

Dealing with the downturn

Accounts not receivable

Sep 4th 2008 | SAN FRANCISCO
From *The Economist* print edition

Companies are taking longer to pay one another

AS THE world economy slows, the number of people who have fallen behind on loan and credit-card payments is soaring. But although dud consumer loans have attracted much attention, individuals are not the only ones failing to pay on time. Firms are struggling too.

A recent survey of large public companies in America conducted by REL, a consultancy, and *CFO*, a sister title of *The Economist*, highlights this trend. It shows that "days' sales outstanding" (DSO)—or the number of days it takes companies to collect money owed to them, often by other firms—hit an average of 41 in 2007, up from 39.7 in 2006. That might not seem a big increase, but the indicator has rarely risen or fallen by more than half a day a year. When America went into recession in 2001, DSO averaged 38.9.

In Europe and Asia average DSOs lie in the high 50s (credit terms tend to be easier than in America). They also rose a shade—and are likely to shoot up in 2008. On September 2nd the OECD forecast that Europe's big economies would be "broadly flat" in the second half of the year. As sales stagnate, firms will delay paying suppliers for as long as they can.

Chaos in the banking system is also causing managers to think twice about paying promptly. "The biggest issue that companies are having is that banks are curtailing credit lines," notes Lyle Wallis of the Credit Research Foundation, which studies business-to-business credit trends in America. By putting off payments to creditors, treasurers can conserve cash and thus reduce their reliance on nervous bankers.

All this puts in-house debt-collection teams in a delicate position. A hard line with delinquent debtors risks alienating customers temporarily lacking cash. But if they are too soft, their own companies may run short. Most are taking a firm approach. In Britain the number of county-court cases involving companies chasing overdue debts has risen sharply in the past year or so, according to the Credit Management Research Centre at Leeds University Business School.

To help get their money, firms are calling in specialist collection agencies soon after debts turn sour. "We are definitely getting cases earlier," says Fred Sampliner, the boss of S.S. Sampliner, a New York agency. Mr Sampliner and his fellow commercial-debt collectors are likely to be busy.

