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FGI FINANCE

Payment discipline

Interview with David DiPiero

David DiPiero, CEO and Director of FGI Finance in the United States, talks to Factorscan about how payment conditions have developed in the States over the last eighteen months, the improvements in discipline that the industry can prompt in its clients and how he expects global payments to head towards a middle ground in the coming years.

How has payment discipline fared over the last eighteen months?

We have not seen any major change in payment discipline over the last eighteen months, and this is the case across most industries. However, there has clearly been a significant slowdown in the general economy's money turn, although we are starting to see it return to normal in most industries. The most significant change in discipline was apparent in retail industries in Central and South America, who were evidently worst hit by the downturn.

Do you feel that payment discipline is generally improving globally or has there been a move towards a median of payment days?

It depends on how we define improving. I believe that over the past decade most companies have realized that their ability to grow is directly correlated to their increasing acceptance of normalised credit terms and payment days. There is always the contract term and then the actual or accepted terms. These terms vary greatly depending on industry and country and sometimes even subsets of industries. The performance on actual payment days globally had increasingly gotten better, especially due to the sharing of credit information globally. This has helped to pressure companies into conformity, not only on payment, but also into greater standardization on payment terms to a maximum of 120 days total.

Which industries/sectors have been the worst offenders in recent months?

I would say that the most significantly affected industries in terms of payment discipline were those related to the retail, real estate, construction and automotive sectors.

Payment discipline has traditionally been a weakness in certain parts of the world, but are geographical peculiarities changing and who is picking up habits from whom?

As I explained in the previous answer, each country, culture, industry and industry subset has its own accepted method of payment and payment terms. Of course the strictest markets have more influence over the slower paying ones, but as time develops, I believe that we will see greater compromise and a move towards the middle ground in terms of payment discipline.

The public sector appears to be one of the worst offenders in a number of countries when it comes to payment discipline. Is the public sector increasingly being considered/presenting itself as a client or as a debtor and what impact will greater public sector involvement have upon the industry?

It definitely is and always has been the worst offender. More often it is as a debtor. I believe that the public sector's increased involvement in the economy in the United States will make certain dealings more difficult, especially due to downgrading of credit ratings across the public sector.

'Oh, those "worst offenders"'

How can factors best work with clients and debtors to improve payment discipline?

We generally see an immediate thirty day decrease in payment time when we take on a client. There are many factors influencing this shift, but most important is a sound policy regarding extending a facility in the first place. That, coupled with proper and professional maintenance of debtor relationships and attention to sound fundamentals given the industry and market, adds huge value to clients and will in all likelihood be reflected in payment discipline.

Will improvements in payment discipline in the end be counter-productive to the development of the factoring industry?

No, factoring is not just about timing. It is often about unlocking liquidity on assets that are ineligible with other financiers. Because of the development of controls and payment processes, factors are often the best solution for simultaneously increasing efficiency in credit operations whilst increasing access to capital. These services will always be needed by growing segments of the economy, as no matter how fast payments are made there is always the continued need for efficiency and growth capital. [Nevertheless, factoring has proven itself attractive in markets where poor payment discipline exists] In addition, factoring is used to off-load risk and guarantee payment, representing a real alternative to the credit risk insurance taken up by industries like retail and apparel.