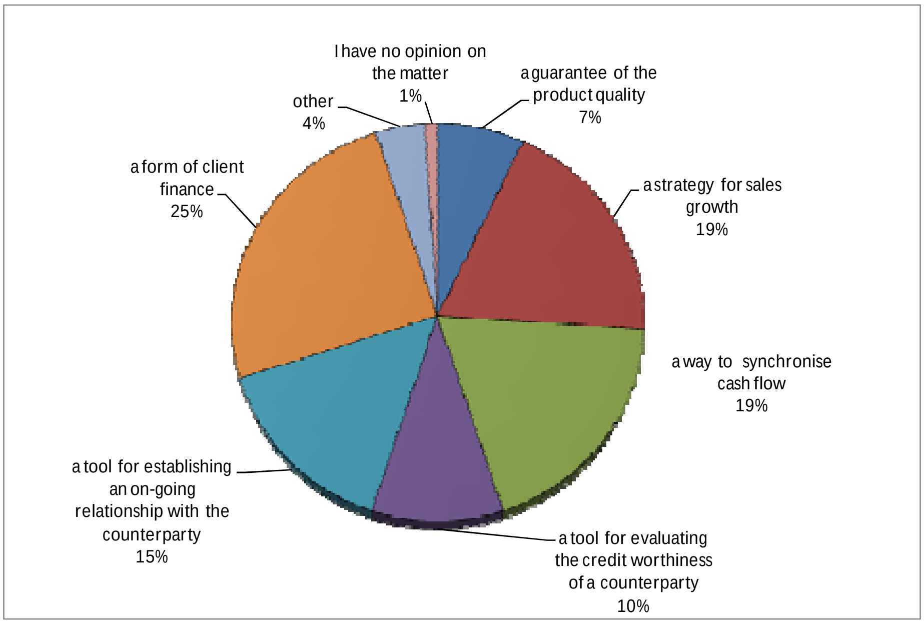
3.2 The use of trade credit

The sales of the companies interviewed were principally performed within Italy (88% on average); in particular within North and Central Italy. The average proportion of sales achieved outside of Italy was equivalent to 12% of the total, but numerous differences between the companies could be pointed out that depend upon the sector and the different organisational and commercial models to which they belong. 37% of the interviewees proclaim that their sales patterns were subject to a certain element of seasonality.

The ratio between cash payments and deferred payments for the companies interviewed was on average equivalent to 14.5%: thus trade credit appears to be particularly important and diffuse in Italy.

According to the companies surveyed, trade credit mainly represents a form of client finance (25% of the replies), a strategy for enabling sales growth (19%) and contributes towards the synchronisation of cash flow (19%). The idea that trade credit represents a tool for establishing an on-going relationship with the counterparty was less frequent (15%), and the belief that trade credit could be used for evaluating the credit worthiness or reliability of a counterparty, or as a form of guarantee for the quality of a product was marginal.

Fig. 3.3 - What does trade credit represent? (percentage distribution of replies)



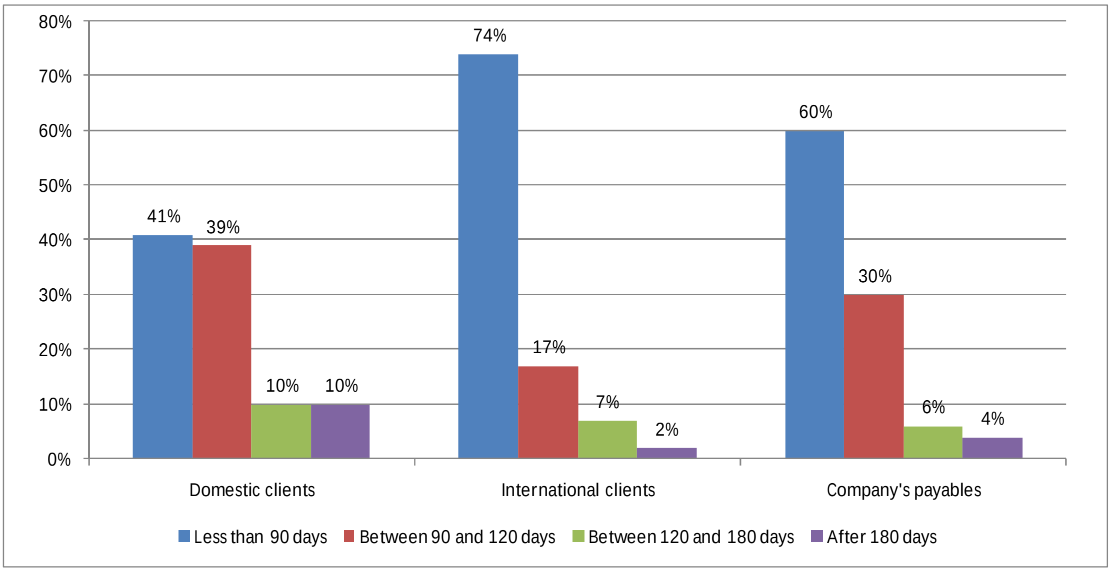
20% of the interviewees retain that trade credit is more developed in their own business that in competing businesses; the primary reasons declared were that it forms an integral part of the company's specific sales policy (37% of replies) or that clients specifically ask for it (27%). A small proportion of the sample believes that their company is able to grant more trade credit than their competitors thanks to either a greater level of access to finance (6.5%), or to their contained capital costs (6.5%), while the idea that the lack of available alternatives for the goods/services they offer increases the strength of the contract with the debtor was only marginal (3%). On the other hand, 66% of the sample believe that the level trade credit offered by their company is in line with the rest of the market, while the remaining 14% did not know how to response.

With reference to terms of payment for trade credit, the companies interviewed indicated how international clients are from this point of view more virtuous compared to domestic clients: 74% of the companies that work with the international market are paid, on average, within 90 days and only a very small proportion after more than 180 days (2%). In the domestic market, average payment times are more relaxed: only 41% of the companies interviewed are paid, on average, within 90 days, while 39% have medium payment settlement times between 90 and 120 days; the other interviewees receive payment, on average, between 120 and 180 days (10%) or after more than 180 days (10%). The payment of the companies' payables are settled for the majority of them (60%) within 90 days, while 30% of the companies interviewed pay, on average, between 90 and 120 days: the proportion of the interviewed companies that pay, on average, between 120 and 180 days or after 180 days was much lower (6% and 4% respectively).

Some differences emerge in the comparison between the principal regions: in Campania, only 17% of the sample declared that the average payment times for their clients were less than 90 days, while a larger proportion of the companies pay, on average, between 120 and 180 days (25%), or even after 180 days (17%). In Lazio the average client payment times also appeared to be elevated: 54% receive payment, on average, between 90 and 120 days, 13% between 120 and 180 days and 17% after 180 days. The fastest payment times are in Lombardia, where 49% have average client payment times that are less than 90 days and 39% within the 90 to 120 day range; the incidence of payment times that exceed 120 days was only marginal. As regards the payment times of their own trade credit, also in this case, Lombardia appears as the most virtuous region, with 68% of the companies that pay within 90 days.

Indeed, the long delays in client payments are seen as a key problem in the use of trade credit (39% of the replies; 62% of the companies in Lazio), together with the high management costs of a credit relationship with the counterparties (22% of the replies; 33% for the companies working in the Construction sector). Insolvency of clients is also regarded as important (18%) as is the difficulty of evaluating the credit worthiness of the counterparties (17%).

Fig. 3.4 – Payment terms for accounts receivable and company payables (percentage distribution of replies)



To reduce payment delays, 33% of the interviewed companies put into effect discount policies to encourage immediate payment by clients.

Only one company in four has turned to insurance companies in order to protect themselves against client insolvency. Of these, half insured accounts receivable owed by foreign clients, while 71% insured accounts receivable owed by Italian counterparties.

3.3 The use of factoring

According to the companies interviewed, factoring represents a complementary form of finance to bank credit (25% of the replies) and a form of guarantee for the successful outcome, i.e. settlement, of trade credit (25%). The role of factoring as an instrument for the professional management of accounts receivable is also seen as important (19%). The role of factoring as an alternative form of finance to bank credit was seen as less important (16%), whilst the belief that factoring is a way of collecting unpaid or problematic receivables was minimal (7%).

The view of the role of factoring changes according to the economic business sector of the companies interviewed: for companies working in services, factoring is principally a form of finance complementary to bank credit (27% of the replies), while for industrial companies it mainly represents a form of guarantee of payment of accounts receivable (27%); the companies from the Construction sector see factoring as an alternative form of finance to bank credit (31% of the replies) or as a way of collecting unpaid or problematic receivables (23%). On the geographical level, companies from Lombardia attribute an "insurance" role to factoring, while in Campania it is mainly seen as a complementary form of finance (41% of replies) or as an alternative to bank credit (29%) but it is not considered to play an important role in the management of accounts receivable.

Fig. 3.5 – What does factoring represent? (percentage distribution of replies)

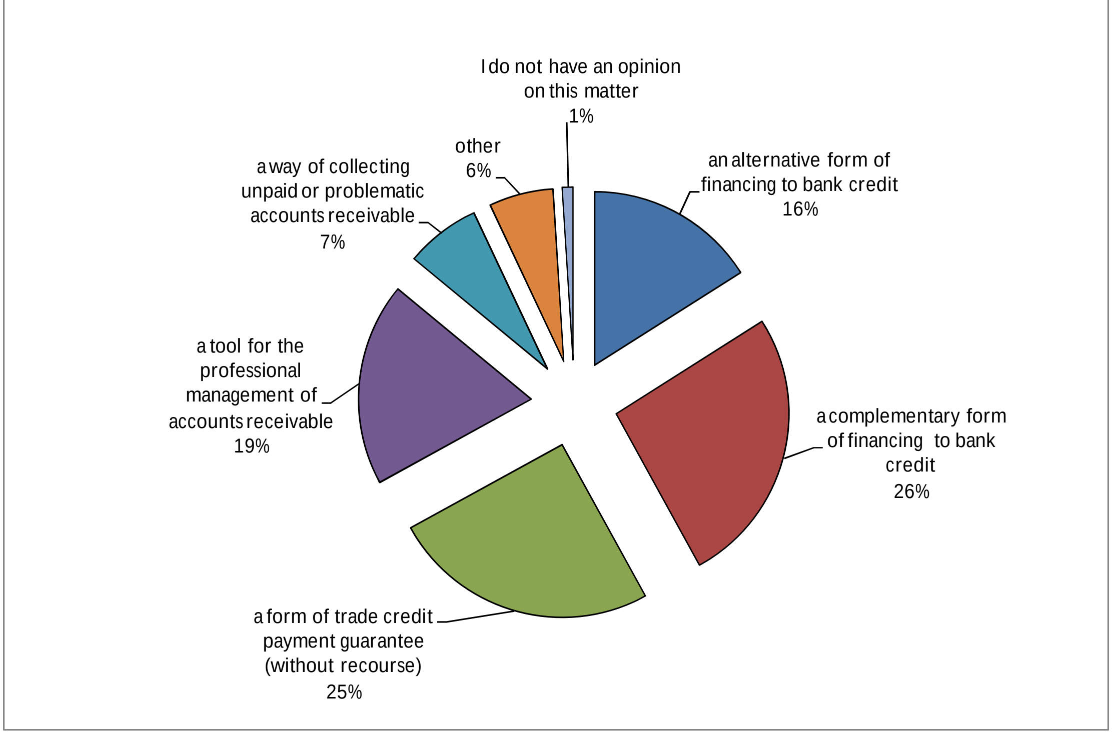


Table 3.5 – What does factoring represent? (percentage distribution of replies as per business sector)

	Total Sample	Services	Industry	Construction
an alternative form of financing to bank credit	16%	15%	17%	31%
a complementary form of financing to bank credit	26%	27%	26%	15%
a form of trade credit payment guarantee (without recourse)	25%	25%	27%	15%
a tool for the professional management of accounts receivable	19%	20%	18%	15%
a way of collecting unpaid or problematic receivables	7%	5%	6%	23%
other	6%	7%	6%	0%
I don't know	1%	1%	0%	1%

Table 3.6 - What does factoring represent? (percentage distribution of replies as per the main geographic areas[5])

	Total Sample	Lombardia	Lazio	Campania
an alternative form of financing to bank credit	16%	12%	15%	29%
a complementary form of financing to bank credit	26%	24%	33%	41%
a form of trade credit payment guarantee (without recourse)	25%	28%	18%	18%
a tool for the professional management of accounts receivable	19%	22%	20%	0%
a way of collecting unpaid or problematic receivables	7%	5%	10%	6%
other	6%	9%	4%%	0%
I don't know	1%	0%	0%	6%

Dividing the companies that compose the sample by size, one can see that as the size of the company increases, the role of factoring as a form of finance diminishes (in particular as an alternative to bank credit) and the perception of factoring as a complementary tool able to provide finance, guarantee and manage trade credit in a professional way increases (Table 3.7).

Table 3.7 - What does factoring represent? (percentage distribution of replies as per company size)

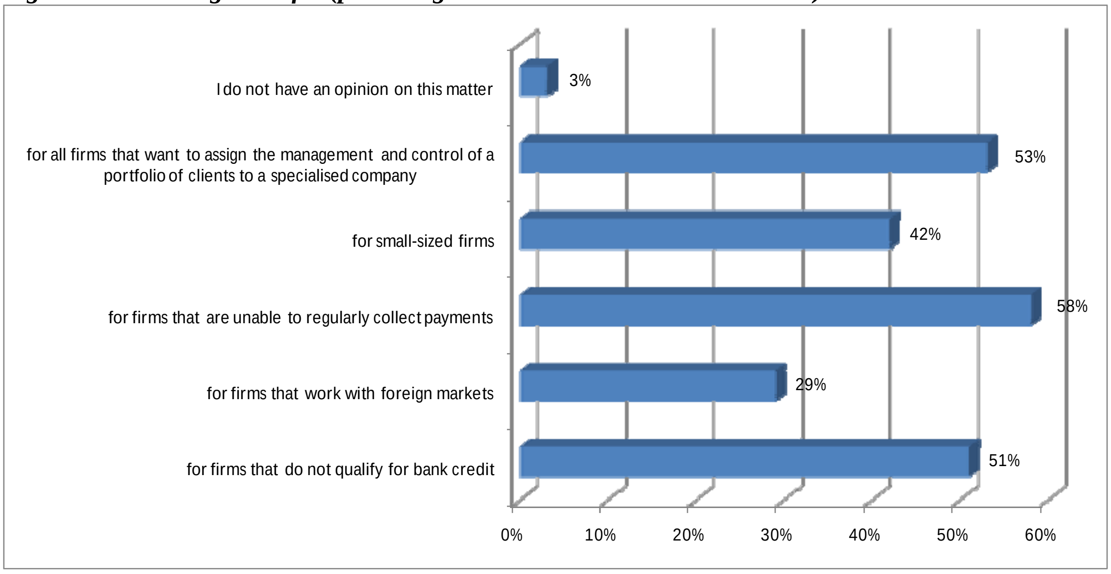
	Total Sample	Sales <25 million euro	Sales between 25 and 250 million euro	Sales >250 million euro
an alternative form of financing to bank credit	16%	24%	13%	11%
a complementary form of financing to bank credit	26%	25%	30%	21%
a form of trade credit payment guarantee (without recourse)	25%	25%	25%	26%
a tool for the professional management of accounts receivable	19%	18%	18%	21%
a way of collecting unpaid or problematic receivables	7%	6%	6%	6%
other	6%	2%	7%	15%
I don't know	1%	0%	1%	0%

Factoring is useful for companies that are not able to regularly collect payments (58% of consensus) and for those that want to entrust the management and control of a portfolio of clients to a specialised

5 By "main geographic areas" it is intended the regions that represent more than 10% of the sample in terms of number of companies interviewed

firm (53%), and also for those companies that are not able to access bank credit (51%). The idea that factoring is useful for small-sized companies is less diffuse (42%), while only 29% of the companies interviewed consider it useful for businesses that work with foreign markets.

Fig. 3.6 – Factoring is useful (percentage consensus between interviewees):



Two thirds of interviewees retain that factoring is meant to have a further development in their sector: this belief is stronger in companies that offer services and in the Construction sector, where the proportion of companies that envisage further developments in their use of factoring is greater than 70%.

More than one third of the interviewees retain that companies within their sector are not adequately informed about characteristics of factoring, mainly due to insufficiencies in companies' financial knowledge (56% of the replies) and, to a lesser extent, to an insufficiency in the provision of information by the banks and factoring companies (27%).

The perception of the level of factoring knowledge in the distinct sectors is strongly influenced by the size of the company and by the business sector to which it belongs: as company size increases, the belief that companies working within their sector are adequately informed about the characteristics of factoring increases; this belief also appears to exist in the majority of companies within the Industry sector, while more than half the companies working in the Construction sector retain that in their sector an adequate knowledge of this tool does not exist.

Table 3.8 - Belief that other companies within the interviewee's sector are adequately informed about the characteristics of factoring (percentage distribution of replies as per company size)

	Total Sample	**Sales <25 million euro**	**Sales between 25 and 250 million euro**	**Sales >250 million euro**
Yes	44%	29%	45%	67%
No	39%	53%	34%	24%
Don't know	17%	18%	21%	9%

Table 3.9 - Belief that other companies within the interviewee's sector are adequately informed about the characteristics of factoring (percentage distribution of replies as per economic business sector)

	Total Sample	Services	Industry	Construction
Yes	44%	34%	59%	43%
No	39%	43%	27%	57%
Don't know	17%	23%	14%	0%

68% of the companies interviewed currently use factoring. Less than one in four of the current non-users have, however, used factoring in the past. 27% of the non-users intend, in the near future, to initiate a factoring rapport, mainly for the need to guarantee the successful outcome (i.e. payment) of trade credit (33% of the replies) and to cover increased needs for funds (17%). As for the remainder, the reasons to not use factoring (also in the future) are essentially linked to their conviction of not needing it (36% of the replies) and not wanting to renounce their direct contact with their clients (25%), but also linked to the idea that factoring is an expensive tool (25%).

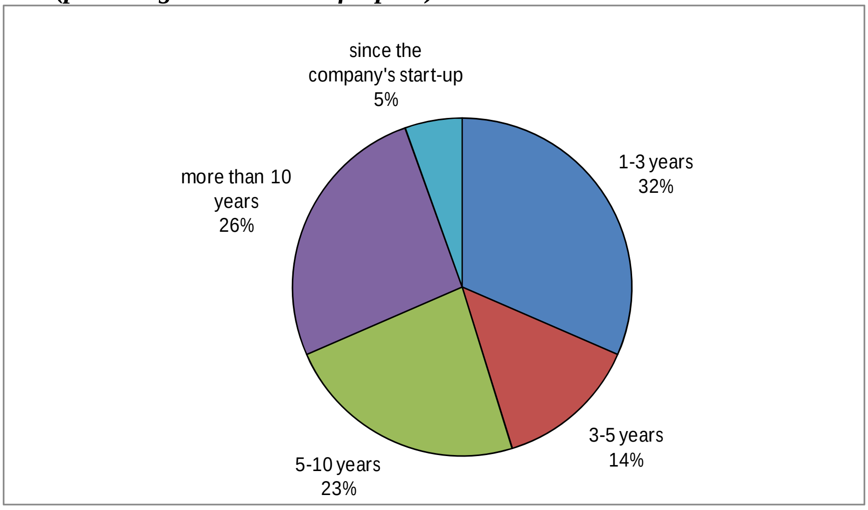
The use of factoring by its current and past users can mainly be described as periodical (60% of cases), non exclusive (36%) and as being applied to only a proportion of their accounts receivable (41%), on average equivalent to 36% of the total trade credit of the companies interviewed. The occasional use of factoring (22%) and the assignment of just single accounts (22%) is less frequent; in particular, in Campania where it's use by companies is most likely to be only occasional (33%), while in Lombardia, the occasional use of factoring was an infrequent phenomenon (only 12% of the current and past users). Finally, cases in which companies use factoring operations for all their accounts receivable also exist (23% of cases).

The companies interviewed present a quite variable "seniority" in the use of factoring: nearly 50% of the companies that are current users of factoring have been using (or have used) factoring for more than 5 years, while 32% of users have been using (or have used) it for less than 3 years. 34% of the users working in the Service sector have been using factoring (or have used it) for more than 10 years, whilst the factoring relationships of companies from the Industry sector are generally briefer (46% have had experience of factoring for less than 3 years); for companies from the Construction sector, the duration of ended relationships or those still in progress are placed at an intermediate level, between 3 and 10 years. On the geographic level, it stands out how nearly half the companies from Campania that currently use or have used factoring in the past (44%) have more than 10 years of experience.

Table 3.10 - If your company is (or was) a client of factoring companies, for how long have you been using this tool? (distribution by economic business sector)

	Total Sample	Services	Industry	Construction
1-3 years	32%	24%	46%	14%
3-5 years	14%	11%	11%	43%
5-10 years	23%	26%	18%	29%
More than 10 years	26%	34%	18%	14%
Since company start-up	5%	5%	7%	0%

Fig. 3.7 - If your company is (or was) a client of factoring companies, for how long have you been using this tool? (percentage distribution of replies)



Nearly half of the interviewees have had a working relationship with only a single factoring company, while 14% work with more than four factors at the same time. The rest of the companies have had relationships with between two and four factoring companies. The number of factoring companies used by a single company seems to be conditioned by the size of the company: the smaller companies tend to work with only a single factor (65%), while only a third of larger companies entrust their accounts with just a single factor, preferring instead to deal with more than one factor contemporaneously. To the contrary, companies tend to deal with a larger number of banks: indeed, 51% of companies have working relationships with more than 5 banks, while only 13% work with just one bank.

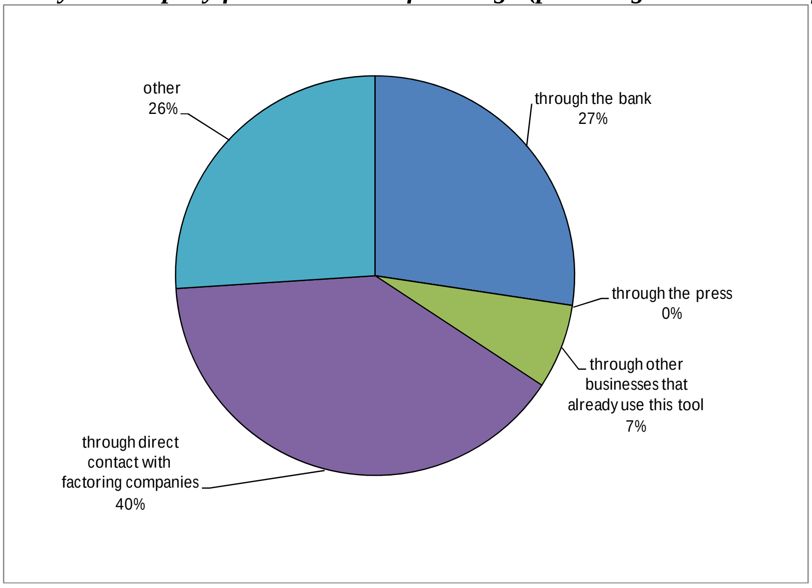
Table 3.11 - How many factoring companies have you (contemporaneously) had business relationships with? (percentage distribution of replies as per company size)

	Whole Sample	**Sales <25 million euro**	**Sales between 25 and 250 million euro**	**Sales >250 million euro**
1	45%	65%	38%	33%
Between 2 and 4	41%	30%	56%	28%
More than 4	14%	4%	6%	39%

59% of companies have never changed factoring company; for the rest, the change was brought about either because the business was contacted by other factors that offered better conditions (54% of all companies, 70% of large-sized companies), or because the company itself had looked for better conditions with other factors (46%). Companies in Campania and Lazio seem more "loyal" to individual factors compared to those from Lombardia: 67% and 71% of companies from Campania and Lazio respectively have never changed from the factor with which they started with compared to 50% of companies resident in Lombardia. The mode of change of factor differs between Service companies, which are mainly contacted by other factors that offered better conditions (67%), and Industry companies, that autonomously searched for better conditions with other factoring firms (64%).

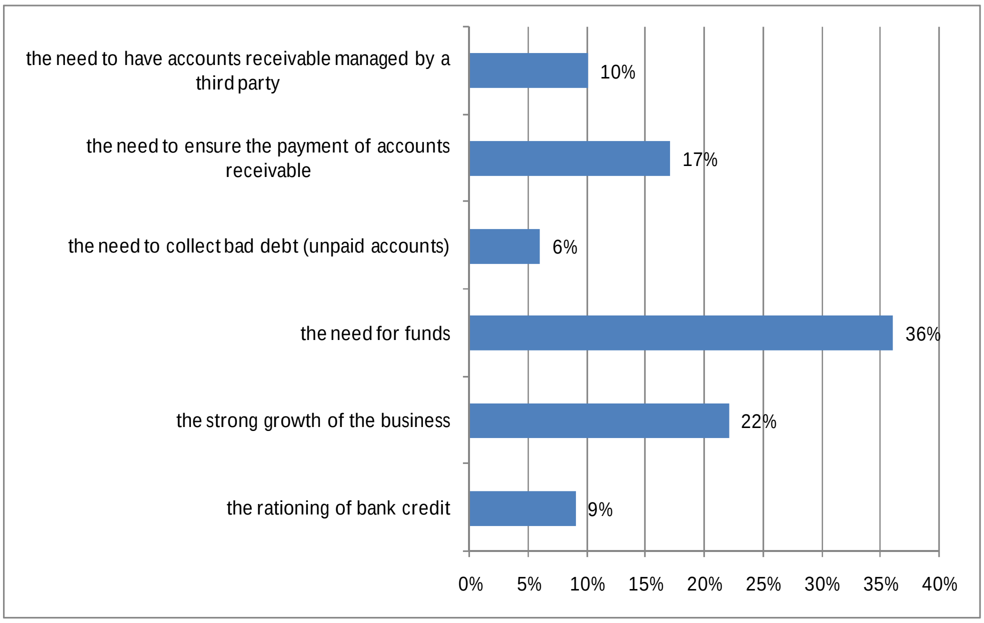
The companies mainly came about factoring thanks to a direct contact with a factoring firm (40%) or though the banks (27%); these represent the main promotion channels for factoring for the companies in Campania (56%) and for those of smaller dimensions (35%). Only 7% declare to have known about factoring through other companies that were already using it, while none of the interviewers indicated a role of the press. Furthermore, 26% (in particular the companies of larger sizes) declare to have learnt about factoring through other sources, mainly through interviewed person's direct knowledge or past experience.

Fig. 3.8 - How did your company first learn about factoring? (percentage distribution of replies)



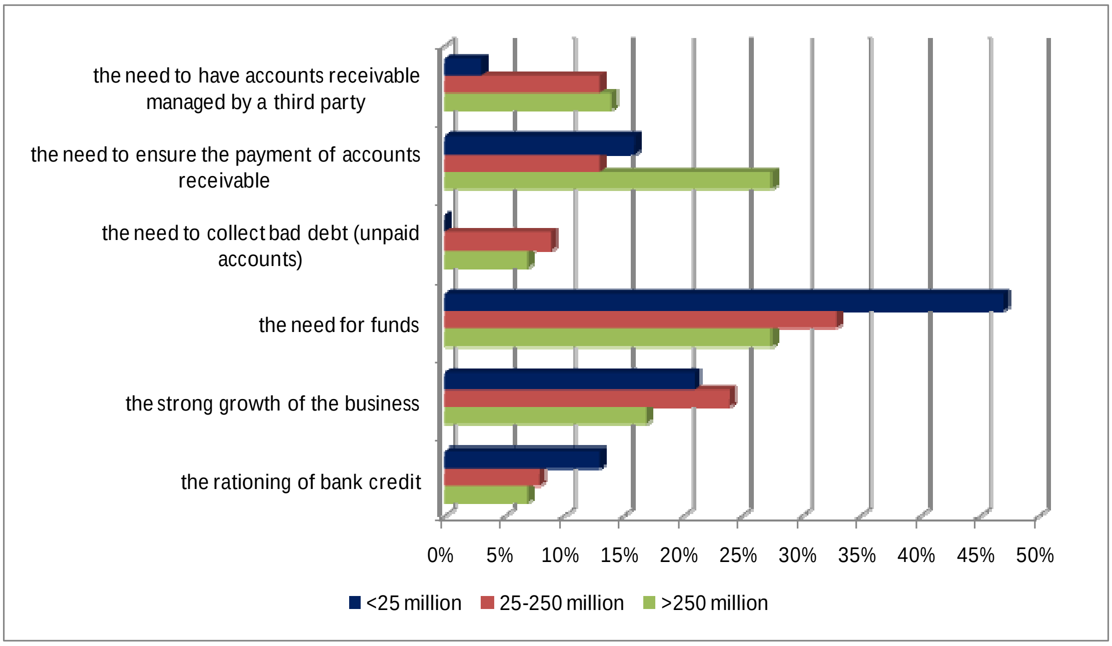
In general terms, the decision to use factoring was mainly on the basis of fund requirements (36% of replies), the rapid growth of the company (22%) and the need to ensure the payment of accounts receivable (17%). The rationing of bank credit was of little significance. Thus, the use of factoring seems to be due to reasons of convenience rather than for a necessity to substitute bank credit; a finding that differs to that identified in the past. Finally, the use of factoring does not seem to be connected to a necessity to collect unpaid (bad) debts (only 6% of the replies).

Fig. 3.9 – The decision to use factoring was due to (percentage distribution of replies):



However, the reasons behind the use of factoring differ according to the size of the company: the motivations of smaller companies are more likely to be connected, in contrast to those of medium- and large-sized companies, to requirements of liquidity and steered by the necessity to use factoring due to the rationing of bank credit. Companies with sales that exceed 250 million euro have a higher need, compared to smaller-sized companies, to employ factoring in order to ensure the successful payment of accounts receivable. The need to have accounts receivable managed by a third party also augments in importance as the size of the company increases. Finally, for companies within the Industry sector, the need to ensure the payment of accounts receivable is more relevant than for companies in all the other sectors.

Fig. 3.10 - The decision to use factoring was due to (percentage distribution of replies by sales volumes):



Analysing, in particular, the composition of the assigned accounts by the different profiles considered in this report, numerous differences emerge that depend upon the size of the company, the economic sector to which the company belongs and geographic area; in particular, in the subdivisions of the assigned accounts between those with and without recourse. The percentages presented in Table 3.12 appear coherent with the reasons to use factoring previously expressed.

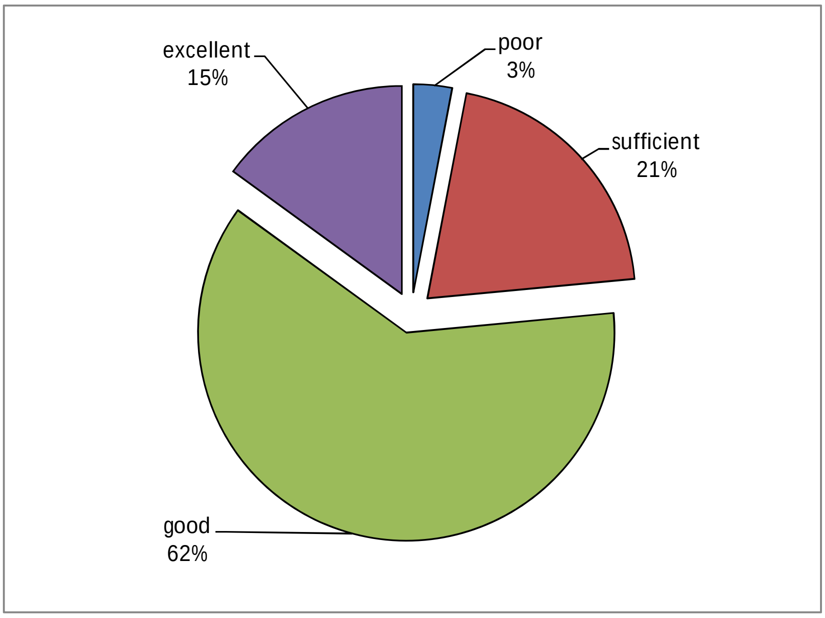
Table 3.12 – Accounts receivable assigned by the sample – segmented by sales volumes, main geographic areas and economic business sector

Average values indicated by the companies	**Domestic factoring**	**International factoring**	***Total***	**Non-recourse factoring**	**Recourse factoring**	***Total***
By sales volume:						
< 25 million euro	88%	12%	*100%*	41%	59%	*100%*
Between 25 and 250 million euro	98%	2%	*100%*	53%	47%	*100%*
> 250 million euro	87%	13%	*100%*	77%	22%	*100%*
Geographic area:						
Lombardia	91%	9%	*100%*	58%	42%	*100%*
Lazio	97%	3%	*100%*	55%	45%	*100%*
Campania	100%	0%	*100%*	29%	71%	*100%*
Economic business sector:						
Industry	81%	18%	*100%*	68%	32%	*100%*
Construction	97%	3%	*100%*	63%	37%	*100%*
Services	99%	1%	*100%*	44%	45%	*100%*

3.4 The levels of satisfaction with factoring

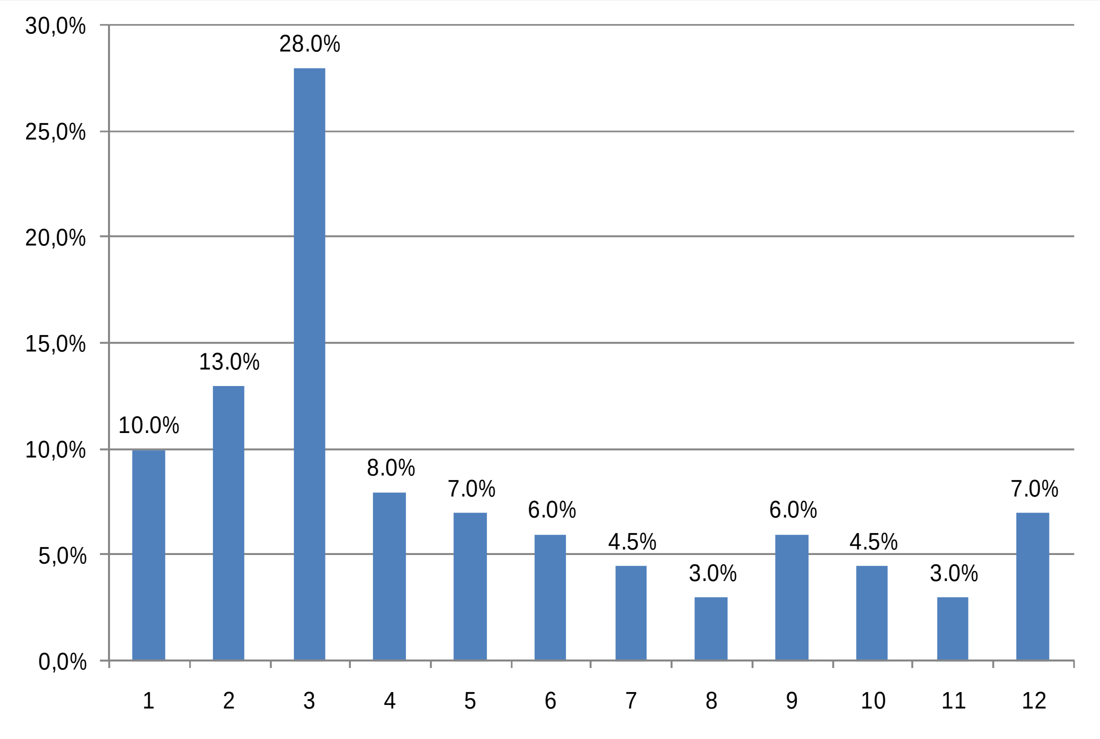
The level of satisfaction with current (or past) factoring relationships is perceived as good or excellent by more than three companies in four; 20.5% of the interviewees rate their rapports as adequate and only 3% of the sample rate their experiences as unfavourable. The evaluation of satisfaction levels regarding relationships with banks appears less favourable than the relationships with factors when rated separately; however, when firms are asked to compare them, relationships with factoring companies are generally rated as similar to those with the banks.

Fig. 3.11 – Level of satisfaction with factoring (percentage distribution of replies):



The principal elements of satisfaction about the relationships with factoring regard, in order, the speed and the certainty of fund supply times (28% of replies), the guarantee of payment to accounts receivable (13%), the capacity of the factor to manage accounts receivable (10%), the acceptance of entire portfolios of clients (8%) and the consequential growth in sales funded by factoring-derived finance (7%). Aspects that resulted as being of less importance were the reduction of in-house management costs, the shortening of client payment times, improved control over unpaid receivables and moderate costs, whilst the lesser important elements were the improvement of the corporate information system and the streamlining of sales processes.

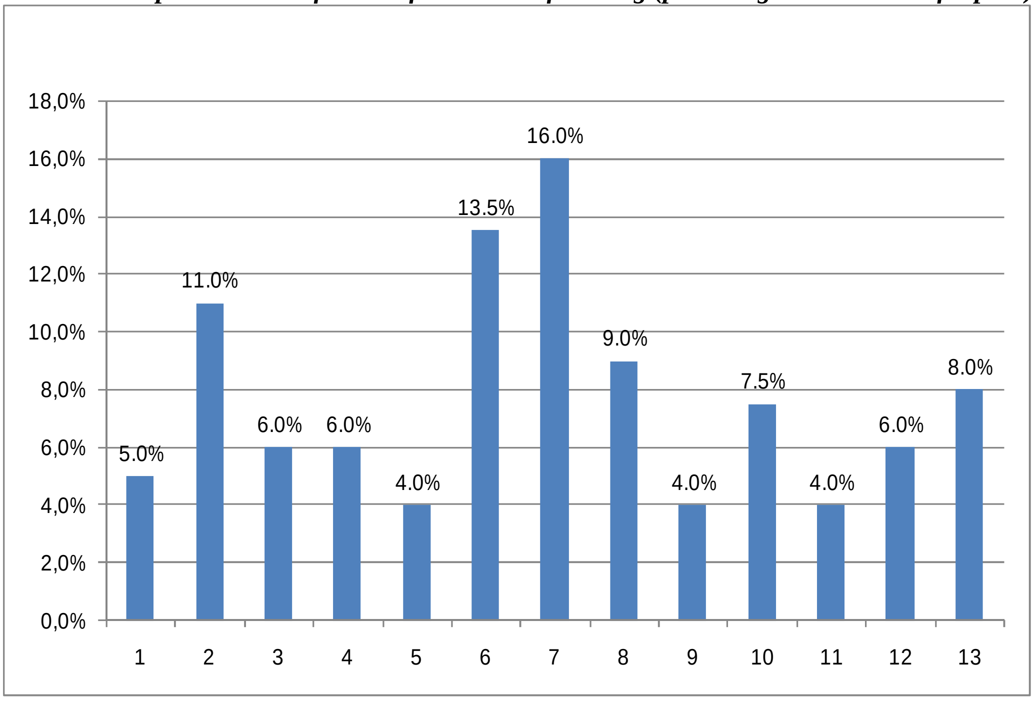
Fig. 3.12 – Principal elements of satisfaction with factoring (percentage distribution of replies):



1	the capacity of the factor to manage accounts receivable well
2	the factor guarantees payment of the company's receivables (without recourse)
3	the speed and certainty of the finance supply times by the factor
4	acceptance of entire portfolios of clients by the factor
5	automatically finances the growth of sales
6	reduced costs for the in-house management of accounts receivable
7	moderate costs
8	improvement of the corporate information system
9	the shortening of payment times by the company's clients
10	improved control over unpaid accounts receivable
11	the streamlining of sales processes, avoiding internal investigations
12	other

The principal elements of dissatisfaction regard cost that is considered excessive (16% of the replies), the acceptance of only some of the companies' debtors (13.5% of companies), insufficiencies in management services of accounts receivable (11%), the fact that the companies' clients are unwilling to settle accounts with the factor (9%) and the lack of significant savings on trade credit management costs (7.5%). Aspects that seem to be of less important are inadequacies in the guarantee service for the successful payment of accounts receivable, the speed of information exchange and the low percentage of receivables advanced. Low levels of dissatisfaction were aimed at the slow payment times of advances, the poor attention paid by the contact person at the factor to the company's needs and the deterioration of relationships with the clients.

Fig. 3.13 – Principal elements of dissatisfaction with factoring (percentage distribution of replies):



1	poor transparency of contract conditions
2	insufficiencies in management services (reporting, receivables paid, etc.)
3	deficiencies in the factor's payment guarantee service (non-recourse factoring)
4	low percentage of receivable advanced
5	slow payment times of advances
6	acceptance of only some of the company's' debtors
7	higher costs compared to other forms of business finance
8	the company's clients were unwilling to pay factor
9	company's relationships with clients deteriorate
10	no significant savings made on trade credit management costs
11	our contact at the factoring company was not attentive to our business needs
12	inadequate rates of information exchange recorded
13	other

Regarding the ex-clients of factoring, the principal reasons why a company stopped to use factoring regard the cost of factoring that was rated as excessive compared to other forms of finance (22% of replies) and insufficiencies in the service of guarantee for the successful payment of accounts receivable (22%). Companies also complain that a low percentage of accounts are accepted and advanced by the factor and the no significant savings are made on their in-house management costs for trade credit.

Fig. 3.14 – Elements of satisfaction with factoring (summary tables):

Principal elements of satisfaction	Principal elements of dissatisfaction	Principal reasons why ex clients ended the factoring relationship
• 1. the speed and certainty of the finance supply time • 2. guarantee of the company's receivables • 3. capacity of the factor in credit management • 4. acceptance of entire portfolio of clients • 5. automatically finances the growth of sales	• 1. costs • 2. acceptance of only some of the company's debtors • 3. insufficiencies in credit management services • 4. no significant savings on trade credit management costs • 5. the client's are unwilling to pay the factor	• 1. deficiencies in guarantee service • 2. costs • 3. there were no significant savings on trade credit management costs • 4. low percentage of receivable advanced

3.5 Administrative and financial aspects of factoring

A majority of the companies surveyed (61%) declared that the costs of factoring are greater compared to those for bank credit; this was justified on the basis that it is a more complex and comprehensive service compared to bank credit (42%). A small percentage (5%) thought that factoring was more expensive than bank credit because factors usually work with companies in financial difficulty.

Fig. 3.15 – The cost of factoring compared with bank credit (percentage distribution of replies)

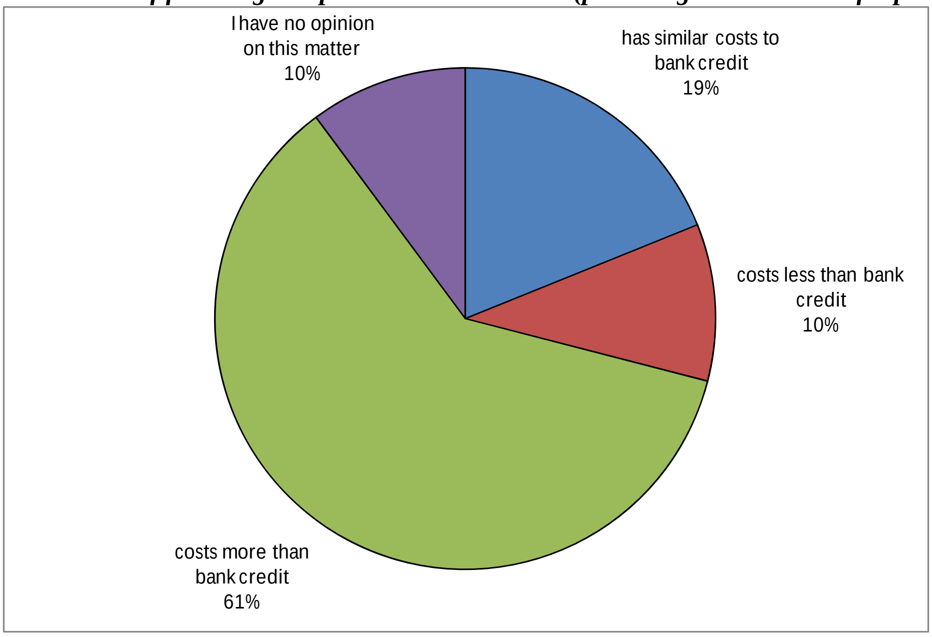
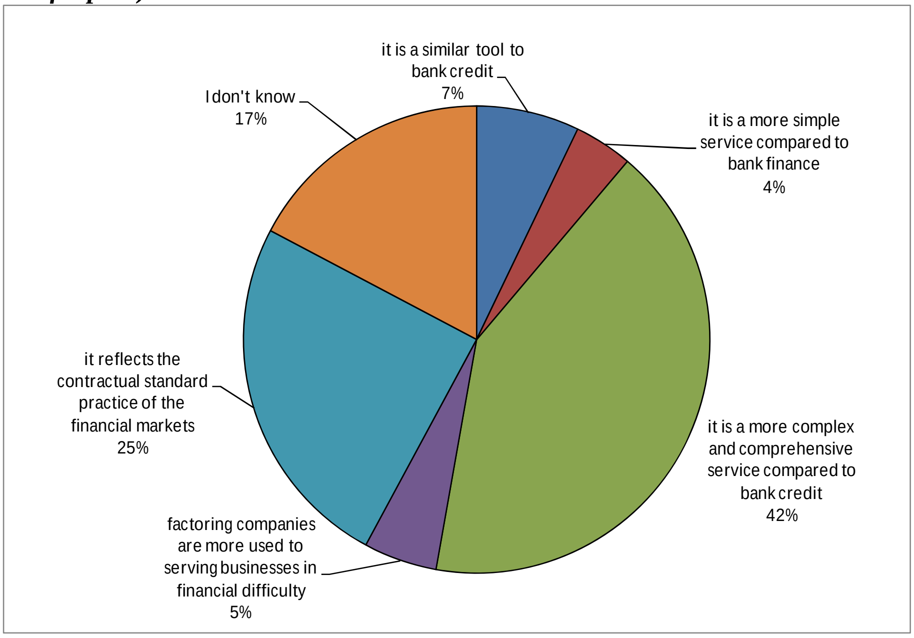


Fig. 3.16 – Reasons for the differences in cost between factoring and bank credit (percentage distribution of replies)



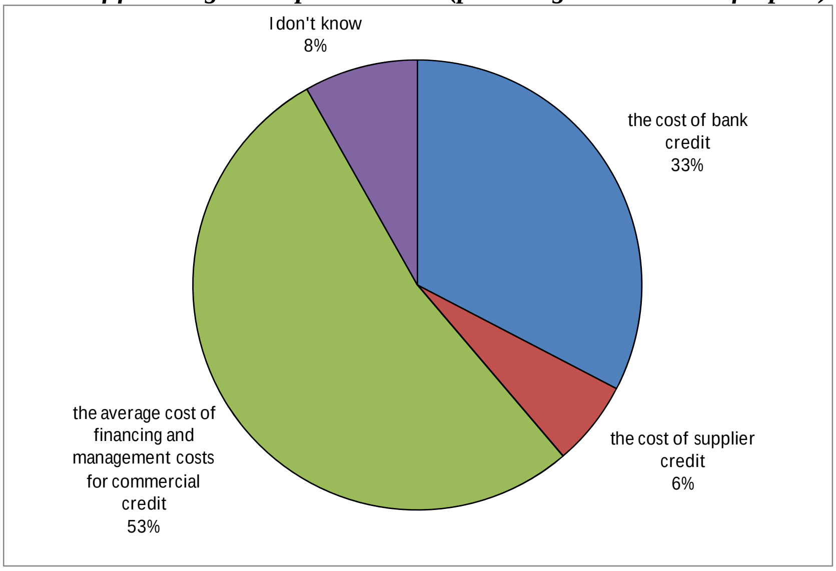
The majority of companies surveyed consider the cost of factoring to be comparable to the average cost of financing and the cost of internal management of trade credit (53%), or, although less frequently, comparable to the average costs of bank credit (33%). Only 6% consider the costs of supplier credit to be comparable with the costs of factoring. Thus, it remains that 8% of companies declare not to know what would represent a fair comparison to the cost of factoring.

Thus, the companies interviewed seem to see factoring as a more complex tool compared to bank credit and this is also reflected in their evaluations of the convenience of this tool.

The economic business sector to which companies belong strongly influences the opinions of the interviewees regarding their evaluation of the convenience of factoring compared to other forms of finance. Specifically, 71% of the interviewees working in Constructions pose bank credit to be a valid comparison, compared to 35% of interviewees from the Industry sector and 27% of companies in Services. Companies from these latter sectors are more inclined to compare the cost of factoring with the average costs of finance and the cost of in-house management of trade credit (63% compared with 46% of Industry companies and 14% of Construction companies).

Bank credit represents the principal benchmark for 50% of companies from Campania and Lazio (compared to 24% for companies from Lombardia), whilst in Lombardia the cost of factoring is considered by 62% of companies to be comparable with the average cost of finance and the cost of in-house management of trade credit (compared with 42% of companies from Campania and Lazio).

Fig. 3.17 – The cost of factoring is comparable with: (percentage distribution of replies)



According the companies interviewed, the use of factoring would be encouraged, first of all, if its costs were reduced (30% of replies) and if a larger number of debtors were accepted by the factor (18%), but also through increased promotional activity (13%) and by improving the quality of the factor's receivables management service (12%). Less than one company in ten think that the factor should do more to guarantee the payment of trade credit or that the factor should supply higher levels of finance.

An increased level of promotional activity is considered, in particular by the small-sized companies (18% of replies) and companies from the Industry sector (19%), to be something that would encourage the use of factoring, while companies with sales volumes greater than 250 million euro believe that improvements to the quality of the factor's management of receivables would be more useful (21%)

Only little more than a fifth of all companies that use or have used factoring have reduced the level of internal management of trade credit (38% of companies in Lombardia) since the use of factoring also reduced the cost of such activities (40%) and thus the company is able to pay more attention to the growth of sales (33%). The other companies that haven't reduced such activities, haven't done so due to corporate policy (60%) or because internal management costs were not reduced (9%). The lack of a reduction of internal activities for the management of trade credit was attributed to inadequacies in the services offered by the factor in very few cases.

79% of the interviewees have never had any problems with their clients following the notification that their accounts have been assigned to a factor.

According to the opinions of the companies surveyed, factoring allows the company, form the financial point of view, to optimise payment collection planning (48%) and to resolve liquidity needs that are either temporary (18%) or of a chronic nature (19%). The conviction that factoring can facilitate the growth of sales is less frequent.

The rationale behind the use of factoring, in financial terms, varies according to the size of the company: the larger the size of a company, the greater the extent that factoring takes on a role related to the cash-flow forecasting and the lesser the extent that its purpose is to cover either chronic or temporary needs for funds.

Fig. 3.18 – The functions of factoring from the financial point of view (percentage distribution of replies)

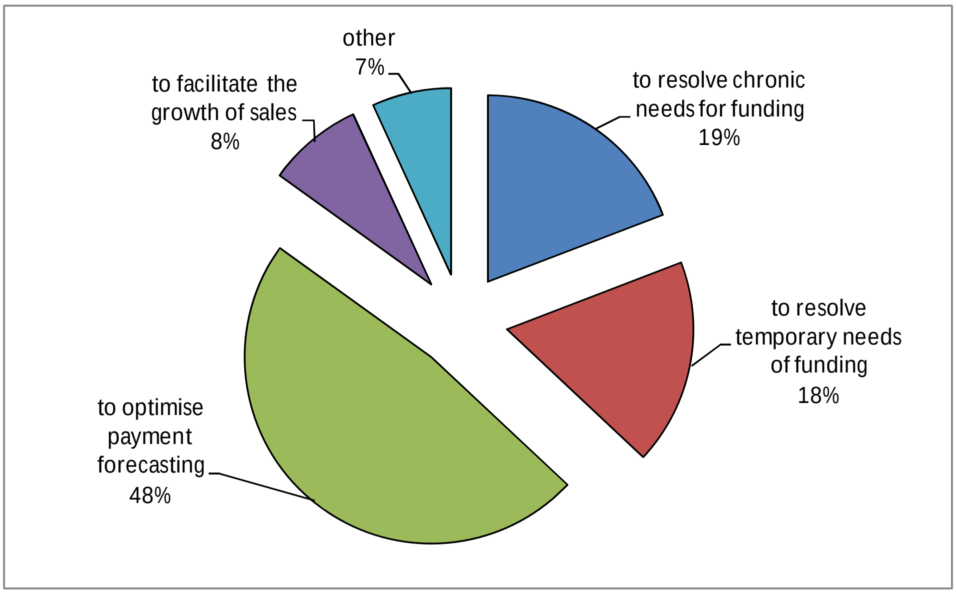
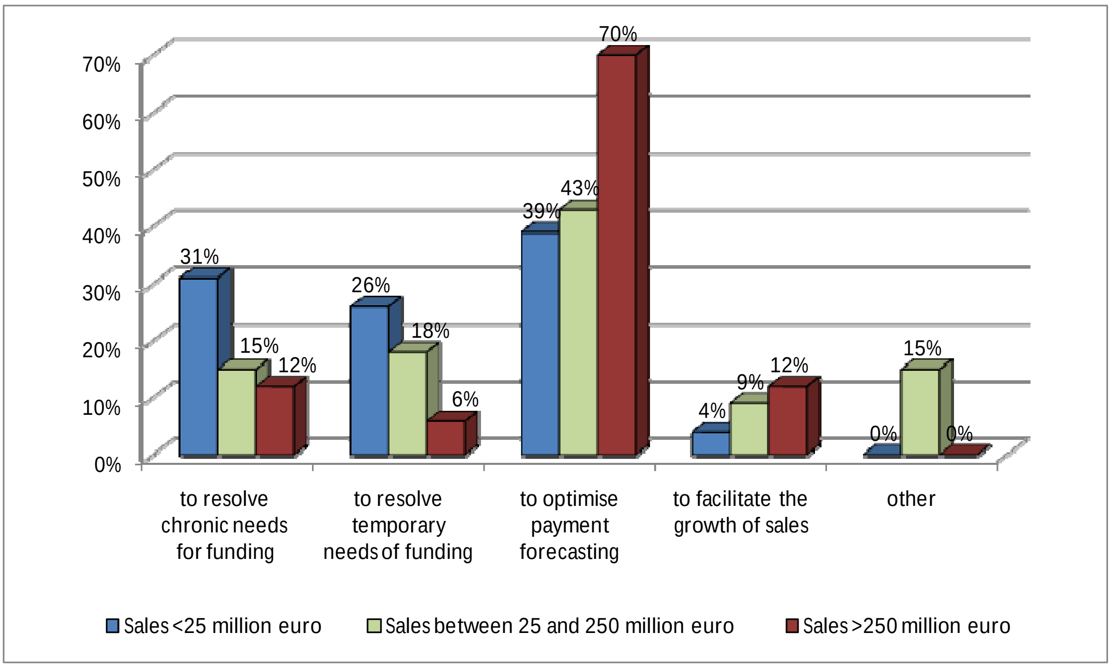


Fig. 3.19 - The functions of factoring from the financial point of view (percentage distribution of replies as per volume of sales)



Funds derived from the assignment of accounts receivable to a factoring company are mainly used for the settlement of debts with banks and/or suppliers (62%) and less frequently to finance growth in sales (19%). Their use for investment in securities and other profitable assets are rare. On the geographical level, it can be noticed how companies from Lombardia principally use the advanced funds to pay off debts, whilst companies from Lazio and Campania in addition to these uses also utilise the funds to finance the growth of sales.

Fig. 3.20 – The uses of funds derived from the factor (percentage distribution of replies)

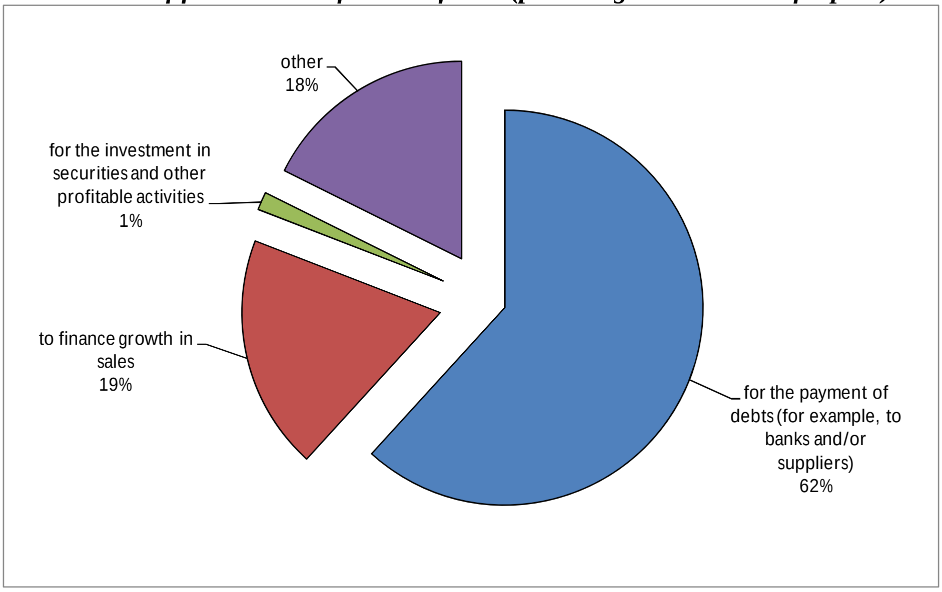


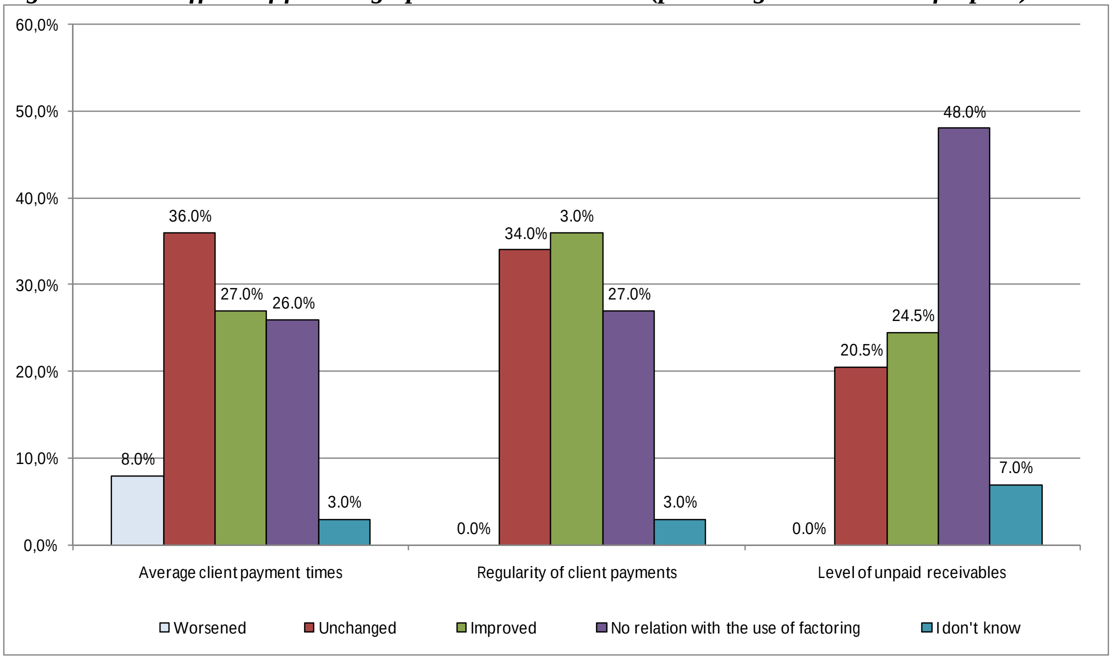
Table 3.13 - How are the funds derived from the assignment of a portfolio of receivables to a factoring company used? (percentage distribution of replies as per principal geographic area)

	Total Sample	Lombardia	Lazio	Campania
for the settlement of debts (e.g. with banks and/or suppliers)	62%	69%	47%	45%
to finance growth in sales	19%	7%	35%	44%
for investment in securities and other profitable activities	1%	0%	6%	0%
other	18%	24%	12%	11%

Factoring does not seem to have any overall effect upon client payment times that remain largely unchanged (even if for 27% of the sample, factoring does contribute to an increase in the speed of payment by the clients); instead factoring seems to influence the regularity of payments: indeed 36% of the sample declare that factoring improves the regularity of payment from their clients. However, upon further analysis one sees that for some types of company, factoring also seems to positively affect the average payment times (increasing the speed of payment by the client): this is the case for companies with sales volumes less than 25 million euro (39%), for companies with sales volumes greater than 250 million euro (39%) and for those resident in Lombardia (38%). In all cases, companies do not consider factoring to have a negative effect upon the speed and the regularity of client payments.

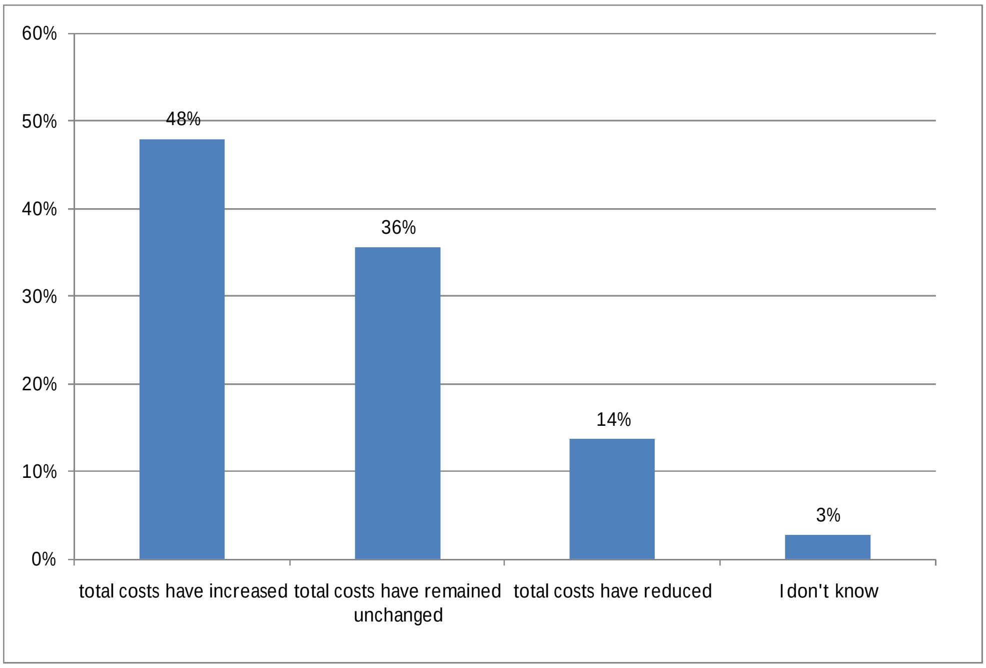
With regard to the effect of factoring upon the level of unpaid receivables (bad debt), around one company in four retains that factoring is able to contribute to an improvement in the level of unpaid receivables (i.e. a reduction in bad debt); whilst for the other companies the level of unpaid accounts is independent upon the use of factoring.

Fig. 3.21 – The effects of factoring upon client behaviours (percentage distribution of replies)



With regard to the effects of the use of factoring upon the total management costs of trade credit, most of the interviewed companies believe that they remain unchanged or even increase. 14% of companies did however observe a decrease in such management costs following the use of factoring. In terms of staff costs, 36% of them defined such savings as important, but difficult to estimate; a similar percentage of companies declare that savings were equivalent to one quarter of the cost of an administrative employee.

Fig. 3.22 – The effects of factoring upon total management costs of trade credit (percentage distribution of replies)

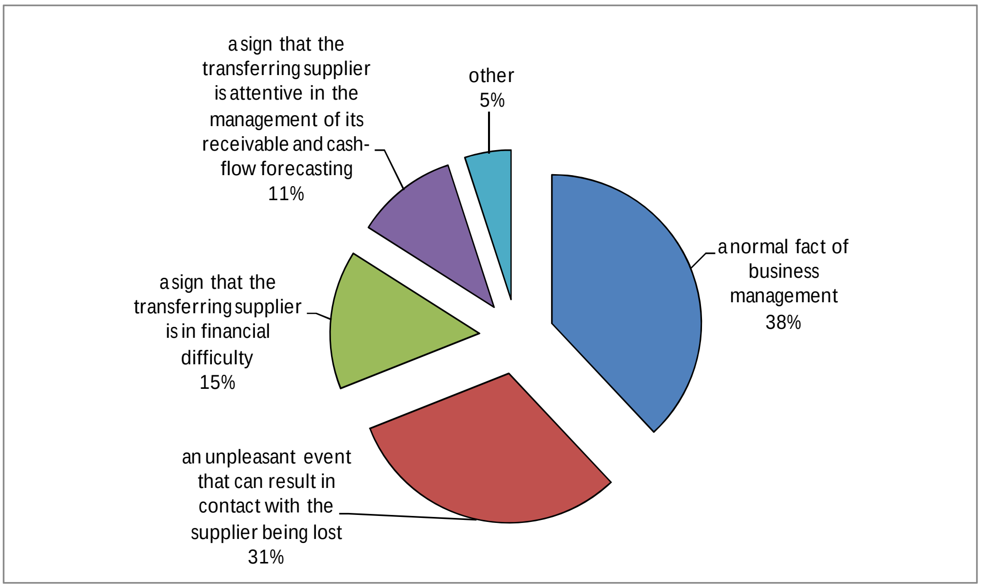


For 61% of the survey sample, the annual trade credit management costs including personnel and internal IT support is less than 1% of total sales, while only 4% retain that it exceeds 6% of sales. 14% of the sample remain that were not able to give an estimate of total costs.

3.6 Factoring from the point of view of the debtor

The companies interviewed retain that the debtors see the assignment of their accounts payable as a normal fact of corporate management (38%) or as an unpleasant situation, that results in the loss of a direct contact with the supplier (31%). The percentage of companies that believe that the debtors see their transfer as a sign of supplier financial difficulty is limited (15%) as it the belief that it is a sign that the supplier is attentive in its management of its receivables and the forecasting of cash-flow (11%).

Fig. 3.23 – The assignment of accounts receivable to a factoring company according to the debtors (percentage distribution of replies)



The opinions of the interviewees about how the debtors view factoring differ according to geographic area: the belief that the assignment of accounts to a factoring company is seen as a sign that the transferring company is in financial difficulty was declared by 17% of the companies from Campania and by 27% of the companies from Lazio, but by only 5 % of the companies in Lombardia. According to companies in the Industry sector, in 41% of cases, it is thought that the debtors consider the transfer as unpleasant.

Table 3.14 - The assignment of accounts receivable to a factoring company according to the debtors – segmented by principal geographic area and economic business sector

	A normal fact of corporate management	**An unpleasant situation that can result in the direct contact with the supplier being lost**	**A sign that the transferring supplier is in financial difficulty**	**A sign that the transferring supplier is attentive in the management of its receivables and cash-flow forecasting**	**Other**
By geographic area:					
Lombardia	48%	33%	5%	9%	5%
Lazio	38%	23%	27%	12%	0%
Campania	33%	33%	17%	0%	17%
By economic business sector:					
Industry	35%	41%	13%	11%	0%
Construction	43%	29%	14%	14%	0%
Services	41%	27%	14%	10%	8%
Public entities	29%	14%	29%	14%	14%

The companies interviewed have often been in the position of the debtor (in 70% of cases); even if for the majority of them it occurs only occasionally (41%). As the size of the company increases, the frequency in which the companies find themselves assigned by their suppliers to factoring companies also increases. In reference only to public entities, all the interviewees have been involved as a "debtor" in a factoring relationship, in either a regular (71%) or occasional manner (29%).

Fig. 3.24 – Has the company ever found itself in the position of the debtor and thus had to relate with the factor as well as with the original supplier? (percentage distribution of replies)

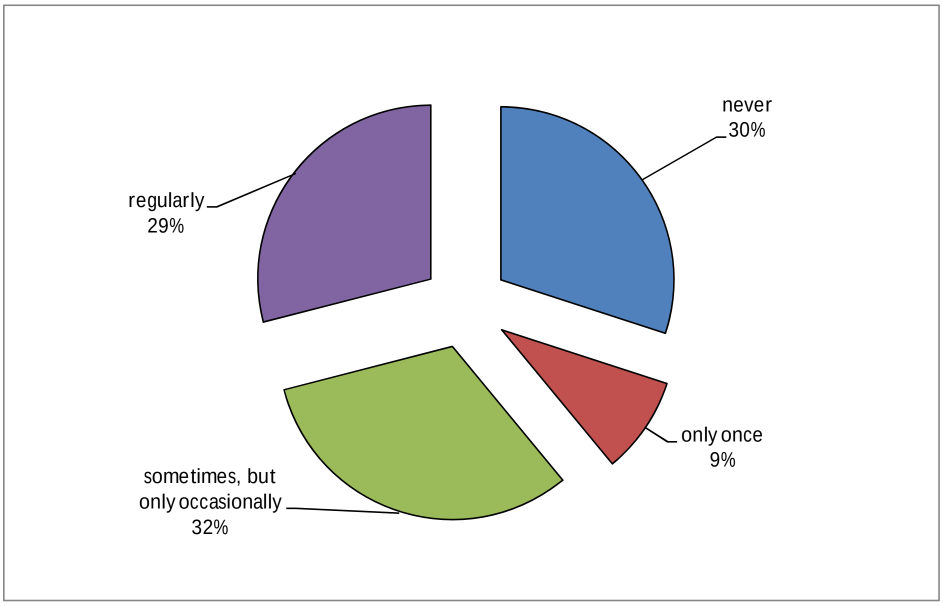
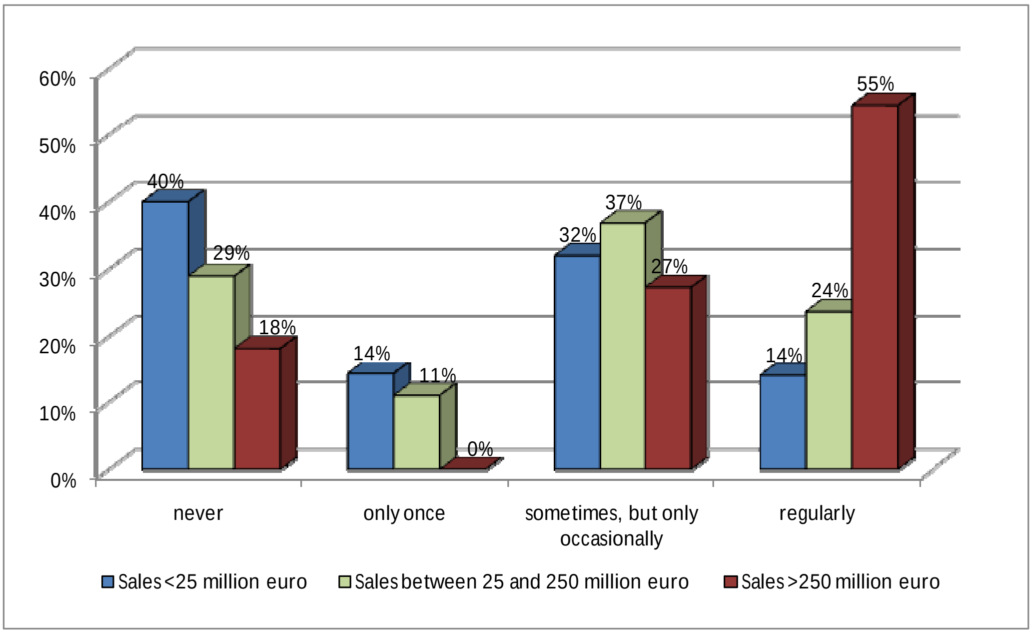
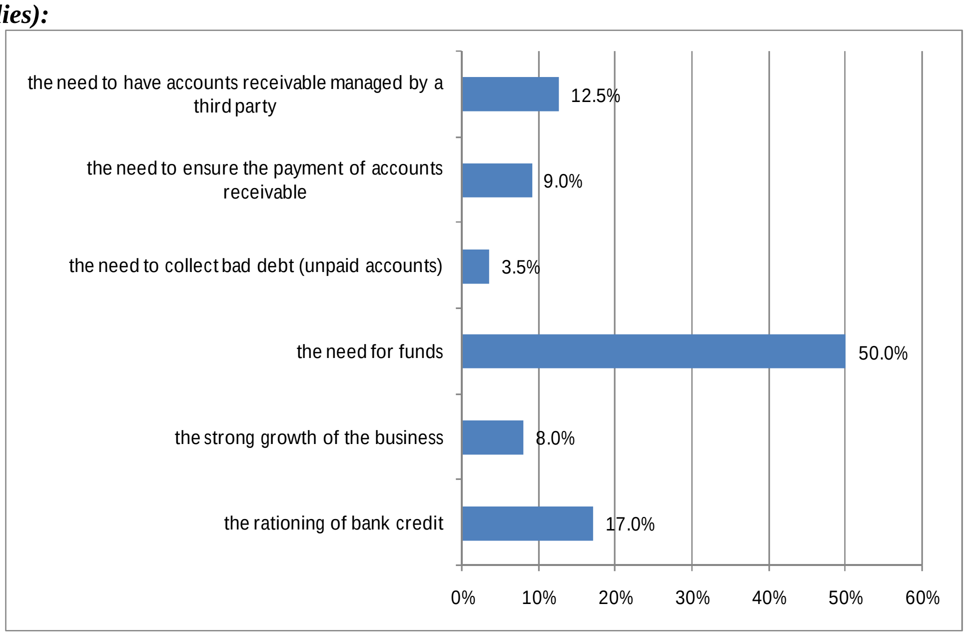


Fig. 3.25 - Has the company ever found itself in the position of the debtor and thus had to relate with the factor as well as with the original supplier? (percentage distribution of replies as per volume of sales)



In general, the companies believe that the use of factoring by their own suppliers is mainly due to liquidity needs (50% of the replies) and, to a lesser extent, to bank rationing (17%) and to the need to have their credits managed by a third party (12.5%).

Fig. 3.26 - In your opinion, the use of factoring by your suppliers is due to (percentage distribution of replies):



65% of the companies interviewed that have been the debtor within a factoring relationship have never had problems with the supplier or with the factor. Those that declare to have had problems with the supplier (18%) or with the factor (17%) regarding the accounts assigned, mostly retain to have had them resolved without any particular difficulty. In particular, debtors as larger-sized companies have more frequently had problems with the supplier (26%) or with the factor (21%) compared to the other companies; the public entities also often complain about their transferred debts, in particular about the factor (29%). Only one fifth of the debtors interviewed have benefited from factoring through the allowance of extended payment times, and for the majority of these this benefit occurred regularly (13%). The larger-sized companies are those that benefit most frequently from the extension of payment times by the factor: 18% of them declare to regularly take advantage of it.

3.7 Factoring in view of Basel II and IAS

The companies retain that, in view of Basel II, the position of their businesses towards the finance providers will be reinforced (33% of cases, in particular small-sized companies) or remain unchanged (47% of cases). The small-sized companies express more positivism regarding the expected impact of Basel II upon their positions: 44% of these expect that their position will be reinforced by the application of the new legislations.

Fig. 3.27 – The position of the company with respects to the providers of finance following Basel II (percentage distribution of replies)

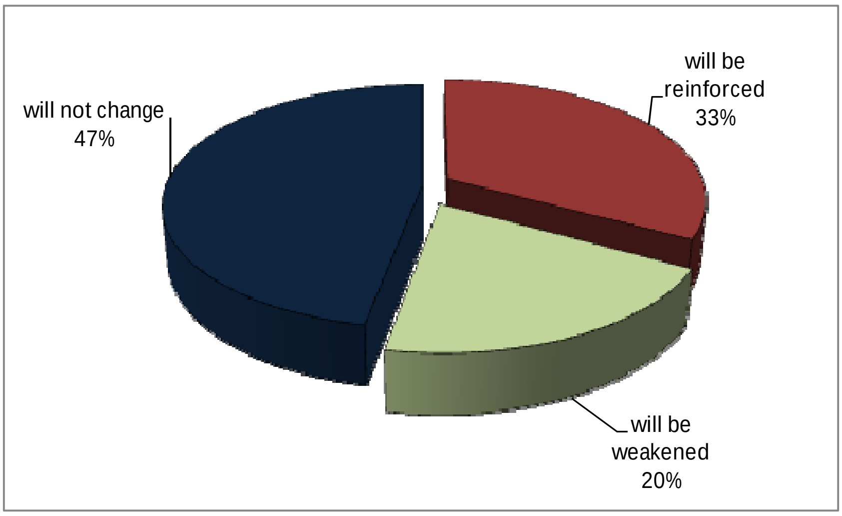
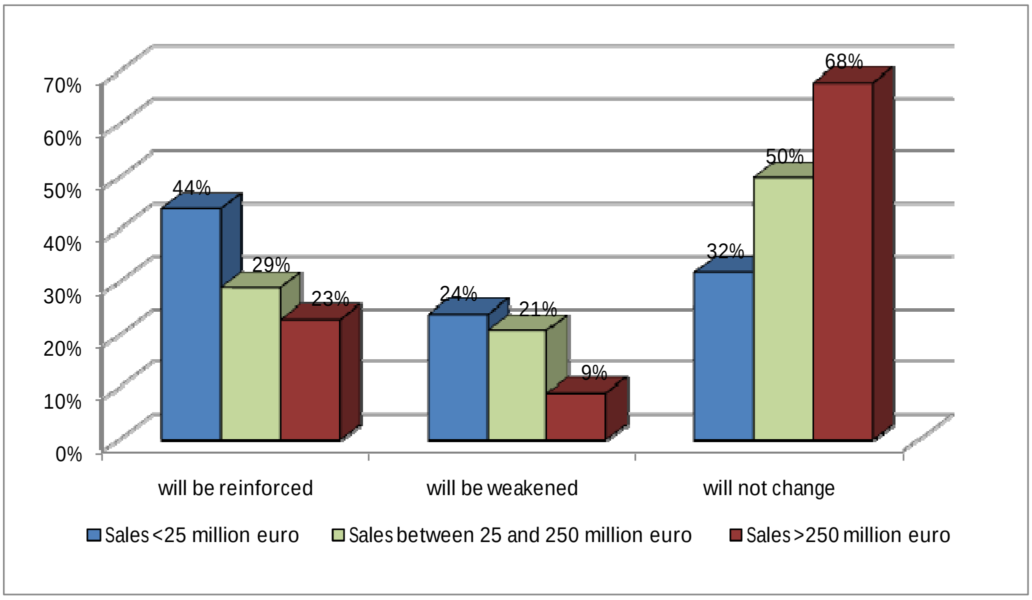


Fig. 3.28 - The position of the company with respects to the providers of finance after Basel II (percentage distribution of replies as per volume of sales)



On the basis of such prospectives, 38% of the interviewed companies declared to have employed or have the intention to employ initiatives to face the effects of Basel II: they expect to increase their level of capital (25% of replies) and to enrich the corporate information put at the disposition of the finance providers (23%), and will pay more attention to the selection of their clients. Although the amount of companies in possession of a credit rating is still relatively limited (16%), requests for their evaluation by credit rating agencies was rarely taken into consideration as a response to the effects of the new legislation (only 2% of the replies).

The initiatives to take in prospective of Basel II are different according to the characteristics of the companies interviewed: small-sized companies, those resident in Campania and those working within Industry were more likely than the others to have employed or have the intention to employ initiatives in order to face the effects of Basel II.

Table 3.15 - Has your company ever employed or does it intend to employ initiatives to face the effects of Basel II? – segmented by sales volumes, principal geographic area and economic business sector

	Yes	**No**	**Principal initiative employed or to be employed**
By sales volume:			
< 25 million euro	44%	56%	Reduction of the debt/asset ratio
Between 25 and 250 million euro	34%	66%	Enrichment of the corporate information
> 250 million euro	32%	68%	Creation and reinforcement of the financial functions of the company
By geogrpahic area:			
Lombardia	40%	60%	Enrichment of the corporate information
Lazio	17%	83%	Enrichment of the corporate information
Campania	55%	45%	Reduction of the debt/asset ratio
By economic business sector:			
Industry	46%	54%	Enrichment of the corporate information
Construction	34%	66%	Reduction of the debt/asset ratio
Services	29%	71%	Reduction of the debt/asset ratio

According to 58% of the companies, the use of factoring can improve the position of the firm in relation to the providers of finance, because it alleviates the level of debt, it improves the financial and treasury structure of the company and favours corporate development by giving impulse to the working capital. The percentage of companies that see a potential positive effect of the use of factoring upon their position with the financers is higher when only the companies from Campania are considered (75%) or only those working in the Construction sector (71%).

Fig. 3.29 - In your opinion, and in view of Basel II, the use of factoring can improve how finance providers consider your company? (percentage distribution of replies)

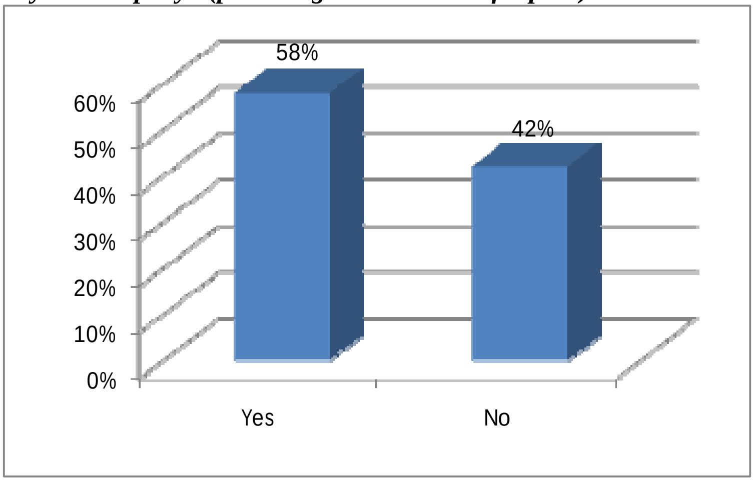
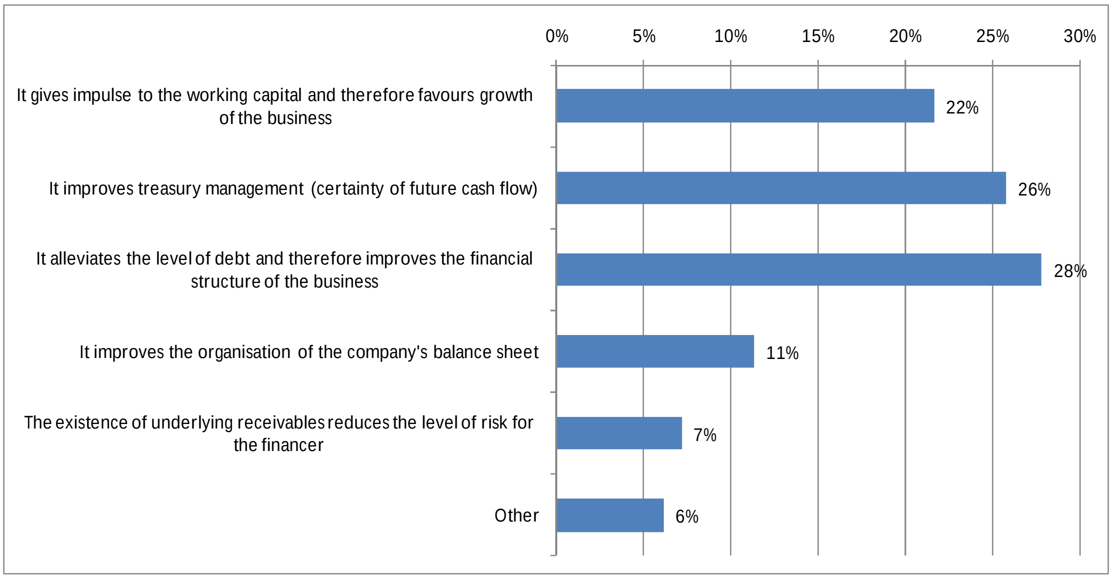
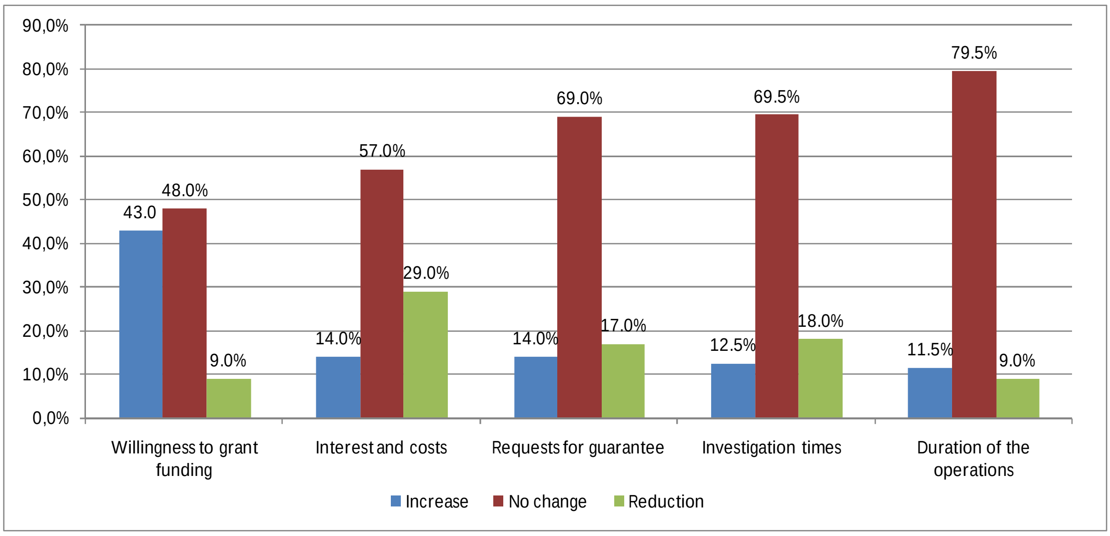


Fig. 3.30 – If yes, why? (percentage distribution of replies)



According to the opinions of the companies, the eventual reinforcement of their financial positions following the use of factoring will be mainly realised through the financial system being more willing to grant loans and, to a lesser extent, by a reduction in interest rates.

Fig. 3.31 - The influence of the use of factoring upon relationships with the financial system (percentage distribution of replies)

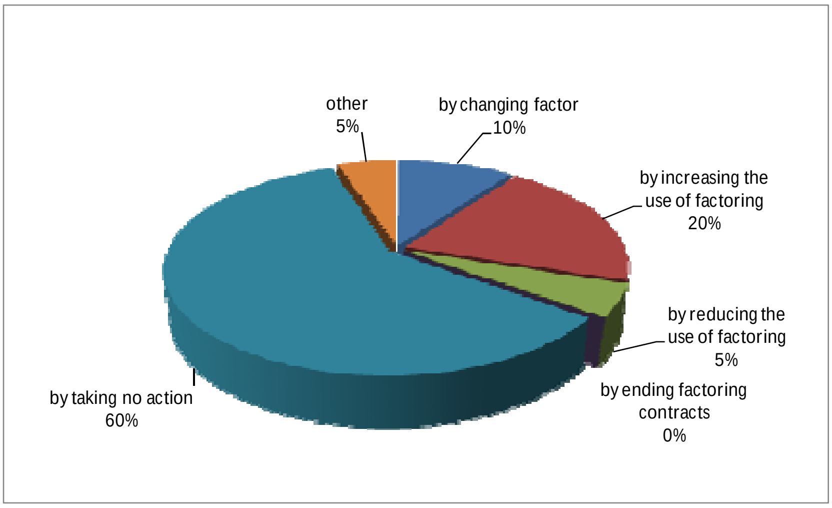


Nearly half the companies retain that in view of Basel II factoring firms have a different approach to client evaluation compared to the banks (specifically, 63% of the larger-sized companies and of those in Lombardia).

30% of the companies have observed changes in the behaviour of factoring firms (or banks), with whom they have factoring rapports, attributable to the new rules of Basel II (44% of the companies in Campania): specifically, the interviewees perceive a greater rigour in the evaluation and in the awarding of credit).

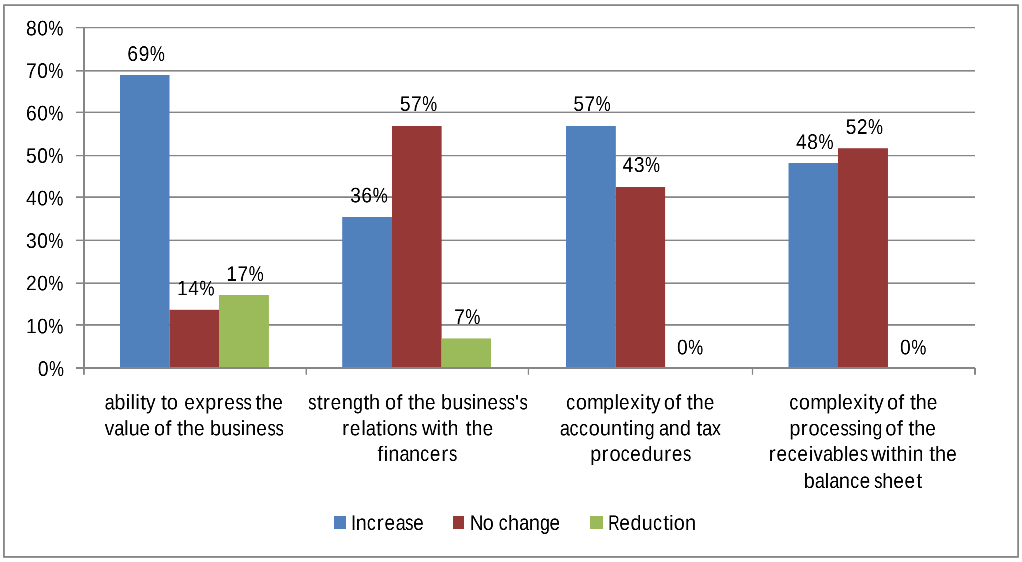
However, 60% of these companies do not intend to change their behaviour in response to the observed changes, while one company in ten intends to change from the factoring company with whom they currently have a rapport. Nevertheless, none of the interviewees intends to end their factoring rapports.

Fig. 3.32 - If you have observed changes in the behaviour of the factoring company/bank, with whom you currently have a factoring rapport, attributable to the new rules of Basel II, how do you intend to respond to such changes? (percentage distribution of replies)



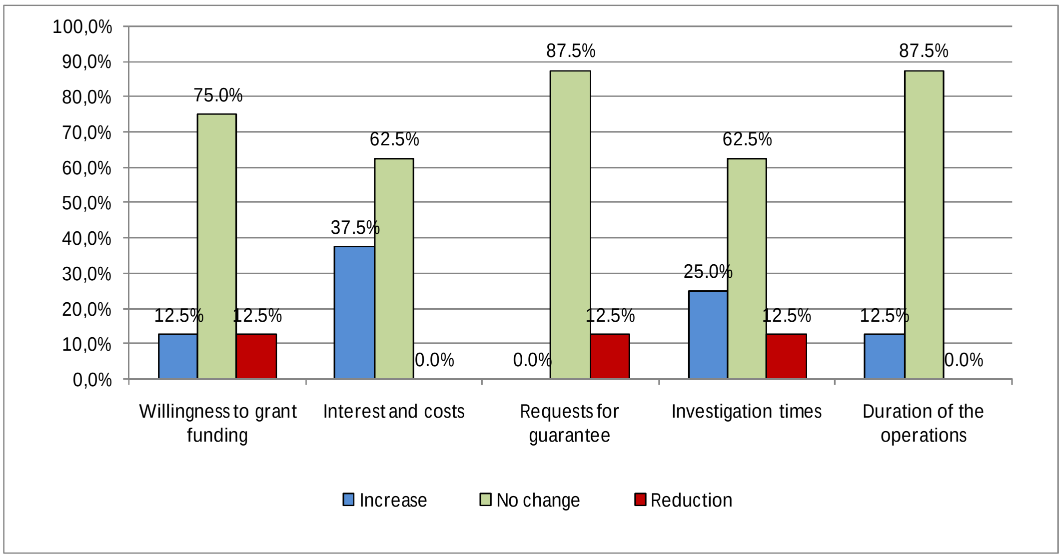
Only one third of the companies compose their balance sheets in accordance with the International Accounting Standards (IAS). The new accounting standards interest nearly half of the companies interviewed from Lombardia and more than half the large-sized companies. According to 57% of interviewees, the adoption of the IAS principles has increased the complexity of their accounting and tax procedures, but also the ability to express the value of the business (69% of companies have observed a positive effect of the new accounting standards upon the representativeness of the balance sheet).

Fig. 3.33 – Implications for the companies arising from the editing of the balance sheet according to the principles of the IAS (percentage distribution of replies)



Of these, the perception is that any changes to the attitudes of the financiers is still limited (24%) and regard the various aspects of the financial relationships (quantities, costs, time scales, guarantee) in a uniform way.

Fig. 3.34 – Influence of the adoption of the IAS principals upon the relationships with the financial system. (percentage distribution of replies)



Nevertheless, IAS compliant companies retain (in 63% of cases) that factoring can bring about advantages connected to the elimination of receivables from the balance sheet: in particular, they claim that the use of factoring allows the improvement of balance sheet ratios and the financial position of the company.

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A1. Survey questionnaire

THE DEMAND FOR FACTORING

Date of questionnaire completion: _______________

Name of company interviewed: ________________________________

Address: ________________________________

Names of personnel interviewed: ________________________________

____

Contact telephone number: ________________________________

E-Mail: ________________________________

Interviewer: ________________________________

Survey code: ________________________________

January 2008

The survey into the demand for factoring, supported by Assifact – The Italian Association of Factoring, is conducted by the Research Division of the School of Management of the Bocconi University of Milan.

The aim of this survey is to collect and analyse the opinions expressed by Italian companies about "factoring" (as a financial product) and about their relationships with the banks and other specialised financial intermediaries that carry out factoring operations.

Specifically, the survey addresses:

- The terms of use of trade credit between a company and its clients.
- Knowledge about factoring
- How factoring is used
- The administrative and financial consequences of factoring
- The debtors' points of view
- The impact of Basel II upon financial relationships and the use of factoring
- The consequences arising from the introduction of the international accounting standards (IAS) upon financial relationships and the use of factoring
- Some economic and financial characteristics of the companies surveyed.

There is no active involvement of the banks or factoring societies associated to Assifact in the survey; their input was purely limited to the supply of company profiles that were used in the initial compilation phase of the survey population from which the sample was extracted (and to whom the final composition of which remains unknown).

Moreover, SDA Bocconi ensures the participating companies that the conditions of privacy will be respected by virtue of the survey results that will only be published in a summarised form.

The companies responding to the survey will receive a reserved copy of the report following the conclusion of the research by SDA Bocconi and they will be invited to the presentation of the survey that will take place at the Bocconi University in the summer of 2008.

A. The use of trade credit

1. What does trade credit (or rather, the provision of supplier credit by a company to its clients, such that goods/services received are paid for at a later date) represent? (up to four replies allowed; indicate, when possible, an order of priority by crossing out one of the numbers to the right, where 1=more important, and 4=less important)

1.1☐	a guarantee of the product quality	1 2 3 4
1.2☐	a strategy for sales growth	1 2 3 4
1.3☐	a mode to synchronise cash flow	1 2 3 4
1.4☐	a tool for evaluating the credit worthiness of a counterparty	1 2 3 4
1.5☐	a tool for establishing an on-going relationship with the counterparty	1 2 3 4
1.6☐	a form of finance for the client	1 2 3 4
1.7☐	other____________________________	1 2 3 4
1.8☐	I don't know	

2. In your opinion, the use of trade credit is more developed within your own company than competing businesses? (one reply only)
2.1☐ I don't know 2.2☐ YES 2.3☐ NO

3. If you replied YES to the previous question, why? (up to three replies allowed; indicate, when possible, an order of priority by crossing out one of the numbers to the right, where 1=more important, and 3 less important)

3.1☐	the company has more availability capital compared to the rest of the sector	1 2 3
3.2☐	clients specifically ask for it	1 2 3
3.3☐	the company is benefiting from the contained cost of capital	1 2 3
3.4☐	trade credit forms part of the company's specific sales policy	1 2 3
3.5☐	the lack of alternatives to the goods/service offered increases the strength of the contract with the debtor	1 2 3
3.6☐	other____________________________	1 2 3
3.7☐	I don't know	

4. Regarding the domestic market, what payment terms are applied by your company for the supply of goods/services to your customers? (one reply only)
4.1☐ less than 90 days
4.2☐ between 90 and 120 days
4.3☐ between 120 and 180 days
4.4☐ more than 180 days

And for the international market? (one reply only)
4.5☐ less than 90 days
4.6☐ between 90 and 120 days
4.7☐ between 120 and 180 days
4.8☐ more than 180 days

5. What are the average payment times requested by your suppliers? (one reply only)
5.1☐ less than 90 days
5.2☐ between 90 and 120 days
5.3☐ between 120 and 180 days
5.4☐ more than 180 days

6. In your opinion, what are the main problems regarding the use of trade credit? (up to three replies allowed; indicate, when possible, an order of priority by crossing out one of the numbers to the right, where 1=more important, and 3=less important)
6.1☐ client insolvency 1 2 3
6.2☐ long delays in payment by clients 1 2 3
6.3☐ high client credit management costs 1 2 3
6.4☐ difficulty in evaluating the credit worthiness of the counterparty 1 2 3
6.5☐ other____ 1 2 3

B. The use of factoring

7. What does factoring represent? (up to four replies allowed; indicate, when possible, an order of priority by crossing out one of the numbers to the right, where 1=more important, and 4=less important)
7.1☐ an alternative form of financing to bank credit 1 2 3 4
7.2☐ a complementary form of financing to bank credit 1 2 3 4
7.3☐ a form of trade credit payment guarantee (without recourse) 1 2 3 4
7.4☐ a tool for the professional management of accounts receivable 1 2 3 4
7.5☐ a way of collecting unpaid or problematic accounts receivable 1 2 3 4
7.6☐ other____________________________ 1 2 3 4
7.7☐ I don't know

8. Factoring is useful (respond to all points, giving a score from 1 to 4; where, 1= I do not agree at all; 2= I partly agree; 3= I agree; 4= I totally agree)
8.1☐ for firms that do not qualify for bank credit 1 2 3 4
8.2☐ for firms that work with foreign markets 1 2 3 4
8.3☐ for firms that are unable to regularly collect payments 1 2 3 4
8.4☐ for small-sized firms 1 2 3 4
8.5☐ for all firms that want to assign the management and control of a portfolio of clients to a specialised company 1 2 3 4
8.6☐ I don't know

9. In your opinion, is factoring a tool intended to develop companies and render them more competitive within their appropriate sectors? (one reply only)
9.1☐ I don't know 9.2☐ YES 9.3☐ NO

10. ☐ Why? ____
____
____

11. Do you think that businesses within your sector know enough about the characteristics of factoring? (one reply only)
11.1☐ I don't know 11.2☐ YES 11.3☐ NO

12. If NO, why? (more than one reply allowed; indicate, when possible, an order of priority by crossing out one of the numbers to the right, where 1=more important, and 4=less important)
12.1☐ there is not an adequate supply of this service on the market 1 2 3 4
12.2☐ companies possess insufficient financial knowledge 1 2 3 4
12.3☐ insufficient information is provided by the banks and factoring companies 1 2 3 4
12.4☐ other________________________ 1 2 3 4

13. Does your company currently use factoring? (one reply only)
13.1☐ YES (pass to qu.19) 13.2☐ NO

14. Has your company used factoring in the past? (one reply only)
14.1☐ YES (pass to qu.16) 14.2☐ NO

15. If NO, why not? (up to three replies allowed; indicate, when possible, an order of priority by crossing out one of the numbers to the right, where 1=more important, and 3=less important)

15.1☐ I was not aware about factoring	1 2 3
15.2☐ the costs of factoring were too expensive	1 2 3
15.3☐ it was not needed	1 2 3
15.4☐ it was known that companies using factoring were not satisfied with it	1 2 3
15.5☐ we did not want to renounce direct contact with our clients	1 2 3
15.6☐ I have never received any proposals from factoring intermediaries	1 2 3
15.7☐ other____	1 2 3

16. Does your company intend to initiate a factoring relationship in the near future? (only one reply)

16.1☐ YES 16.2☐ NO

17. If YES, why? (up to three replies allowed; indicate, when possible, an order of priority by crossing out one of the numbers to the right, where 1=more important, and 3=less important)

17.1☐ high needs for liquid funds	1 2 3
17.2☐ the need to guarantee payment of receivables (without recourse)	1 2 3
17.3☐ due to the necessity to reduce trade credit management costs	1 2 3
17.4☐ in order to find out how the such operations work	1 2 3
17.5☐ other____	1 2 3

18. If NO, why? (up to three replies allowed; indicate, when possible, an order of priority by crossing out one of the numbers to the right, where 1=more important, and 3=less important)

18.1☐ I do not know about this financial tool	1 2 3
18.2☐ factoring is too expensive	1 2 3
18.3☐ I am not aware of any need to do so	1 2 3
18.4☐ I know that who uses it is not satisfied	1 2 3
18.5☐ we do not want to renounce direct contact with our clients	1 2 3
18.6☐ other____	1 2 3

If you answered NO to question 14, pass directly to Section C, question 32; otherwise continue onto question 19.

19. If your company currently uses or has used factoring in the past, how is (or was) its application configured? (up to four replies allowed):

19.1☐ occasional (specify the number of times it was used in the year 2007 ___________)
19.2☐ periodical
19.3☐ exclusive
19.4☐ non exclusive
19.5☐ on individual accounts
19.6☐ on a proportion of accounts receivable (indicate the average %, even approximately, of the receivables assigned in 2007 ______)
19.7☐ on all accounts receivable

20. If your company is (or was) a client of a factoring company, for how long have you been using this tool? (one reply only)

20.1☐ 1-3 years
20.2☐ 3-5 years
20.3☐ 5-10 years
20.4☐ more than 10 years
20.5☐ since the company's start-up

21. How many factoring companies have you (contemporaneously) had business relationships with? (one reply only)
21.1☐ 1
21.2☐ between 2 and 4
21.3☐ more than 4

22. Have you ever changed the factoring company(-ies)/bank(s) with whom you have dealt with? (one reply only)
22.1☐ YES, I have already changed factoring company/bank ________times
22.2☐ NO (pass to qu.24)

23. If YES, why did the change come about? (one reply only)
23.1☐ I looked for better conditions with other factors
23.2☐ I was contacted by other factors that proposed better conditions

24. Your decision to use factoring was due to (respond to all points; indicate the relative importance by crossing out one of the numbers to the right, where: 1=high level of importance; 2=medium-high level of importance; 3=medium-low level of importance; 4=low level of importance):

	Importance
24.1☐ the rationing of bank credit	1 2 3 4
24.2☐ the strong growth of the business	1 2 3 4
24.3☐ the need for funds	1 2 3 4
24.4☐ the need to collect bad debt (unpaid accounts)	1 2 3 4
24.5☐ the need to ensure the payment of accounts receivable	1 2 3 4
24.6☐ the need to have accounts receivable managed by a third party	1 2 3 4

25. How did your company first learn about factoring? (one reply only)
25.1☐ through the bank
25.2☐ through the press
25.3☐ through other companies that already use this tool
25.4☐ through direct contact with factoring companies
25.5☐ other (please specify__________)

26. How satisfied are (were) you with your current (past) factoring experience(s) (one reply only):
26.1☐ poor
26.2☐ sufficient
26.3☐ good
26.4☐ excellent

27. Irrespective of your reply to qu.26, indicate the principal elements of dissatisfaction regarding your experiences(s) with factoring (up to six replies allowed; indicate the relative importance of your reply by crossing out one of the numbers to the right, where: 1=very important; 4= little importance)

27.1☐ poor transparency of contract conditions 1 2 3 4
27.2☐ insufficiencies in management services (reporting, receivables paid, etc.) 1 2 3 4
27.3☐ inadequacies in the payment guarantee service for accounts receivable (non-recourse factoring) 1 2 3 4
27.4☐ low percentage of receivables advanced 1 2 3 4
27.5☐ slow payment times of advances 1 2 3 4
27.6☐ only some of the company's debtors accepted 1 2 3 4
27.7☐ higher costs compared to other forms of business finance 1 2 3 4
27.8☐ the company's clients are unwilling the pay the factor 1 2 3 4
27.9☐ the company's relationships with clients deteriorate 1 2 3 4
27.10☐ no significant savings are made on trade credit management costs 1 2 3 4
27.11☐ our contact at the factoring company is not attentive to our business needs 1 2 3 4
27.12☐ the rate of information exchange is not fast enough 1 2 3 4
27.13☐ other (please specify)______________________________ 1 2 3 4

28. Irrespective of your reply to qu.26, indicate the principal elements of satisfaction regarding your experience(s) with factoring (up to six replies allowed; indicate the relative importance of your reply by crossing out one of the numbers to the right, where: 1=very important; 4= little importance)

28.1☐ the capability of the factor to manage accounts receivable well 1 2 3 4
28.2☐ the factor guarantees payment of the company's receivables (without recourse) 1 2 3 4
28.3☐ the speed and certainty of the supply times by the factor 1 2 3 4
28.4☐ acceptance of entire portfolios of clients by the factor 1 2 3 4
28.5☐ automatically finances the growth of sales 1 2 3 4
28.6☐ reduced costs for the in-house management of accounts receivable 1 2 3 4
28.7☐ moderate costs 1 2 3 4
28.8☐ improvement of the corporate information system 1 2 3 4
28.9☐ the shortening of payment times by the company's clients 1 2 3 4
28.10☐ improved control over unpaid accounts receivable 1 2 3 4
28.11☐ the streamlining of sales processes, avoiding internal investigations 1 2 3 4
28.12☐ other (please specify)____________________________ 1 2 3 4

29. if your company has stopped the use factoring, indicate the main reasons why (up to six replies allowed; indicate the relative importance of your reply by crossing out one of the numbers to the right, where: 1=very important; 4= not very important)

29.1☐ poor transparency of contract conditions 1 2 3 4
29.2☐ insufficiencies in management services (reporting, receivables paid, etc.) 1 2 3 4
29.3☐ deficiencies in factor's payment guarantee service (non-recourse factoring) 1 2 3 4
29.4☐ low percentage of receivables advanced 1 2 3 4
29.5☐ slow payment times of advances 1 2 3 4
29.6☐ only some of the company's debtors accepted 1 2 3 4
29.7☐ higher costs compared to other forms of business finance 1 2 3 4
29.8☐ the company's clients were unwilling the pay the factor 1 2 3 4
29.9☐ the company's relationships with clients have deteriorated 1 2 3 4
29.10☐ no significant savings were made on trade credit management costs 1 2 3 4
29.11☐ inadequate rates of information exchange were recorded 1 2 3 4
29.12☐ our contact at the factoring company was not attentive to our business needs 1 2 3 4
29.13☐ other (please specify)_____________________________ 1 2 3 4

30. Do you think it will be beneficial to continue your use of factoring in the future? (one reply only)
30.1☐ YES 30.2☐ NO
30.3☐ Why?________________________

31. How are (or were) your assigned accounts receivable distributed (approximate %) between:
31.1☐ domestic factoring ________
31.2☐ factoring on importations ________
31.3☐ factoring on exportations ________
Total factoring operations 100%

31.4☐ non-recourse factoring (includes bad-debt compensation) ________
31.5☐ recourse factoring (excludes bad-debt compensation) ________
Total factoring operations 100%

31.6 ☐ the amount of non-notification factoring (i.e. not informing the debtors about the assigning of their invoices to the factor) is ____% of the total accounts transferred.

C. Administrative and financial aspects of factoring

32. In your opinion, factoring (one reply only):
32.1☐ has similar costs to bank credit
32.2☐ costs less than bank credit
32.3☐ costs more than bank credit
32.4☐ I have no opinion on this matter

33. Because (one reply only):
33.1☐ it is a similar tool to bank credit
33.2☐ it is a more simple service compared to bank finance
33.3☐ it is a more complex and comprehensive service compared to bank credit
33.4☐ factoring companies are more used to serving businesses in financial difficulty
33.5☐ it reflects the contractual standard practice of the financial markets
33.6☐ I don’t know

34. Do you think that the cost of factoring is comparable with (one reply only):
34.1☐ the cost of bank credit
34.2☐ the cost of supplier credit
34.3☐ the average cost of financing and management costs for trade credit
34.4☐ I don’t know

35. In your opinion, how could companies like yours be encouraged to use factoring? (more than one reply allowed, where 1= very important; a 4= not very important)
35.1☐ by improving the quality of the factor’s accounts receivable management service 1 2 3 4
35.2☐ by increasing the guarantee on payments by debtors 1 2 3 4
35.3☐ by supplying higher levels of finance 1 2 3 4
35.4☐ by reducing operational costs 1 2 3 4
35.5☐ by accepting a larger number of debtors 1 2 3 4
35.6☐ by performing promotional activities 1 2 3 4
35.7☐ other (please specify______________________________) 1 2 3 4

If your company has never used factoring, pass directly to Section D, question 47.

36. Through the use of factoring, has your company ever considered/achieved the reduction/elimination of in-house trade credit management? (one reply only)
36.1☐ YES 36.2☐ NO (pass to qu.38)

36.3 If YES, what specific activities were eliminated/reduced?
____
____
____

37. If YES, why? (one reply only)
37.1☐ factoring companies are more professional than in-house employees in the management of accounts receivable
37.2☐ internal management costs are significantly reduced
37.3☐ the company is able to concentrate on sales
37.4☐ other (please specify__________________________________)

38. If NO, why? (one reply only)
38.1☐ corporate policy
38.2☐ the services offered by the factor are inadequate
38.3☐ the internal costs of trade credit management were not reduced
38.4☐ other (please specify___________________________________)

39. Has your company ever experienced problems with its clients once they became informed about their transfer to a factoring company? (one reply only)
39.1☐ NO
39.2☐ YES (please indicate the type of problem experienced _______________________________)

40. From the financial point of view, has factoring allowed your company (one reply only):
40.1☐ to resolve chronic needs for funding
40.2☐ to resolve temporary needs of funding
40.3☐ to optimise payment collection planning
40.4☐ to facilitate the growth of sales
40.5☐ other

41. How are the funds that derive from the assignment of a portfolio of receivables to a factoring company used? (one reply only)
41.1☐ for the payment of debts (for example, to banks and/or suppliers)
41.2☐ to finance growth in sales
41.3☐ for the investment in securities and other profitable activities
41.4☐ other (please specify______________________________)

42. What effects has factoring had upon client payment times? (one reply only)
42.1☐ clients pay less quickly
42.2☐ average payment times have remained unchanged
42.3☐ clients pay more quickly
42.4☐ no relationship exists between client payment times and the use of factoring
42.5☐ I don’t know

43. What effects has factoring had upon the regularity of client payments? (one reply only)
43.1☐ clients pay with less regularity
43.2☐ clients pay with the same regularity
43.3☐ clients pay with improved regularity
43.4☐ no relationship exists between the regularity of payments and the use of factoring
43.5☐ I don’t know

44. What effects has factoring had upon the level of the company's unpaid receivables? (one reply only)
44.1☐ increased levels of unpaid debt
44.2☐ the same levels of unpaid debt
44.3☐ reduced levels of unpaid debt
44.4☐ no relationship exists between the trends of unpaid debt and the use of factoring.
44.5☐ I don't know

45. What effects has factoring had upon the costs of trade credit management? (one reply only)
45.1☐ total costs have increased
45.2☐ total costs have remained unchanged
45.3☐ total costs have reduced
45.4☐ I don't know

46. If, in the previous question, you answered that costs have diminished, the amount saved in in-house management costs of trade credit, measured in terms of personnel expenditure, can be compared approximately with (one reply only):
46.1☐ ¼ of the cost of an administrative employee
46.2☐ ½ of the cost of an administrative employee
46.3☐ ¾ of the cost of an administrative employee
46.4☐ the same as the cost of an administrative employee
46.5☐ more than the cost of an administrative employee (please specify__________)
46.6☐ a significant cost, but it is difficult to estimate its extent

D. Factoring from the point of view of the debtors

47. In your opinion, the debtors consider the assignment of their accounts to the factor as (one reply only):
47.1☐ a normal fact of business management
47.2☐ an unpleasant event that can result in contact with the supplier being lost
47.3☐ a sign that the transferring supplier is in financial difficulty
47.4☐ a sign that the transferring supplier is attentive in the management of its receivable and cash-flow forecasting
47.5☐ other (please specify________________________________)

48. Has your company ever found itself in the position of the "debtor" and had to relate therefore with the factor as well as with the original supplier? (one reply only)
48.1☐ no, never (pass to section E, qu.53)
48.2☐ yes, but only once
48.3☐ sometimes, but only occasionally
48.4☐ yes, regularly

49. When your company was in the position of the "debtor", did you benefit from the factor allowing an extended deferment of payment? (one reply only)
49.1☐ no, never
49.2☐ yes, but only once
49.3☐ sometimes, but only occasionally
49.4☐ yes, regularly
49.5 Approximately, what was the average extension granted? _____ days

50. In your opinion, the use of factoring by your suppliers was due to (more than one reply allowed, where 1=high importance; 2=medium-high importance; 3=medium-low importance, 4=low importance):

	Importance
50.1☐ the rationing of bank credit	1 2 3 4
50.2☐ strong business growth	1 2 3 4
50.3☐ liquid fund requirements	1 2 3 4
50.4☐ the need to recuperate unpaid accounts receivable	1 2 3 4
50.5☐ the need to ensure the payment of accounts receivable	1 2 3 4
50.6☐ the need to have accounts receivable managed by a third party	1 2 3 4

51. Has your company, once "transferred" to a bank/factoring company, ever experienced problems with the factor or the original supplier over the transferred payables? (one reply only)
51.1☐ NO (pass to Section E, qu.53)
51.2☐ YES, with the supplier (please indicate the type of problem)
____
51.3☐ YES, with the factor (please indicate the type of problem)
____

52. If your reply to qu.51 was YES, please also specify how the problems were resolved
____
____
____

E. Factoring in view of Basel II

53. In your opinion, and in view of Basel II, the position of your company with respects to the providers of finance (one reply only):
53.1☐ will be reinforced
53.2☐ will be weakened
53.3☐ will not change

54. Has your company ever employed or has the intension to employ initiatives to face the effects of Basel II (one reply only)
54.1☐ YES
54.2☐ NO

55. If your reply to qu.54 was YES, please indicate which from the following (up to 3 replies allowed; indicate, where possible an order of priority by crossing out one of the numbers to the right, where 1=more important, to 3=less important):

55.1☐	enrichment of the corporate information	1 2 3
55.2☐	creation and reinforcement of the financial functions of the business	1 2 3
55.3☐	the increased use of external consultants	1 2 3
55.4☐	request for evaluation by rating agencies	1 2 3
55.5☐	reduction of the debt/asset ratio	1 2 3
55.6☐	paying greater attention to the selection of clients	1 2 3
55.7☐	Other (please specify):	1 2 3

____

56. In your opinion, and in view of Basel II, can the use of factoring improve how finance providers consider your company? (one reply only)
56.1☐ YES (pass to qu.57)
56.2☐ NO (pass to qu.58)

57. If YES, why (more than one reply allowed, where possible indicate the order of priority)?
57.1☐ It gives impulse to the working capital and therefore favours growth of the business
57.2☐ It improves treasury management (certainty of future cash flow)
57.3☐ It alleviates the level of debt and therefore improves the financial structure of the business
57.4☐ It improves the organisation of the company's balance sheet
57.5☐ The existence of underlying receivables reduces the level of risk for the financer
57.6☐ Other (please specify):

____

58. In the context of Basel II, indicate which, in your opinion, are the elements of the financial system that can be influenced by the use of factoring and how (respond to all parts, where 1 = an increase, 2 = no change, 3 = a reduction):

58.1	Willingness to grant funding and/or ensure guarantee accounts receivable	1	2	3
58.2	Interest and costs	1	2	3
58.3	Requests for guarantee	1	2	3
58.4	Investigation times	1	2	3
58.5	Duration of the operations	1	2	3
58.6	Other (please specify):			

____

For those who have never used or stopped to use factoring pass to Section F, question 63; for those who currently use factoring, continue onto question 59.

59. Does your company understand about the differences between the approaches in evaluation for bank funding compared to factoring? (one reply only)
59.1☐ YES
59.2☐ NO

60. Has your company observed changes in the behaviour of the factoring company/bank attributable to the new rules of Basel II (in relation to the existing factoring contacts)? (one reply only)
60.1☐ YES
60.2☐ NO (pass to Section F, qu.63)

61. What changes? (describe briefly)

____

____

62. If you replied YES to question 60, indicate how your company intends to respond to such changes (one reply only):
62.1☐ by changing factor
62.2☐ by increasing the use of factoring
62.3☐ by reducing the use of factoring
62.4☐ by ending factoring contracts
62.5☐ by taking no action
62.6☐ Other (please specify):
____

F. Factoring in view of the IAS

63. Must your company (or has it chosen to) recompile the balance sheets according to the principles of the IAS? (one reply only)
63.1☐ YES 63.2☐ NO (pass to Section G, qu.68)

64. What are the principle implications for your company that arise from of the editing of the balance sheet according to the international accounting standards (IAS), on the: (respond to all parts, where 1=an increase, 2=no change, 3=a reduction)

64.1 ability to express the value of the business	1	2	3
64.2 strength of the company's relations with the financers	1	2	3
64.3 complexity of the accounting and fiscal procedures	1	2	3
64.4 complexity of the processing of the receivables within the balance sheet	1	2	3

65. Has your company observed changes in the behaviour of the banks and the intermediary finance providers with whom you have existing funding relations that, in your opinion, are directly attributable to the new accounting standards? (one reply only)
65.1☐ YES 65.2☐ NO

66. If you replied YES to the previous question, indicate which elements of the relationships with the finance providers (including the banks) become, in your opinion, influenced by the application of the international accounting standards and in what way (respond to all parts, where 1=an increase, 2=no change, 3=a reduction):

66.1 Willingness to grant funding	1	2	3
66.2 Interest and costs	1	2	3
66.3 Requests for guarantee	1	2	3
66.4 Investigation times	1	2	3
66.5 Duration of the operations	1	2	3

66.6 Other (please specify):

____

67. In your opinion and in light of the treatment of IAS, the use of factoring (that can bring about the elimination of accounts receivable from the balance sheet) can bring about benefits for your company regarding its position towards the finance providers (including the banks)? (one reply only)

67.1☐ YES 67.2☐ NO

67.3 If YES, which?

____

G. Characteristics of the company and trade credit management strategies (unless requested otherwise, please report on data referring to preceding financial year).

68. Business sector: ______________________________

69. Year of establishment__________

70. Legal status (one reply only):
70.1☐ sole trader
70.2☐ partnership
70.3☐ limited company/corporation
70.4☐ cooperative

71. Number of employees: ________

72. Annual sales achieved in the last three years:
72.1 2005 €.__________
72.2 2006 €.__________
72.3 2007 €.__________

73. Geographical distribution of sales (in %):
73.1 Italy _______%
73.1.1 North _______%
73.1.2 Central _______%
73.1.3 South and Islands _______%

73.2 Foreign sales _______%
73.2.1 Indicate the three principal countries
____
____
____

Total 100 %

74. Usually, the trend in sales is (one reply only):
74.1☐ essentially stable throughout the year
74.2☐ seasonal

75. What ratio between immediate and deferred payments does your company grant? (Approximately) _______%

76. Does your company use discount policies to encourage immediate payment?
76.1☐ YES, we apply a discount of ____% per immediate payment
76.2☐ NO

77. Personnel, on average, involved in the management of trade credit (man days per year)
77.1☐ responsible for administration and finance: man days ______
77.2☐ responsible for sales: man days _______

78. Do you know what the annual costs to your company are for the management of accounts receivable with in-house personnel and IT support? (one reply only)
78.1☐ less than 1% of annual sales
78.2☐ between 1 and 3% of annual sales
78.3☐ between 3 and 6% of annual sales
78.4☐ more than 6% of annual sales
78.5☐ I don’t know

79. Has your company ever used insurance companies to guarantee against client insolvency? (one reply only)
79.1☐ YES 79.2☐ NO

80. If YES, insured receivables were owed by:
80.1☐ foreign clients (%_____)
80.2☐ Italian clients (%_____)

81. Indicate which of the following insurance companies have been used (more than one reply allowed):
81.1☐ SACE 81.2☐ Euler-SIAC 81.4☐ Coface 81.5☐ Atradius
81.6☐ Other (please specify__________________)

82. Economic-financial characteristics of the company. Key balance sheet ratio values:

$$82.1 \frac{debts}{liabilities + net\_capital} \% =$$

$$82.2 \frac{operating\_income}{invested\_capital} \% =$$

$$82.3 \frac{cash + receivables}{current\_liabilities} \% =$$

83. Is your company currently in possession of a credit rating status issued by a specialised agency? (one reply only)
83.1☐ YES
83.2☐ NO

If YES, what is the rating?
83.3 ____

Which agency issued you the rating?
83.4 ________________________

84. How many banks do you currently have financial (banking) relationships with? (one reply only):
84.1☐ 1 84.2☐ 2-5 84.3☐ 5-10 84.4 ☐ more than 10

85. How would you rate the average level of satisfaction of your relationship(s) with the bank(s) (one reply only):
85.1☐ poor 85.2☐ sufficient 85.3☐ good 85.4☐ excellent

86. How would you judge your rapports with the banks compared to your relationships with factoring companies? (one reply only)
86.1☐ decidedly worse (i.e. our relationships with factoring companies are better)
86.2☐ a little bit worse
86.3☐ similar
86.4☐ a little bit better
86.5☐ decidedly better (i.e. our relationships with the banks are better)

87. Other comments and observations
____
____
____

Thank you for your collaboration

A2. General results of the survey[6]

A. The use of trade credit

1. What does trade credit represent? (percentage distribution of replies)

a guarantee of the product quality	7%
a strategy for sales growth	19%
a way to synchronise cash flow	19%
a tool for evaluating the credit worthiness of a counterparty	10%
a tool for establishing an on-going relationship with the counterparty	15%
a form of client finance	25%
other	4%
I don't know	1%

2. In your opinion, the use of trade credit is more developed within your own company than competing businesses? (percentage distribution of replies)

I don't know	14%
Yes	20%
No	66%

3. If you replied YES to the previous question, why? (percentage distribution of replies)

the company has more availability capital compared to the rest of the sector	6.5%
clients specifically ask for it	27.0%
the company is benefiting from the contained cost of capital	6.5%
trade credit forms part of the company's specific sales policy	37.0%
the lack of alternatives to the goods/service offered increases the strength of the contract with the debtor	3.0%
other	10.0%
I don't know	10.0%

6 The results presented in this appendix do not regard the "open" questions and replies of "Section G – characteristics of the business" regarding the profile particulars and financial characteristics of the businesses interviewed.

4. Regarding the domestic market, what payment terms are applied by your company for the supply of goods/services to your customers? (percentage distribution of replies)

less than 90 days	41%
between 90 and 120 days	39%
between 120 and 180 days	10%
more than 180 days	10%
and for the international market?	
less than 90 days	74%
between 90 and 120 days	17%
between 120 and 180 days	7%
more than 180 days	2%

5. What are the average payment times requested by your suppliers? (percentage distribution of replies)

less than 90 days	60%
between 90 and 120 days	30%
between 120 and 180 days	6%
more than 180 days	4%

6. In your opinion, what are the main problems regarding the use of trade credit? (percentage distribution of replies)

client insolvency	39%
long delays in payment by clients	18%
high client credit management costs	22%
difficulty in evaluating the credit worthiness of the counterparty	17%
other	4%

B. The use of factoring

7. What does factoring represent? (percentage distribution of replies)

an alternative form of financing to bank credit	16%
a complementary form of financing to bank credit	26%
a form of trade credit payment guarantee (without recourse)	25%
a tool for the professional management of accounts receivable	19%
a way of collecting unpaid or problematic receivables	7%
other	6%
I don’t know	1%

8. Factoring is useful (% of companies in agreement)

for firms that do not qualify for bank credit	51%
for firms that work with foreign markets	29%
for firms that are unable to regularly collect payments	58%
for small-sized firms	42%
for all firms that want to assign the management and control of a portfolio of clients to a specialised company	53%
I don't know	3%

9. In your opinion, is factoring a tool intended to develop companies and render them more competitive within their appropriate sectors? (percentage distribution of replies)

I don't know	10%
Si	66%
No	24%

11. Do you think that businesses within your sector know enough about the characteristics of factoring? (percentage distribution of replies)

I don't know	17%
Yes	44%
No	39%

12. If no, why? (percentage distribution of replies)

there is not an adequate supply of this service on the market	4%
companies possess insufficient financial knowledge	56%
insufficient information is provided by the banks and factoring companies	27%
other	13%

13. Does your company currently use factoring? (percentage distribution of replies)

Yes	68%
No	32%

14. If no, has your company used factoring in the past? (percentage distribution of replies)

Yes	23%
No	77%

15. If no, why not? (percentage distribution of replies)

I was not aware about factoring	6%
the costs of factoring were too expensive	18%
it was not needed	26%
It was known that companies using factoring were not satisfied with it	0%
we did not want to renounce direct contact with our clients	20%
I have never received any proposals from factoring intermediaries	15%
other	15%

16. Does your company intend to initiate a factoring relationship in the near future? (percentage distribution of replies)

Yes	27%
No	73%

17. If yes, why? (percentage distribution of replies)

high needs for liquid funds	17.0%
the need to guarantee payment of receivables	33.0%
due to the necessity to reduce trade credit management costs	8.5%
in order to find out how the such operations work	8.5%
other	33.0%

18. If no, why? (percentage distribution of replies)

I do not know about this financial tool	0%
factoring is too expensive	25%
I am not aware of any need to do so	36%
I know that who uses it is not satisfied	3%
we do not want to renounce direct contact with our clients	25%
other	11%

19. If your company currently uses or has used factoring in the past, how is (or was) its application configured?:

	Percentage of all replies	
occasional	22%	Average number of times in which factoring was used in 2007: *3.17*
periodical	60%	
exclusive	31%	
non exclusive	36%	
on individual accounts	22%	
on a proportion of accounts receivable	41%	Average proportion of transferred accounts in 2007: *36.2%*
on all accounts receivable	23%	

20. If your company is (or was) a client of a factoring company, for how long have you been using this tool? (percentage distribution of replies)

1-3 years	32%
3-5 years	14%
5-10 years	23%
More than 10 years	26%
since the company's start-up	5%

21. How many factoring companies have you (contemporaneously) had business relationships with? (percentage distribution of replies)

1	45%
Between 2 and 4	41%
More than 4	14%

22. Have you ever changed the factoring company(-ies)/bank(s) with whom you have dealt with? (percentage distribution of replies)

Yes	41%	Average number of times in which you have changed factoring company/bank: *1.95*
No	89%	

23. If yes, why did the change come about? (percentage distribution of replies)

I looked for better conditions with other factors	46%
I was contacted by other factors that proposed better conditions	54%

24. Your decision to use factoring was due to (percentage distribution of replies):

the rationing of bank credit	9%
the strong growth of the business	22%
the need for funds	36%
the need to collect bad debt (unpaid accounts)	6%
the need to ensure the payment of accounts receivable	17%
the need to have accounts receivable managed by a third party	10%

25. How did your company first learn about factoring? (percentage distribution of replies)

through the bank	27%
through the press	0%
through other companies that already use this tool	7%
through direct contact with factoring companies	40%
other	26%

26. How satisfied are (were) you with your current (past) factoring experience(s) (percentage distribution of replies):

poor	3.0%
sufficient	20.5%
good	61.5%
excellent	15.0%

27. Indicate the principal elements of dissatisfaction regarding your experiences(s) with factoring (percentage distribution of replies):

poor transparency of contract conditions	5.0%
insufficiencies in management services (reporting, receivables paid, etc.)	11.0%
inadequacies in the payment guarantee service for accounts receivable (non-recourse factoring)	6.0%
low percentage of receivables advanced	6.0%
slow payment times of advances	4.0%
only some of the company's debtors accepted	13.5%
higher costs compared to other forms of business finance	16.0%
the company's clients are unwilling the pay the factor	9.0%
the company's relationships with clients deteriorate	4.0%
no significant savings are made on trade credit management costs	7.5%
our contact at the factoring company is not attentive to our business needs	4.0%
the rate of information exchange is not fast enough	6.0%
other	8.0%

28. Indicate the principal elements of satisfaction regarding your experience(s) with factoring (percentage distribution of replies):

the capability of the factor to manage accounts receivable well	10.0%
the factor guarantees payment of the company's receivables (without recourse)	13.0%
the speed and certainty of the supply times by the factor	28.0%
acceptance of entire portfolios of clients by the factor	8.0%
automatically finances the growth of sales	7.0%
reduced costs for the in-house management of accounts receivable	6.0%
moderate costs	4.5%
improvement of the corporate information system	3.0%
the shortening of payment times by the company's clients	6.0%
improved control over unpaid accounts receivable	4.5%
the streamlining of sales processes, avoiding internal investigations	3.0%
other	7.0%

29. If your company has stopped the use factoring, indicate the main reasons why (percentage distribution of replies):

poor transparency of contract conditions	0%
insufficiencies in management services (reporting, receivables paid, etc.)	0%
deficiencies in the factor's payment guarantee service (non-recourse factoring)	22%
low percentage of receivables advanced	11%
slow payment times of advances	0%
only some of the company's debtors accepted	0%
higher costs compared to other forms of business finance	22%
the company's clients were unwilling the pay the factor	0%
company's relationships with clients have deteriorated	0%
no significant savings were made on trade credit management costs	11%
inadequate rates of information exchange were recorded	0%
our contact at the factoring company was not attentive to our business needs	0%
other	34%

30. Do you think it will be beneficial to continue your use of factoring in the future? (percentage distribution of replies)

Yes	97%
No	3%

31. How are (or were) your transferred accounts receivable distributed (approximate %) between: (survey sample average)

domestic factoring	92%
factoring on importations	1%
factoring on exportations	7%
	100%
non-recourse factoring	56%
recourse factoring	44%
	100%
the amount of non-notification factoring on total transferred accounts	45%

C. Administrative and financial aspects of factoring

32. In your opinion, factoring (percentage distribution of replies):

has similar costs to bank credit	19%
costs less than bank credit	10%
costs more than bank credit	61%
I have no opinion on this matter	10%

33. Because (percentage distribution of replies):

it is a similar tool to bank credit	7%
it is a more simple service compared to bank finance	4%
it is a more complex and comprehensive service compared to bank credit	42%
factoring companies are more used to serving businesses in financial difficulty	5%
it reflects the contractual standard practice of the financial markets	25%
I don’t know	17%

34. Do you think that the cost of factoring is comparable with (percentage distribution of replies):

the cost of bank credit	33%
the cost of supplier credit	6%
the average cost of financing and management costs for trade credit	53%
I don’t know	8%

35*. In your opinion, how could companies like yours be encouraged to use factoring? *(percentage distribution of replies)

by improving the quality of the factor’s accounts receivable management service	12.0%
by increasing the guarantee on payments by debtors	9.0%
by supplying higher levels of finance	7.5%
by reducing operational costs	30.0%
by accepting a larger number of debtors	18.0%
by performing promotional activities	13.0%
other	10.5%

36. Through the use of factoring, has your company ever considered/achieved the reduction/elimination of in-house trade credit management? (percentage distribution of replies)

Yes	22%
No	78%

37. If yes, why? (percentage distribution of replies)

factoring companies are more professional than in-house employees in the management of accounts receivable	7%
internal management costs are significantly reduced	40%
the company is able to concentrate on sales	33%
other	20%

38. If no, why? (percentage distribution of replies)

corporate policy	60%
the services offered by the factor are inadequate	5%
the internal costs of trade credit management were not reduced	9%
other	26%

39. Has your company ever experienced problems with its clients once they became informed about their transfer to a factoring company? (percentage distribution of replies)

Yes	21%
No	79%

40. From the financial point of view, has factoring allowed your company (percentage distribution of replies):

to resolve chronic needs for funding	19%
to resolve temporary needs of funding	18%
to optimise payment collection planning	48%
to facilitate the growth of sales	8%
other	7%

41. How are the funds that derive from the assignment of a portfolio of receivables to a factoring company used? (percentage distribution of replies)

for the payment of debts (for example, to banks and/or suppliers)	62%
to finance growth in sales	19%
for the investment in securities and other profitable activities	1%
other	18%

42. What effects has factoring had upon client payment times? (percentage distribution of replies)

clients pay less quickly	8%
average payment times have remained unchanged	36%
clients pay more quickly	27%
no relationship exists between client payment times and the use of factoring	26%
I don't know	3%

43. What effects has factoring had upon the regularity of client payments? (percentage distribution of replies)

clients pay with less regularity	0%
clients pay with the same regularity	34%
clients pay with improved regularity	36%
no relationship exists between the regularity of payments and the use of factoring	27%
I don't know	3%

44. What effects has factoring had upon the level of the company's unpaid receivables? (percentage distribution of replies)

increased levels of unpaid debt	0.0%
the same levels of unpaid debt	20.5%
reduced levels of unpaid debt	24.5%
no relationship exists between the trends of unpaid debt and the use of factoring	48.0%
I don't know	7.0%

45. What effects has factoring had upon the costs of trade credit management? (percentage distribution of replies)

total costs have increased	48%
total costs have remained unchanged	35%
total costs have reduced	14%
I don't know	3%

46. If, in the previous question, you answered that costs have diminished, the amount saved in in-house management costs of trade credit, measured in terms of personnel expenditure, can be compared approximately with:

	percentage distribution of replies	
1/4 of the cost of an administration employee	36.5%	
1/2 of the cost of an administration employee	18.0%	
3/4 of the cost of an administration employee	0.0%	
The same cost as an administration employee	0.0%	
More than the cost of an administration employee	9.0%	Average saving estimated: 4 resources
a significant cost, but it is difficult to estimate its extent	36.5%	

D. Factoring from the point of view of the debtors

47. In your opinion, the debtors consider the reassignment of their accounts to the factor as (percentage distribution of replies):

a normal fact of business management	38%
an unpleasant event that can result in contact with the supplier being lost	31%
a sign that the transferring supplier is in financial difficulty	15%
a sign that the transferring supplier is attentive in the management of its receivable and cash-flow forecasting	11%
other	5%

48. Has your company ever found itself in the position of the "debtor" and had to relate therefore with the factor as well as with the original supplier? (percentage distribution of replies)

never	30%
only once	9%
sometimes, but only occasionally	32%
regularly	29%

49. When your company was in the position of the "debtor", did you benefit from the factor allowing an extended deferment of payment? (percentage distribution of replies)

never	80%
only once	0%
sometimes, but only occasionally	7%
regularly	13%
approximately, what was the average extension granted (in days)?	81.15

50. In your opinion, the use of factoring by your suppliers was due to (percentage distribution of replies):

the rationing of bank credit	17.0%
strong business growth	8.0%
liquid fund requirements	50.0%
the need to recuperate unpaid accounts receivable	3.5%
the need to ensure the payment of accounts receivable	9.0%
the need to have accounts receivable managed by a third party	12.5%

51. Has your company, once "transferred" to a bank/factoring company, ever experienced problems with the factor or the original supplier over the transferred payables? (percentage distribution of replies)

No	65%
Yes, with the supplier	18%
Yes, with the factor	17%

E. Factoring in view of Basel II

53. In your opinion, and in view of Basel II, the position of your company with respects to the providers of finance (percentage distribution of replies):

will be reinforced	33%
will be weakened	20%
will not change	47%

54. Has your company ever employed or has the intension to employ initiatives to face the effects of Basel II? (percentage distribution of replies)

Yes	38%
No	63%

55. If your reply was yes, please indicate which from the following (percentage distribution of replies):

enrichment of the corporate information	23%
creation and reinforcement of the financial functions of the business	16%
the increased use of external consultants	6%
request for evaluation by rating agencies	2%
reduction of the debt/asset ratio	25%
paying greater attention to the selection of clients	17%
other	11%

56. In your opinion, and in view of Basel II, can the use of factoring improve how finance providers consider your company? (percentage distribution of replies)

Yes	58%
No	42%

57. If YES, why?(percentage distribution of replies)

It gives impulse to the working capital and therefore favours growth of the business	22%
It improves treasury management (certainty of future cash flow)	26%
It alleviates the level of debt and therefore improves the financial structure of the business	28%
It improves the organisation of the company’s balance sheet	11%
The existence of underlying receivables reduces the level of risk for the financer	7%
other	6%

58. In the context of Basel II, indicate which, in your opinion, are the elements of the financial system that can be influenced by the use of factoring and how (percentage distribution of replies):

	Increase	*No change*	*Reduction*
Willingness to grant funding	43.0%	48.0%	9.0%
Interest and costs	14.0%	57.0%	29.0%
Requests for guarantee	14.0%	69.0%	17.0%
Investigation times	12.5%	69.5%	18.0%
Duration of the operations	11.5%	79.5%	9.0%
other	not available	not available	not available

59. Does your company understand about the differences between the approaches in evaluation for bank funding compared to factoring? (percentage distribution of replies)

Yes	48%
No	52%

60. Has your company observed changes in the behaviour of the factoring company/bank attributable to the new rules of Basel II (in relation to the existing factoring contacts)? (percentage distribution of replies)

Yes	30%
No	70%

62. If you replied yes to question 60, indicate how your company intends to respond to such changes (percentage distribution of replies):

by changing factor	10%
by increasing the use of factoring	20%
by reducing the use of factoring	5%
by ending factoring contracts	0%
by taking no action	60%
other	5%

F. Factoring in view of the IAS

63. Must your company (or has it chosen to) recompile the balance sheets according to the principles of the IAS? (percentage distribution of replies)

Yes	33%
No	67%

64. What are the principle implications for your company that arise from of the editing of the balance sheet according to the international accounting standards (IAS), on the (percentage distribution of replies):

	Increase	*No change*	*Reduction*
ability to express the value of the business	69%	14%	17%
strength of the company's relations with the financers	36%	57%	7%
complexity of the accounting and fiscal procedures	57%	43%	0%
complexity of the processing of the receivables within the balance sheet	48%	52%	0%

65. Has your company observed changes in the behaviour of the banks and the intermediary finance providers with whom you have existing funding relations that, in your opinion, are directly attributable to the new accounting standards? (percentage distribution of replies)

Yes	24%
No	76%

66. If you replied yes to the previous question, indicate which elements of the relationships with the finance providers (including the banks) become, in your opinion, influenced by the application of the international accounting standards and in what way (percentage distribution of replies):

	Increase	*No change*	*Reduction*
Willingness to grant funding	12.5%	75.0%	12.5%
Interest and costs	37.5%	62.5%	0.0%
Requests for guarantee	0.0%	87.5%	12.5%
Investigation times	25.0%	62.5%	12.5%
Duration of the operations	12.5%	87.5%	0.0%
other	n.d.	n.d.	n.d.

67. In your opinion and in light of the treatment of IAS, the use of factoring (that can bring about the elimination of accounts receivable from the balance sheet) can bring about benefits for your company regarding its position towards the finance providers (including the banks)? (percentage distribution of replies)

Yes	63%
No	37%

G. Characteristics of the company and trade credit management strategies

73. Geographical distribution of sales (survey sample average):

Italy	88%
North	*44%*
Central	*35%*
South and Islands	*21%*
Foreign	12%

74. Usually, the trend in sales is (percentage distribution of replies):

essentially stable throughout the year	63%
seasonal	37%

75. Approximately, what ratio between immediate and deferred payments does your company grant?

Average sample ratio	14.5%

76. Does your company use discount policies to encourage immediate payment? (percentage distribution of replies)

Yes	33%
No	67%

78. Do you know what the annual costs to your company are for the management of accounts receivable with in-house personnel and IT support? (percentage distribution of replies)

less than 1% of annual sales	60.5%
between 1 and 3% of annual sales	16.5%
between 3 and 6% of annual sales	4.5%
more than 6% of annual sales	4.5%
I don’t know	14.0%

79. Has your company ever used insurance companies to guarantee against client insolvency? (percentage distribution of replies)

Yes	25%
No	75%

80. If YES, insured receivables were owed by:

	Percentage of total replies	**Percentage insured (survey sample average)**
foreign clients	50%	67%
Italian clients	71%	84%

81*. Indicate the insurance companies used (percentage *of total replies):

SACE	27%
Euler-Siac	32%
Coface	32%
Atradius	32%
other	14%

83. Is your company currently in possession of a credit rating status issued by a specialised agency? (percentage distribution of replies)

Yes	16%
No	84%

84. How many banks do you currently have financial (banking) relationships with? (percentage distribution of replies)

1	13%
Between 2 and 4	36%
Between 5 and 10	28%
More than 10	23%

85. How would you rate the average level of satisfaction of your relationship(s) with the bank(s) (percentage distribution of replies):

poor	5.0%
sufficient	32.5%
good	55.0%
excellent	7.5%

86. How would you judge your rapports with the banks compared to your relationships with factoring companies? (percentage distribution of replies)

decidedly worse (i.e. our relationships with factoring companies are better)	1%
a little bit worse	13%
similar	68%
a little bit better	7%
decidedly better (i.e. our relationships with the banks are better)	11%

