

editorial

Factoring : the right solution for today ?

For some companies, recovery is already on the way. Others are still mired in the crisis. At times like these, however, both groups have one thing in common : a pressing need for cash.

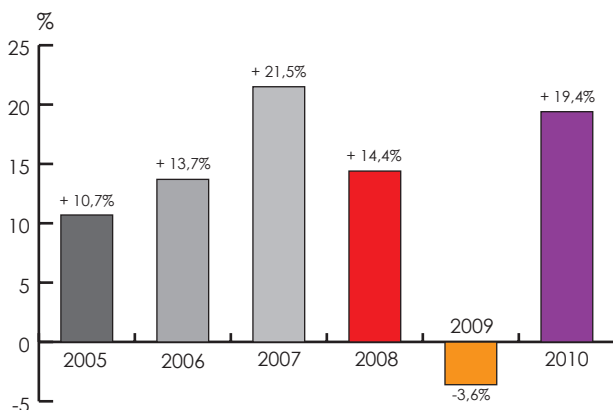
Firms emerging from the downturn need funds in order to meet new orders and grow their business. Those still struggling with a sharp drop in activity need funds to tide them over and enable them to meet their payments. Optimising receivables management is a financial resource ready to hand.

Whatever its financial position, a company has to guard against the risk of bad debts. These can prove very costly : a company working on a profit margin of 5% will need extra turnover of €200,000 to make up for a loss of €10,000.

As a result, factoring looks increasingly like the ideal solution for today's business world. And the sharp recovery in the factoring market bears out this view. After a lacklustre year in 2009, the French market is now back to the rapid growth rates of pre-crisis days. Growth last year was spectacular : +19.4%. The market grew by €25 billion in value to reach its current level of €153.2 billion.

French Factoring market growth

Source : ASF



half-year key figure

+9,6%

The percentage of new clients signing up to a factoring agreement in 2010 in France. (source ASF)

international news

USA: SMEs grappling with cash flow problems

The economic statistics are unambiguous : the US economy has emerged from recession. Yet small and medium-sized companies are finding that the recovery is still far from being firmly established.

One factor holding back recovery among American SMEs is lack of liquidity, which in turn is due to the longer payment terms customers are insisting on. The problem is further aggravated by a stagnating economy and a credit crunch.

The situation is somewhat paradoxical, however.

Many large firms have built up substantial cash reserves over the two years of recession, having done everything in their power to boost their efficiency and reduce costs. As a result, these big groups are in a better position than ever to pay their suppliers. Yet they persist in holding out for longer and longer payment terms, forcing smaller firms to finance their cash flow.

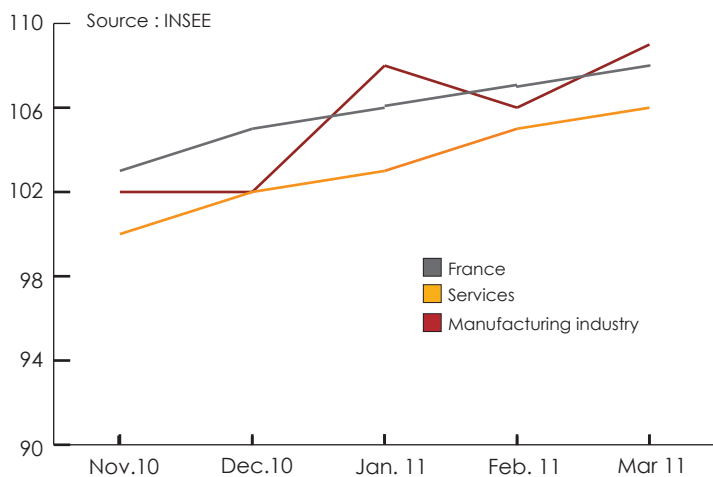
A direct consequence of this behaviour is that smaller firms are having trouble staying afloat and are struggling to grow.

To offset this lack of liquidity and banks' unwillingness to lend, America's VSEs and SMEs are increasingly turning to so-called "alternative" financing. Factoring ranks high among the solutions these firms are adopting.

french performance indicators

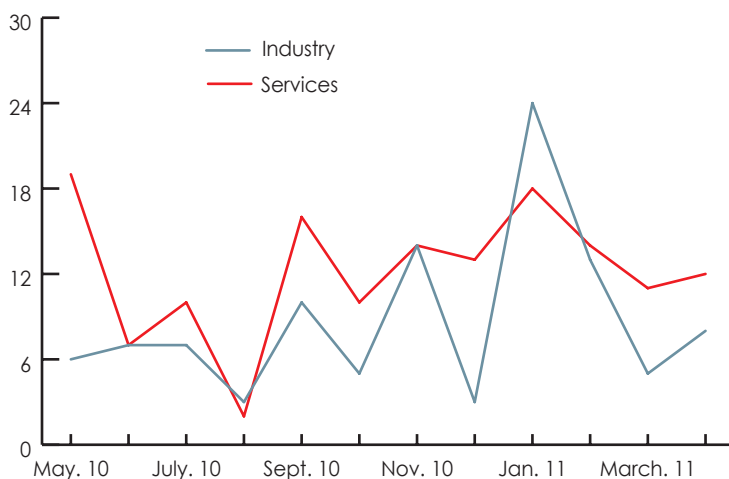
Business climate summary indicator

100 = average level over the long term



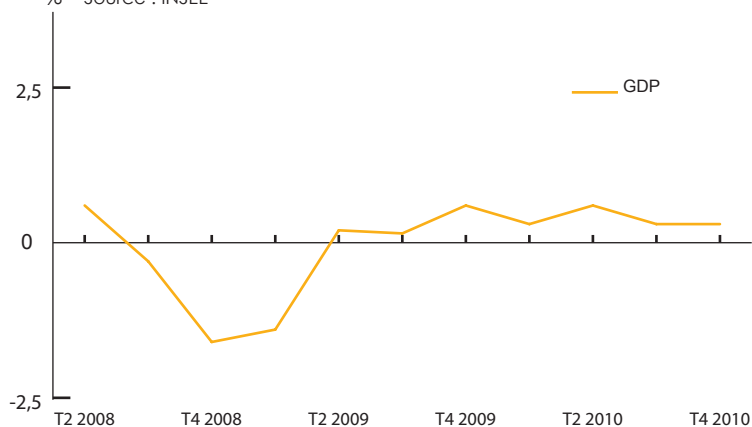
Industry/Services production

Source : BDF



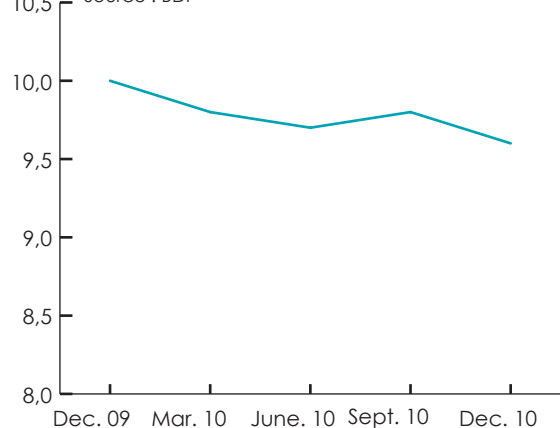
GDP growth

% Source : INSEE



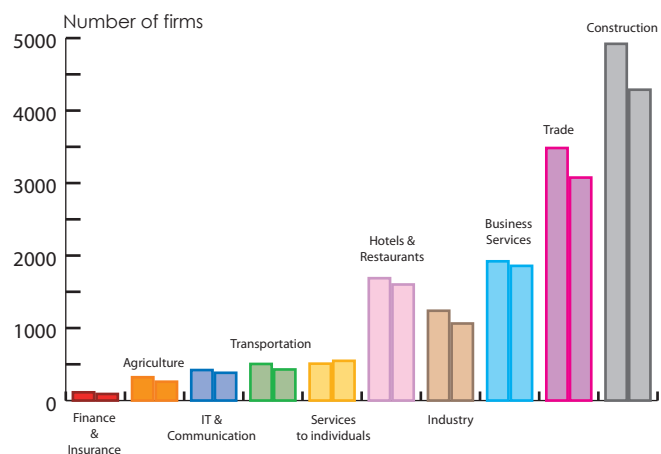
Unemployment rate (ILO standard)

% Source : BDF



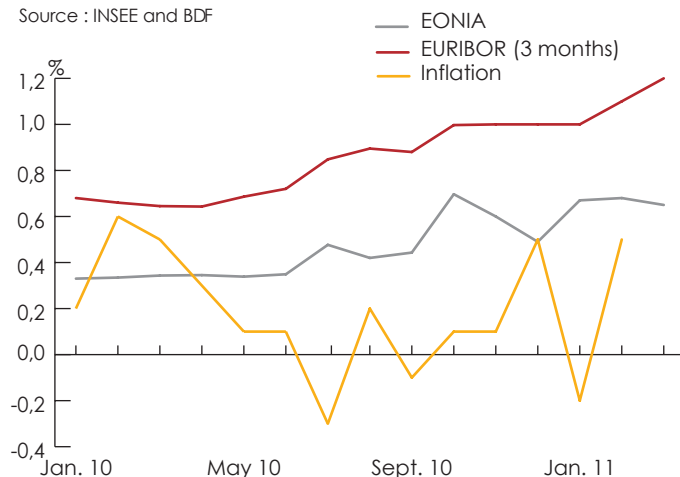
Company failures by sector (Q4 2009/Q4 2010)

Source : ALTARES



Inflation and short-term interest rates

Source : INSEE and BDF



the latest on...

The rising cost of raw materials

Prices have soared since 2010, and the trend has persisted into 2011. The underlying reason is massive increases in the cost of raw materials, an upward trend that has resumed its course after the sudden shock caused by the 2008 financial crisis.

Metal prices have rocketed (aluminium : +13%, copper: +29%), and so have ores (iron : +90%, coking coal : +55%). The price of Brent crude has increased by 49%.

For some economists, this is simply a return to the trend of recent years that was only briefly interrupted by the financial crisis.

One of the strongest indications of the problems posed by raw materials prices came when China reported its first trade deficit (\$1.02 billion) in 7 years for Q1 2011 – due in part to the higher cost of raw materials.

What are the reasons behind these increases ?

1 > Firstly, these price increases are being driven by massive demand, largely from the emerging nations. These countries, the first among them being China, are not only big producers but also big consumers of raw materials and energy. Their strong growth has sent demand soaring.

2 > In addition, production is unable to keep up with demand, whether for metals (as a result of social or political problems or lack of resources) or for agricultural products (due to adverse weather conditions in the summer of 2010).

Drought in Russia in summer 2010 sent wheat prices through the roof (+80%), for example. Prices have retreated since, but only because buyers have held back, keeping their purchases to a minimum whilst hoping for a slump in prices. This kind of behaviour risks reigniting a price spiral, since demand continues to grow and supply is as weak as ever.

3 > Speculation in commodities is also artificially inflating prices. Some economists blame the Fed's monetary policy for contributing to soaring prices. The US central bank poured liquidity into the economy with the aim of fuelling recovery. Some of this excess liquidity, however, was used by speculators to build up stocks of raw materials and thus drive up prices.

4 > Finally, precious metals offer a safe haven at a time when doubts still hang over growth prospects. The stampede by investors keen to fill their portfolios with low-risk investments forced prices upwards (the price of gold shot up by 25% over 2010, for example).

In industry, record price increases sparked fears of downgraded growth forecasts.

The latest increases raise fears for their impact on industry margins. The burning question for 2011 is how far industry will be able to pass on all or part of these increases to customers and thereby maintain margins.

Relatively weak growth and flagging customer purchasing power are not conducive to an environment in which price increases can easily be passed on. The test of strength between customers and suppliers looks like being a tense one.

Agricultural commodity prices are also soaring, with perhaps the most striking example being cotton : +156%.

To rein in these increases, the French government - current holder of this year's G20 presidency - is working with Russia on a four-part action plan to be debated at the mid-June agricultural summit :

- > transparency on raw materials stocks
- > improved cooperation
- > restriction on export limitations
- > regulation of financial markets in agricultural products

france news

France : a reindustrialising nation ?

Between 1980 and 2007, 36% of France's industrial workforce disappeared; this represents a net loss of 71,000 manufacturing jobs a year. Industry now accounts for only 14% of France's GDP, whereas it continues to play an important part in the German economy (around 30% of GDP).

The finding has not failed to capture the attention of the French authorities. Senators (members of the upper house of the French parliament) are firmly of the opinion that deindustrialisation is not inevitable and have put forward a series of measures destined to put the country back on the road to industrialisation. The measures include :

1 > Plans to create attractive training opportunities in industry. The aim is to develop a specifically French culture and expertise in this field.

2 > Encouraging innovation by redirecting the research tax credit towards the firms that need it most: SMEs and VSEs.

3 > Increasing the strategic investment fund's involvement with innovating industries.

4 > Greater access to government contracts for SMEs.

5 > Incentives for investment in industry.

6 > Creating and sustaining business sectors rooted in their local area.

7 > Creating single regional agencies to encourage and support industry start-ups.

Together, these measures should help France recover its competitive edge as compared to Germany. Across the Rhine, excellent results from industry will pave the way for higher salaries, while a pay freeze in France will make French industry more competitive.

France is thus making the right moves and working to its strengths in order to foster the renaissance of its industrial fabric.

in brief...

France attracts foreign investors

Despite the crisis, France has benefited rather well in terms of foreign direct investment, making the most of the recovery with a total of 782 new foreign investment projects over the course of 2010 (compared to 639 in 2009). That represents a 22% increase on 2009 and the best performance for 15 years.

Yet behind these results, excellent as they are, lies a reality of investments that are providing fewer jobs than before, and of disparities between regions.

Foreign investors are tending to focus on high-tech projects that create fewer new jobs (energy, recycling, etc.). So while the number of foreign investment projects increased by 22% between 2009 and 2010, the number of jobs created or protected grew by only 6%.

Investors also favoured the Ile de France, Rhône-Alpes or Aquitaine regions over the PACA or Midi-Pyrénées regions in the south.

The main reasons why France has once again found favour in the eyes of foreign investors are to be found in a series of measures taken in recent years. First and foremost, the highly attractive research tax credit has proved very popular with high-tech firms. Other measures, such as the abolition of the business tax or reduced contributions on overtime pay, have also played their part in making the country more appealing to foreign investors.

market news

Market trend: confirming

Confirming is booming in France, as many large companies adopt what they see as an innovative solution to optimising their supplier relations.

Confirming involves an agreement between the purchaser (the principal) and the factor to ensure fast, secure collection of supplier payables. The principal acts as contract getter, offering its suppliers an option for immediate payment of their invoices on preferential terms.

How does it work ?

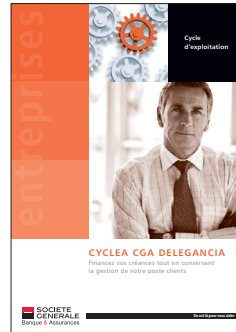
1 > The principal checks and approves invoices received from suppliers and forwards them to the factor marked "passed for payment".

2 > The factor provides the supplier with access to the list of invoices passed for payment, available on the factor's website. The supplier may then request early payment of the receivables of his choice.

3 > On receipt of the supplier's request, the factor pays the receivables selected.

4 > At maturity, the factor receives payment in full from the principal on all invoices passed for payment, at which point the factor pays any remaining invoices due to the supplier.

Launch of CGA Delegancia



Compagnie Générale d'Affacturage launches CGA Delegancia, a financing product that releases all or part of funds receivable depending on cash requirements.

At the same time, the client retains full control over customer receivables management. With CGA Delegancia, CGA gives you the power to manage and

collect your receivables. You retain full independence and autonomy in your commercial relations.

Factor syndication

Like its counterpart in the banking sector, factor syndication, which made its first appearance in France in 2006, is a means of spreading a substantial volume of receivables between a pool of factoring firms. The decision to rely on several factors will be dictated by company size, volume of sales and/or the risk involved.

Still reserved mainly for the largest firms, factor syndication also enables companies to optimise their short-term financing without giving undue preference to one of their banks over the others, and thus ensures a degree of equality of treatment as regards the firm's different banking partners.

In factor syndication, one of the factoring companies will take on the role of lead factor (known as the "agent", in banking jargon) and sole point of contact with the client. After consultation between the factors, a consensus is arrived at on the quality of the receivables being purchased and a detailed set of specifications is put in place. The next step is dividing the receivables in question between the syndicate partners. A dedicated information system is established to ensure that each factoring firm knows exactly which assets it holds.

CGA has just signed up as agent to the largest factor syndication agreement ever executed in France, with the Derichebourg group.



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