

**ANNUAL REPORT**  
2004 · 2005



**Creditreform**

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## Ladies and Gentlemen, Dear Friends of Creditreform

We entrepreneurs who represent the backbone of the German economy, the Mittelstand, are going through a period of uncertainty. Once, what we did was distinguished by individuality, continuity and autonomy. But these principles are increasingly being called into question. So what did they stand for? And do they still apply today?

For me, the concept of individuality conjures up a picture of the independent entrepreneur who assumes responsibility for his work with every fibre of his being. He is a personality, someone who not only lends his name to products and services, patents and processes, but who also exhibits leadership and vision in his commitment to his company and – not least – to the welfare of his employees.

Of course, this type of entrepreneur took an "I'm in charge" view of things. In patriarchal style, he laid down the way ahead – generally with a fortunate mixture of experience and intuition, and a very sceptical attitude towards external advisors and critics. And he was motivated more by the desire to maintain his independence than by any striving for profit.

So continuity was also important to him. Often he was succeeded by his grown-up children; his life's work no longer belonged to just one person but to a new generation. Corresponding to this continuity is the fact that such small and medium-sized enterprises are usually deeply rooted in a region and that the firm is also an important hub in the lives of the em-

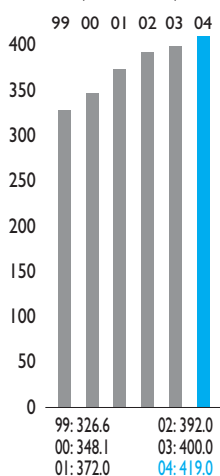
ployees, who are often proud that they "remember the old man".

What is left of all this? For Creditreform, which is itself a member of the Mittelstand – not so much in terms of such formal criteria as turnover and size of payroll, but definitely by virtue of its structure as a decentralized company with the individual offices run by independent businessmen and women – much still applies, even if changed by the passing of time. So instead of guiding principles let us talk of core competencies.

Last year we celebrated our 125th anniversary, and we have been present for almost that length of time in 130 towns and cities in Germany. Although this in itself does not represent any competency, it does form the basis for one – and that is our closeness to regional business communities and the thorough know-how this gives us. This is something which benefits us in our main fields of business, commercial reports and debt collection, but also in the still young field of factoring. Assessing credit-standing involves more than just deriving a few key ratios from a published balance-sheet, and debt collection means more than just sending out reminders. Continuity – for Creditreform that means long-established deep roots in local business.

A further characteristic of Creditreform as a member of the Mittelstand is that we have no outside shareholders. That guarantees our independence. And something else: the managing director of every

**Creditreform turnover**  
(in million Euro)





Thomas Glatzel, President and Chairman of the Joint board of Verband der Vereine Creditreform

Verein Creditreform assumes personal, unlimited liability. That is genuine responsibility. In turn, responsibility based on real business independence creates trust. We need this trust, because we operate in a sensitive area. Our members must be able to rely on us when we assess the credit-worthiness of a potential business partner or have to collect overdue money from someone whom a member wants to keep as a customer.

Our closeness to our members and clients on the one hand and our independence on the other generate progress in developing new services. Our aim always is to recognize new requirements in good time and react flexibly to change. As early as the 1980s, for instance, we introduced an electronic database for our business information and we opened up data stocks for our clients for dialogue marketing and sales. That brings us to the more recent developments outlined in this annual report. They range from rating and volume debt collection to our new affiliations database.

For Creditreform, the distinctive principles and core competences of the Mittelstand – individual personal mana-

gement, continuous on-the-spot presence and economic autonomy – are far from being by-gones; they are still very much alive. Just how appropriate they still are is reflected by the positive business development we registered once again last year.

The turnover of Creditreform in Germany rose by 4.75 percent in FY 2004, from 400 million euros to 419 million euros. Together with our activities in Central and Eastern Europe, the turnover of Creditreform International totalled 456 million euros. Compared with 2003 (435 million euros), this represents an increase of 4,8 percent.

Our successful business operations have also enabled us to create jobs. The Creditreform Group – 130 Vereine Creditreform in Germany, the staff of our service centre in Neuss (VVC) and the subsidiaries active under the umbrella of Creditreform AG – now employs around 3,900. In 2003 the figure was 3,800. To this must be added 300 people responsible for Creditreform activities in other parts of Europe.

This is a gratifying development and an expression of the fact that Mittelstand principles and core competences still form the royal road to success. That applies not just to us but also to our SME members and clients – all 127,000 of them.

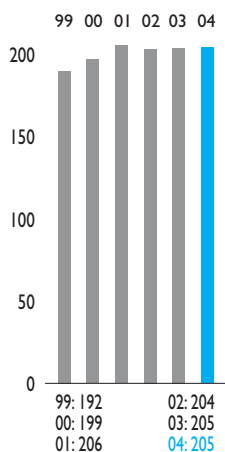
Yours,

# Internet commercial reports in great demand

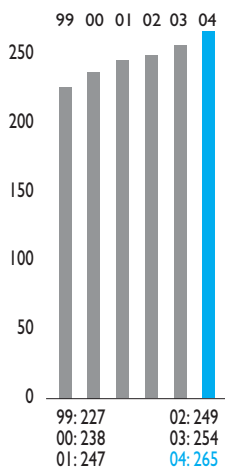
With its 130 Vereine and 127,000 member companies, Creditreform is one of the leading suppliers of business information in Germany. In 2004, its central function – the provision of commercial reports – recorded another rise. In Germany alone Creditreform now has a market share of more than 70 percent. Since July last year, Creditreform offers its members an affiliations database, a new product which provides comprehensive information on the associate-structure of companies and their holdings.

Internet inquiries are suited just as much to small firms as to large companies with an extensive need for information. Depending on the volume of commercial reports involved, there are various options. They can be either obtained directly via the Internet or accessed with the help of

**Commercial reports International**  
(Index 1990 = 100)



**Commercial reports Germany**  
(Index 1990 = 100)



## Commercial reports set for further growth

In 2004, companies evidently felt a growing need for greater business security and protection from financial losses. In all, Creditreform issued over ten million reports on business firms, which represents a gratifying increase of 4.3 percent. The source of this business information is the Creditreform database, which comprises 3.6 million pieces of data and represents the largest collection anywhere of facts and figures on German firms. This permits commercial reports that are first class in breadth and depth, including the credit standing index.

## Priority for online

Companies want to be able to obtain information on their business partners quickly and conveniently. This helps to explain the steadily growing numbers of members who call up reports online.



several software solutions. Last year, the form of access favoured by most firms was via the internet. The number of inquiries made via the SAP solution Crefo-Sprint rose by 18 percent. In addition, an increasing number of clients use their own purpose-designed software to obtain Creditreform commercial reports. In fact in FY 2004 this segment registered a rise of 9 percent.

## New: Affiliations information

Since July last year, Creditreform offers clients and members a new Internet online information product aimed at increasing business security. The product is an affiliations database, which gives genuine added value to commercial reports. The easy-to-use system permits

fast switching between commercial report, balance sheet data and the affiliations information. Following the test phase with selected members, business firms now call up a huge number of data sets a month on the corporate structure and holdings of their business partners and

executive or management board, the supervisory board and so on. A condensed form of depiction enables members to obtain a complete overview of a maximum of three affiliation levels. One outstanding feature is the clear-cut graphical portrayal of these affiliations.



customers. The new database is available to all Creditreform members who obtain full or compact commercial reports via the Internet.

This new product also offers members scope for analysing business potential. An example: a car dealership can quickly discover whether a particular customer has subsidiaries or associated companies which might also be interested in doing vehicle fleet business. The affiliations data is also useful for risk management since it provides a fuller picture of a business partner's financial environment.

With the online database, it takes just a few clicks of the mouse to display the affiliations data. A kind of family tree displays current and historical affiliations, holdings etc., with data on ownership, the

The new product is already available in Germany, Austria and Luxembourg. In the next few months, the data stock of data is to be enhanced by the addition of balance sheet facts and figures.

# Extending the scope of prevention

From implementation to optimization, Creditreform supports business companies in every phase of the credit-granting process. Our business area Risk Management, networked as it is with the Creditreform Group's broad range of business information services, helps to provide effective protection against bad debts. In FY 2004, one focus of this area's activities was on the further development of ZaC, the Creditreform pool for the exchange of payment experiences.

## A closer eye on financial stability

In recent years, business firms have concentrated chiefly on maximizing turnover, unit sales and market share. But now, in a poor economic climate marked by high insolvency rates and poor payment morale, a rethink is underway. The emphasis these days is more on financial stability and qualitative growth. This makes it vital to identify credit risks at an early stage in order to be able to avoid them, and also to build up and develop profitable customer relations.

Advice and software from a single source Drawing on the wide spectrum of Creditreform information services, the Risk Management area supports companies in reaching a reliable assessment of their customers and business transactions. This covers everything from orders management to incoming payments from existing customers, and comprises different marketing, credit and accounts receivable management services, all care-

fully tailored to one another. Right from the marketing phase, Creditreform provides support in the selection, addressing and care of solvent customers. In order to be able to gear credit management precisely to clients' needs, IT systems, processes and methods are first analysed in a two-day workshop. Based on the results, Creditreform cooperates closely with each client in drawing up guidelines for granting credit. And it prepares optimization proposals for the credit management process.

To provide efficient management of all the work sequences involved, Creditreform not only uses its own computer program, it also draws on the services and products of experienced external software and IT partners and on the expertise of Creditreform subsidiaries.

Risk management: Broad range of services

- Analysis and optimization of credit management processes and methods
- Development and modification of credit guidelines
- IT and process consultancy in the field of credit management
- By participating in the cross-industry payment experiences pool (ZaC), business firms obtain valuable additional information from the market about the payment conduct of their customers
- Development and calibration of score cards to facilitate the automated or system-supported appraisal of trans-



actions and the relevant decision-making

- Supply of data for the development or extension of score cards
- Introducing credit management software in and around the SAP, Windows and other IT environments
- Business partner risk analysis according to different structural features such as business sector, turnover and legal form

### **14 million accounting slips evaluated**

In 2004, the ZaC payment experiences pool was decisively extended and improved. For over a year, Creditreform, in cooperation with the pool partners - all of them companies with a large and wide-spread customer base - has been compiling and analysing a total of more than 14 million pieces of invoice information on over 500,000 firms. And the stock of data is

growing all the time, because every month further companies join this payment experiences pool, which operates free of charge.

The companies which regularly add data to the pool learn about the payment conduct of their customers in transactions elsewhere. Over a longer period of time, analysis of the data, permitting a comparison between the due date for payment and actual receipt of the money involved, provides a realistic depiction of how and when firms pay their bills. It can thus serve as an early warning indicator that a business partner may possibly be having financial difficulties.

This means that Creditreform is well on the way to running Germany's biggest and best data pool for the exchange of payment experiences.

# Optimized industrial solutions

In FY 2004, the number of debt collection cases handled by Creditreform rose once again. This shows the strength of demand by business companies for expert and success-oriented support in recovering their growing levels of outstanding monies. At the same time it is an indication that the number of those who do not meet their payment obligations is still on the increase. This affects companies from all business sectors, especially those with a marked domestic orientation. On the other hand, the order intake in international debt collection was down slightly, but this was accompanied by a sharp increase in success rates. Both facts vividly illustrate the current strength of the world economy. Within just three years of being founded, aCS has become one of the leading debt collection companies in this business field nationwide.

## New service for contractual partners

Late payments or bad debts impact adversely on companies and can seriously endanger liquidity. In particular, recovering money owed to utilities, such as electricity, gas and water companies, is one of the growth areas for our debt collection services. The focus last year was on innovative developments for this market segment.

Since Q4, 2004, the new SAP Crefosprint industry solution, the debt collection tool IS-U (Industry Solution Utilities), has enabled the individual Vereine Creditreform to handle debt collection business for

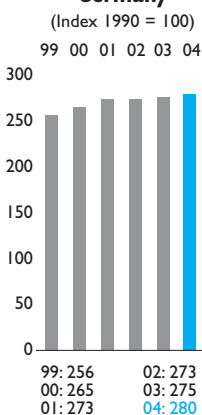
utilities, including municipal utilities, even more efficiently. With the help of this tool, IS-U users can communicate directly and seamlessly with the Creditreform debt collection system, automatically pass on new cases and enter Creditreform feedback, such as status reports, straight into their own systems. In this way, Creditreform has extended the SAP industry solution Crefosprint by an important new module which helps utilities to run customer accounts and debt collection management even more effectively and in a time-saving manner.

**Successful volume debt collection** coreus Collection Services GmbH (aCS), the associated company in the Creditreform Group, is a joint venture with coreus AG of Düsseldorf. It successfully supports call-by-call and Internet-by-call vendors in recovering the usually small individual amounts of money owing to them. It thus makes an important contribution to the business stability of these telecommunication service-providers, who as a general rule have streamlined structures without any accounts receivable management of their own.

In 2004, aCS optimized the process quality and extended its own capacities to cope with the substantial rise in the volume of orders – incoming orders in the six-digit range are registered every month.

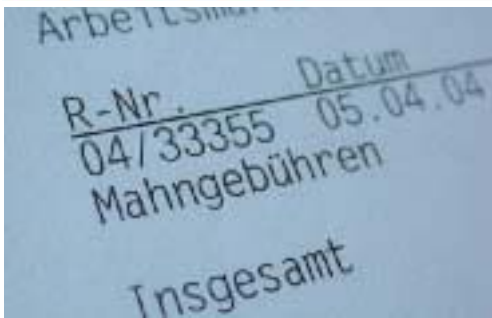
One debtor may often owe tiny sums of money to a number of firms which are aCS clients. aCS is in a position to bundle

**Debt-collection orders Germany**





**acoreus** collection services



these various debts and instead of many individual reminders, it sends the person concerned a list of all the unsettled bills at the different creditors. The advantage for the client is that no matter how small the debt may be, he can exercise his right to payment in a cost-saving and efficient way. And at the same time he benefits from the modern work processes geared to the demands of volume debt collection which aCS has put in place. In association with acoreus AG, aCS offers telecoms vendors an all-in-one service which ideally combines billing, payment monitoring, customer service, and out-of-court and judicial dunning procedures. All the process steps through to industry-specific dunning letters are based on thorough knowledge of the telecommunication business. Specially trained debt collection staff handle the large numbers of inquiries from debtors and cut each client's workload significantly by reducing the number of call-backs.

The high capabilities which aCS demonstrates in volume debt collection are only possible because all functions – such as pre-court and judicial measures – are backed by a modern IT system. A largely automated workflow and debt collection software which can be set to different parameters facilitates efficient and active power-dialing, the automatic registration of postal returns and appropriate event-controlled processes.

# Reducing risks, improving liquidity

Creditreform Portfolio Management GmbH (CPM), the youngest subsidiary in the Creditreform Group, specializes in the purchase of portfolios of non-performing loans. As one of the leading credit protection organizations, with decades of experience in debt collection, Creditreform is ideally geared to a function of this kind. CPM specializes in small-volume largely unsecured loans with an individual value that is typically no more than 10,000 euros and with a nominal volume of up to 200 million euros. The spectrum of services comprises the one-off or revolving purchase of portfolios of non-performing loans which may or not be already legally enforceable.

## **A market for problem loans**

Following patterns established abroad, trade in distressed loans has started evolving in Germany too in recent years. According to estimates, the German market for non-performing loans has a volume of up to 300 billion euros.

Collecting non-performing loans is an elaborate and cost-intensive business, which places high demands on process management, IT systems and the staff involved. Credit institutions but increasingly also insurance companies and mobile radio companies aim to tidy up their balance sheet by disposing of risk-prone commitments in order to focus on their core business. This frees up staff for other functions, saves costs and releases resources to develop new business.

Another factor here is Basel II, with its stricter capital adequacy stipulations. These lay down that the higher the risk of a bad debt, the more capital which has to be deposited to cover that risk. But the reverse is also true: any firm that disposes of problematic loans can take



**Creditreform**  
Portfolio Management

on more credit business with the same level of equity.

## **The sales process in sequence**

CPM manages an opportunity fund endowed with substantial resources. The regional Vereine Creditreform form the initial contacts for companies interested in selling off their non-performing loans. The next step is for CPM to carry out a valuation of the loans involved, develop a price proposition and draw up the purchase agreement. Once this has been signed, the seller receives the purchase price and the relevant Verein Creditreform starts handling the actual business of collection. So all default-related risks and



all the costs of processing and debt collection become the responsibility of CPM.

### **Experience and specialization**

In Germany, Creditreform possesses unique expertise in debt collection. This, in conjunction with the information available in the world's largest database on German companies, puts CPM in a position to produce a realistic assessment of the market value of NPL portfolios and the chances of realization. Creditreform's decentralized structure, with the intimate knowledge this provides on the local business community in each of the Creditreform locations, makes CPM a prime address for transactions of this kind.

Sellers benefit from the sophisticated processes employed and the good success rate in debt collection in the form of a high purchase price and fast payment.

# Integration in the German network

Creditreform International successfully extended its operations in Central and Eastern Europe in 2004. In Western Europe as well there were gratifying results – despite the difficult economic framework – from the nine offices in Switzerland

one new EU citizen in every two. The potential offered by the Central and Eastern European market is highlighted by the increase in foreign trade – in 2003 the rise was close on twelve percent.



and the eight in Austria.

Creditreform International is now represented in 17 countries with its own national companies. The Group has been active in Central and Eastern Europe since the disappearance of the Iron Curtain and in this time has achieved a very good market position. This success also provides motivation to continue expansion in the coming years. National companies are currently being set up in Serbia-Montenegro, Bosnia-Herzegovina, Ukraine und Belarus.

The need for information on both business companies and private individuals has risen substantially, not least because of last year's enlargement of the European Union. Poland, for instance, is home to

## High demand for volume debt collection

Overall, the number of commercial reports issued by Creditreform national companies in Central and Eastern Europe rose by eleven percent. The positive development is underlined by the handsome 31 percent rise in commercial reports on the import front and of over eleven percent in the field of exports.

There was a particularly sharp upturn in the debt collection segment. Above all our business offices in Latvia/Baltic states and in Bulgaria posted a significant rise in volume debt collection, which is carried out chiefly for telephone companies. But debt collection also expanded in the business-to-business area.

One prime objective in the coming months is to integrate all national Creditreform companies in our online system. By the end of this year, the corporate data held by the national

In the course of 2004, the Swiss organisation added a number of new functionalities, such as a mailbox, to its Internet database and is increasingly issuing international commercial reports. In addition, the association's website was brought



companies in Poland, the Czech Republic, Slovenia and Slovakia will form part of the Creditreform network.

### **Swiss association steps up turnover**

For the Verband Creditreform in Switzerland, 2004 was a successful business year. With its nine regional offices and some 190 employees, it was able to boost turnover by around three percent on 2003.

The business landscape was very much in motion in 2004. At almost 5,000 – a rise of nine percent – the number of corporate insolvencies reached a new record high. But the figure for start-ups also increased strongly, by over seven percent. This dynamism indicates that bankruptcy figures are likely to remain on a high level in the near future.

into line with the Creditreform International design. Product development last year was characterised by intensive cooperation in the CrefoTEAM Best Practice working groups, which monitored the new business information application for conformity with Swiss requirements. One further new development was a concept for a database for synthetic credit-standing checks, under the name of "CrefoPool". This is scheduled to be available to the organisation's 12,000 members and clients from around the middle of the current year.

# Direct utility value

Creditreform members can take advantage of all the services offered by the Creditreform group. But that's not all. The Creditreform magazine – the periodical for business people published by the Handelsblatt company – is available to every member on a free-of-charge subscription basis. And in January 2005 we launched a new publication for top managers: "creditreform wissen" (creditreform know-how). This has been very well received.

The Creditreform magazine can look back on a long tradition. It was published for the first time in 1885, with a circulation of 20,000 copies. Since 1972 the periodical has been designed, edited and produced by German business publishers Handelsblatt. Today, the circulation is 130,000. Since September last year, the magazine has also been on sale at selected bookshops and kiosks. But all Creditreform members still get it delivered straight to their desks.

## Easing business routine

The periodical is geared to providing direct advice and support for company owners and other business people. The four core sections are entitled Market, Money, net@profit and Personal Finances. The Market section aims to provide business people help in running their companies. This covers everything from personnel management and marketing to information on important trends and developments. In the Money section everything revolves around company

financing and so it has gained enormously in significance in recent years, above all as a result of Basel II. The aim is to draw the attention of company owners to alternative forms of finance and put them in a position to draw on such sources. net@profit offers help in IT matters, always with the emphasis more on earnings than on image. The Personal Finances section addresses the interface between private capital and company assets. Then there is a section entitled CR-intern which features news and information from within the Creditreform organisation.

## Looking at leisure

In October 2004, a new section was launched in the Creditreform magazine under the title "SevenEleven". The title indicates the scope: it marks the period between seven and eleven in the evening when business people can devote themselves to matters other than work. The information provided here focuses on areas outside the direct realm of work, such as health, entertainment and other forms of enjoyment. Ultimately, of course, the member's business also benefits, because this provides further motivation.

Also in cooperation with the Handelsblatt Group, in April 2004, the Verband der Vereine Creditreform e.V. launched the Internet portal [www.firmenwissen.de](http://www.firmenwissen.de). This offers a comprehensive portfolio of international information services. It gives business people and decision-makers important topical facts and figures.

### creditreform wissen

In October 2002, Creditreform also launched a magazine for business owners and top managers to provide them with background know-how on selected topics. Since the beginning of this year, creditreform wissen is also being sent free of charge to key accounts and selected members of the public. creditreform wissen, which is published four times a year, covers Creditreform-related subjects like credit management, accounts receivable management and risk analysis, but also provides management information on the market and competition and reports and background data from the financial and information services sectors.



# Identifying credit-worthy customers

As an information service-provider with the focus on consumers, CEG Creditreform Consumer GmbH – a Creditreform subsidiary – offers companies which grant credit a wide range of information on the credit standing of private consumers. Demand is growing steadily and in 2004 developed considerable dynamism. With a new tool called "Consumer Feedback", introduced last year, CEG now also gives smaller clients the chance to post their own payment experiences online.

The risks associated with granting consumer credits are on the increase. In 2004, the financial situation of private households in Germany deteriorated further. Today some three million households are considered over-indebted – equivalent to more than all the private households in the federal state of Schleswig-Holstein.

## **Private insolvencies on the increase**

The Debtor Atlas, which CEG updated in conjunction with microm GmbH in autumn 2004, shows the rise in private insolvencies. This makes it all the more important for banks, telecoms, mail order firms, housing companies and utilities to have up-to-date and comprehensive information available on final consumers before they grant credit or provide goods or services. We are meeting these stricter requirements and in 2004 we continued to expand the CEG data pool. Today, it covers one in every five German citizens and includes over 17 million negative

credit features, for example from lists of debtors, insolvency registers, dunning and debt collection proceedings, and information from Creditreform clients.

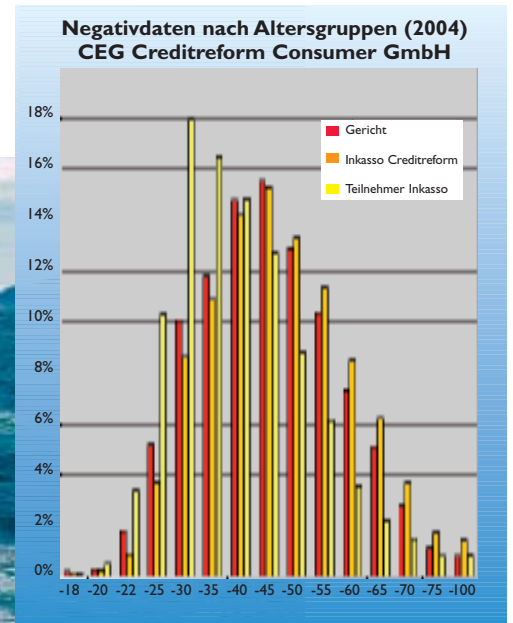
## **Networked information needed**

But it is not just the demand for up-to-date facts and figures that is growing perceptibly; there is also an increasing need for networked information. In recent months more and more clients have been calling up commercial reports in order to cross-check data on private individuals against data from the consumer and business company area. As a member of the Creditreform Group, CEG is the only service-provider nationwide in a position to link negative information on late payers with business addresses used by any individual for private consumption purposes. Approximately 600,000 solid negative features, representing a fifth of all the entries in the nationwide lists of debtors drawn up by local courts can be assigned to one or more business addresses of the relevant individuals.

In 2004, this spectrum helped to boost the positive development of CEG's consumer information services.

## **Posting feedback online**

To further extend the stock of information and enable us to offer our clients end-to-end data, we have developed a new Internet-based entry tool called "Consumer Feedback". This allows small and medium-sized Creditreform members to post



payment information on their customers directly in a database. So the new tool represents an important basis for the steady expansion of the pool of payment information, nationally and across the business spectrum.

Just how effectively the data provided by CEG clients on their wide-ranging payment experiences supplements the information available in the public domain has been demonstrated by a recent evaluation. The individuals on whom information is stored in the CEG data-pool was sorted according to age categories and the origin of the data. In the age categories up to 30 and to 35 respectively, the proportion of negative findings – at 18 percent and 16.5 percent – provided by CEG clients is considerably higher than in the relevant data from public sources. And so

this information can make a decisive contribution towards identifying poor payers at an early stage before any corresponding public data is available.

# Assuring greater liquidity

At the beginning of 2005, Creditreform founded a new factoring company in Kassel. So there are now thirteen Crefo-Factoring companies nationwide. In the past few years, the existing companies, in Aschaffenburg, Berlin, Bonn, Bremen, Duisburg, Hamburg, Hanover, Munich, Münster, Neuss, Pforzheim and Solingen, have been able to position themselves extremely well and now – as the Crefo Group – form the leading German provider of factoring services for SMEs.

One strength of the Crefo-Factoring companies is that they are integrated in the wider framework of the Creditreform Group, thus combining a national presence with close links to the local business communities served by the individual Vereine Creditreform. The main focus of the factoring services are small and medium-sized enterprises with a turnover of up to five million euros a year. But smaller firms with a turnover in excess of 250,000 euros can also take advantage of the full-service spectrum offered by Crefo-Factoring, and so too can start-ups. The aim always is to ensure that invoices for goods or services actually result in payments.

Factoring is a financing instrument available to manufacturers, traders and service-providers in virtually all business sectors. And more and more firms are now using it, as an alternative form of refinancing – not least against the background of the current difficult economic climate and the 40,000 or so corporate

insolvencies in Germany in 2004. Another element here, given the generally inadequate equity ratios of German firms, is Basel II. More than 40 percent of companies in Germany complain that banks are adopting a more restrictive policy regarding the granting of credit. The double-digit growth rates in the field of factoring reflect this instrument's increasing importance for the financial security of SMEs. In 2004, factoring in Germany had a volume of more than 40 billion euros. And the trend is upwards.

## **Crefo-Factoring solves many problems**

Factoring offers a good way of turning current assets into cash in hand. However, the selling of invoices is suitable only for solvent firms with a healthy overall structure. The Crefo-Factoring companies pay unsettled invoices immediately, thus improving the liquidity of their clients and enabling them to finance growth solidly, safely and surely without having to depend on borrowing. When a firm sells its unsettled invoices, it immediately receives around 80 percent of the sum involved, minus the factoring charge. The remaining 20 percent is paid once the debtor has settled his bill.

At the same time, Crefo-Factoring gives SMEs greater security because our companies take over the risk of default 100 percent. And there are other advantages for SMEs, for instance the fact that they are relieved of the related administrative



activities and associated costs. So they can then concentrate on their core business. The Crefo-Factoring companies keep an ongoing check on the solvency of the customers concerned and thus help in building up a healthy customer base. They take over liabilities management and debtor monitoring. They send out the relevant invoices, handle all dunning and debt collection activities and provide up-to-date evaluations. The expenditure on this service is easily offset by measurable cost reductions. Among the most important sources of savings are:

- Elimination or reduction of refinancing costs
- Realising previously unutilized scope for discounts
- Lower administrative costs
- Avoiding bad debts
- Improving balance sheet relationships.

# Ratings are in demand

In the last five years Creditreform Rating AG has been setting nationwide standards in the development of external ratings. Today it is considered one of the most important rating agencies for mid-range companies in Germany and Austria. In FY 2004, Creditreform Rating established Germany's biggest balance-sheet database and successfully launched a new balance-sheet report. For the first time, it also took on the appraisal of credit portfolios for banks and business firms.

Many SMEs in Germany are having to rethink their financing structure, for instance against the background of Basel II. Here, external ratings offer valuable support for financial communications. For this reason, Creditreform Rating last year started offering ratings which give business firms easier access to various sources of finance, such as the new participation certificates and mezzanine financing or bonds. Some of these rating analyses are drawn up on behalf of banks, since they supplement the banks' own internal ratings and supply valuable additional information for making credit decisions. Last year brought a substantial increase in the demand for external ratings with the result that Creditreform Rating AG had to expand its analysts' capacities significantly.

## **60,000 financial statements assessed**

Together with the Vereinen Creditreform, we last year set up Germany's largest

database of the annual financial statements of German companies as a service for Creditreform members. The database currently contains more than 60,000 published balance sheets which are appraised for the different Creditreform business information products. Creditreform members can now call up these balance-sheet analyses online.

In close cooperation with clients, the balance-sheet data of further more 220,000 not publicly available annual financial statements were compiled. This collection of data, which is being extended all the time, forms the foundation for benchmark analyses and is an important basis for quantitative rating systems.

## **Go-ahead for balance-sheet traffic lights**

Since June 2004, the constituent Vereine Creditreform can draw on the new balance-sheet report, featuring a traffic-light warning system. From the financial statements available to the Vereine, we prepare analyses which provide valuable data both for the assessment of a company's development and also for the credit verdict which forms part of Creditreform commercial reports. Response to this new feature has been positive.

# Bilanzbericht

# Creditreform Rating

## Kennzahlen



**Boniätsklasse Rot**  
nicht ausreichende Bilanzbonität

**Boniätsklasse Gelb II**  
noch durchschnittliche Bilanzbonität

**Boniätsklasse Gelb I**  
durchschnittliche Bilanzbonität

**Boniätsklasse Grün**  
sehr gute bis gute Bilanzbonität

	2004	2003
Vermögensstruktur		
Anlageintensität (in %)	30,37	37,69
Kapitalumschlag	0,15	1,78
Kundenziel (Tage)	11,94	42,50
Kapitalstruktur		
Eigenkapitalquote (in %)	36,28	35,93
Verschuldungsgrad	1,76	1,78
Lieferantziel (Tage)	76,11	4,26
Finanzkraft		
Cash Flow zur Gesamtleistung (in %)	50,13	
Cash Flow ROI (in %)	7,59	
dynamische Entschuldungsdauer (Jahre)	1,56	

### "Gini" stands for quality

The selectivity of modern rating systems, including the Creditreform creditstanding index, is assessed by means of statistical quality criteria such as the Gini coefficient. This provides information on the extent to which the risk of bad debts within a certain period of time can be predicted. According to a study by the University of Heidelberg and Vienna Technical University, Creditreform's credit-standing index earns the accolade "very good" in comparison with other rating systems. Creditreform Rating AG regularly registers the Gini coefficients for all Vereine Creditreform and thus makes an important contribution to permanent quality management and the improvement of Creditreform commercial reports.

### Appraising total liabilities portfolio

To recognize the risks of bad debts in good time it is becoming increasingly important for companies and banks to appraise their credit portfolios appropriately. That is why Creditreform Rating now provides assessments of bad debt probabilities for entire portfolios. The basis for this is provided by information from the Creditreform business company database, the customer data of CEG and address information from Microm GmbH.

# Good addresses for better mail shots

To provide support in the acquisition of new customers and also to permit the individual updating and maintenance of a firm's own business database, bedirect offers SELECT addresses. bedirect, jointly owned by Creditreform and AZ Direct, a member of the Bertelsmann Group, combines the superior research capacity of Germany's biggest business information organisation with the know-how of a pan-European full-service vendor in direct marketing.

The basis for bedirect's services is formed by a nationwide business database, which comprises around ten million sets of data not only on active firms but also on passive companies such as holding companies and dormant firms. In addition, the database contains historic data, for instance on former and present company names, changes of address and deletions from the commercial register.

The most important data partner is the Creditreform Group. This exclusive partnership enables bedirect to draw on the reliable research carried out by more than 1,000 employees in the 130 Vereine Creditreform in Germany and ensures a high standard: SELECT Quality.

## **Short updating rhythm ensures data quality**

SELECT addresses support companies in the cost-efficient acquisition of new customers in the B2B sector. Last year, further improvements were carried out to guarantee that the data sets leased to

customers are always up-to-date; the intervals at which updating of the active and credit-checked company facts and figures takes place was once again shortened considerably. The available data includes not just company names, addresses and business sector designation but also turnover figures, the number of employees, and varied and precise information on the top management.

## **Ordering SELECT addresses online**

Since December 2004, the SELECT addresses can now be chosen and ordered swiftly and conveniently online at [www.firmenzielgruppen.de](http://www.firmenzielgruppen.de). There is a web catalogue which permits easy research on the required business sectors, areas or regions, payrolls, turnover, legal form and communication data. The addresses are then ordered by e-mail – and as a general rule, clients can start working with the addresses just an hour later.

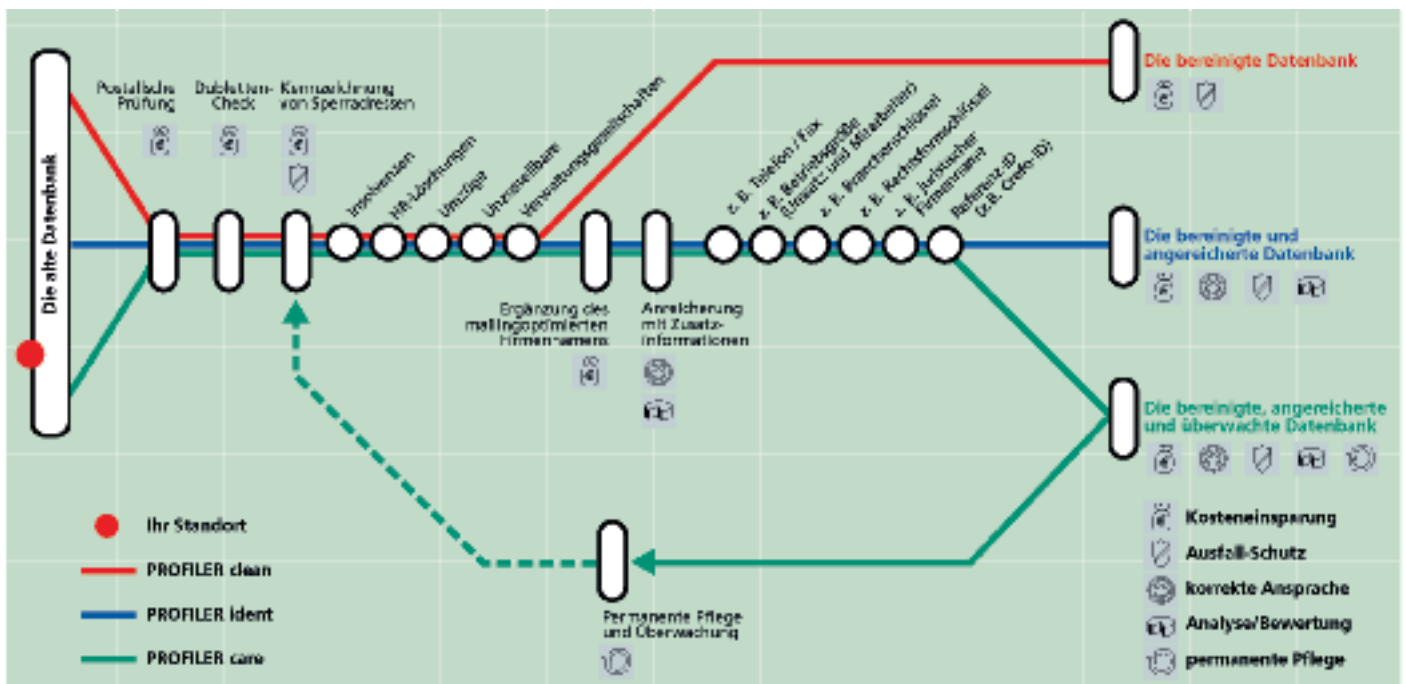
## **bedirect PROFILER: Focus on customers**

bedirect PROFILER is the new product for the updating of existing stocks of data on customer addresses. To facilitate solutions directly geared to the needs of its clients, bedirect last year developed three new modules for this service:

- bedirect PROFILER clean is a one-off solution aimed at firms which want a mailing-optimized database quickly. Automatic cross-checking against

selected lock files enables antiquated or otherwise unsuitable addresses in the customer database to be designated

tion in order to improve the scope for analysis, provide measures to support sales, conduct commercial



accordingly. On average, between five and 15 percent of the data are eliminated in this way. The advantage: production and postage costs are lowered and there is greater protection against bad debts.

- bedirect PROFILER ident is the appropriate product for companies wanting to find out more about the profiles of their customers. Cross-checking is both automated and manual. This combination enables an average of 85 percent of the database to be processed. Only after this has been done is the cleaned-out data stock enhanced by supplementary informa-

assessment of customers and avoid unnecessary production costs.

- bedirect PROFILER care encompasses streamlining, enhancement and lasting maintenance of the database. This product is geared to clients who are looking for permanent and comprehensive address updating and the automatic checking of new entries for a period of at least two years. In this way they then have an optimum database at their disposal at any time to support all marketing and sales functions. The client specifies the required updating period and form – they can for instance opt to receive just updated data or the entire current data stock.

# Intelligently extended portfolio

microm Micromarketing-Systeme und Consult GmbH is a Creditreform subsidiary specializing in micro-geographical information. In the past thirteen years it has become one of the market leaders in its field and last year it continued to expand its range of services. Today, clients can obtain not just data and analyses on their private customers but also precisely selected addresses for gaining new business.

## **New: Address Check free of charge**

In FY 2004, microm rounded out its spectrum of address services and traditional functions, such as quality checking, enhancement, segmentation and address elimination, by the addition of an important further module, called Address Check. This is a free diagnosis of the address stock with regard to the correct postal address, the accuracy of the spelling and form of the name, and the delivery parameters, the indication of duplicates and a check on deceased customers or those who have relocated.

In addition, the hit rate for the possible enhancement of the data with telephone numbers and risk ratios is shown. On the basis of this diagnosis the client then decides which services he would like to obtain in order to update or streamline his database.

## **Clean-up for Lycos database**

Last year, microm used the new service to successfully correct and filter the 7.5 million addresses collected in the past

five years by Internet vendor Lycos. To enable the data to be used appropriately for future direct marketing campaigns, the addresses were processed in a number of steps:

- Eradicating meaningless entries
- Correcting the postal information in the remaining addresses
- Cosmetic corrections, for example regarding upper or lower case, checking the logic of the name or the form of personal address
- Checking names by identifying and eliminating empty or implausible name entries
- Eliminating duplicates
- Cross-checking against relocation lists, the register of deaths, and lists of those who refuse to accept advertising

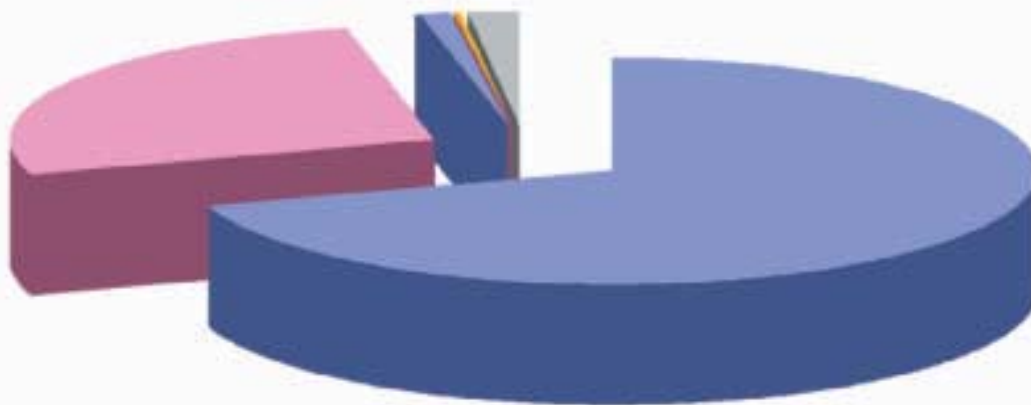
The very first step in the rough clean-up process eliminated all of three million addresses that represented fantasy entries. When postal details were checked, a further 15 percent of the data sets were sorted out and another 60,000 duplicates eliminated. Now, following the microm check, Lycos has around two million high-quality addresses which can be used systematically for individual customer services and for cross-selling and up-selling measures.

In future, these data will be given an even sharper profile: microm is supporting Lycos in identifying potential DSL users. This scoring process indicates where direct marketing measures have the best chance of success.



microm

## Ergebnis der Namensanalyse



- männlich, Herr
- weiblich, Frau
- Firma
- überwiegend männlich
- überwiegend weiblich
- keine Privatadresse
- keine gefunden

### microm provides consumer addresses

In September 2004, microm completed its range of address services and became the first sales partner for the consumer database of Deutsche Post Direkt. With over 34 million addresses, this covers virtually all private households in Germany. The database is made available to microm in an updated version four times a year. Each data set contains Mr./Mrs/Miss etc, surname, first name, street, house number, postal code and town or city.

microm further enhances these addresses with micro-geographical data and consumer information. Over 70 distin-

guishing features, such as type of neighbourhood, status, purchasing power, probability of default and MOSAIC type, provide information on where and how a customer lives. This facilitates precise target group selection either nationwide or on a regional basis. The decisive advantage: companies can obtain a constant stream of new high-quality addresses for targeted business acquisition. And wastage is effectively avoided, thus reducing mailing costs and numbers of cancellations.

# Upturn postponed

2004 was the best year for the world economy in almost three decades. Exports and the internal market boomed. The only drop of bitterness was the high price of oil. In Germany, though, there was little to be perceived of a flourishing economy. By January 2005 the number of unemployed had risen to five million, spending by uneasy consumers was restrained, and only the high level of exports prevented a recession.

Creditreform traditionally carries out two surveys a year of small and medium-sized enterprises. The one at the beginning of last year revealed that business people were full of hope: just under a quarter (24.4 percent; prior year: 16.3 percent) expected to see turnover grow and one in every five firms anticipated improved earnings during the following six months (19.6 percent; prior year: 13.5 percent). There were also some positive signs in the SME employment market: 12.7 percent of the 4,000 firms surveyed said that they planned to increase the number of people on their payroll; this compares with just 10.6 percent the year before.

But then the bright expectations failed to come about. Impulses from investment or private consumption were few and far between. As a result, the Creditreform autumn survey produced a gloomier picture. The number of firms which expected growing sales fell to 20.9 percent, and

only 9.5 percent of those surveyed said that they intended to take on more employees. Earnings prospects were also viewed more soberly: only 23.8 percent still hoped to see earnings increase, while 36.5 percent feared they would fall.

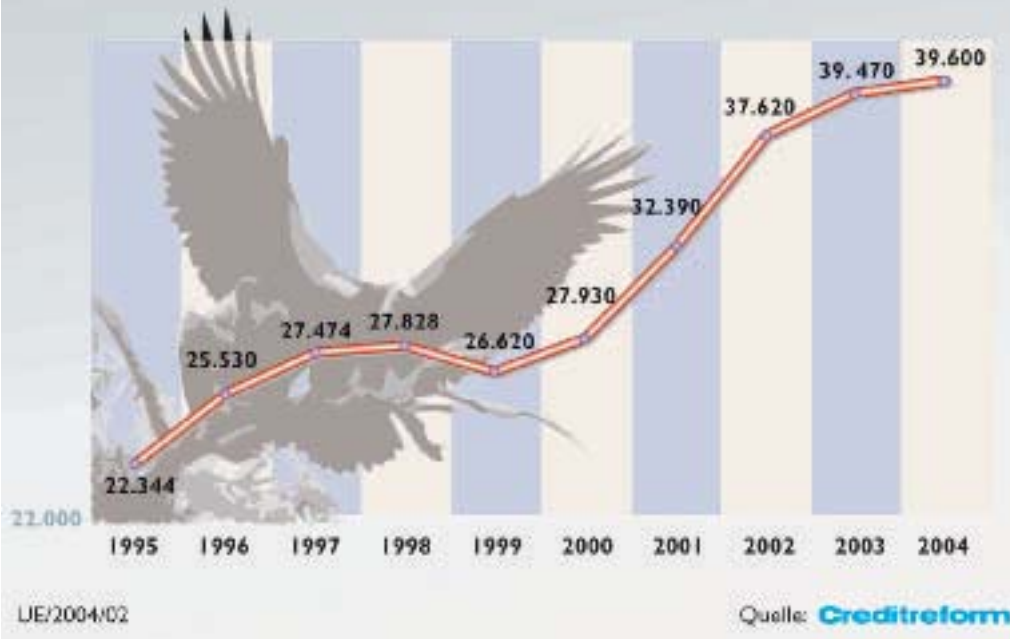
## Financing as the crucial issue

For many SMEs, one crucial issue is financing. This starts with poor equity ratios, and then come liquidity problems as the result of delayed payments, bad debts and increasing numbers of insolvencies. Not even one company in five in Germany has an adequate equity ratio, which means one of more than 30 percent (as a proportion of the balance sheet total). The autumn figure was 19.9 percent (prior year: 18.3 percent), as against 36.0 percent (prior year: 35.7 percent) which are definitely under-capitalized with a ratio of below ten percent.

Under one third of the firms surveyed consider their customers' payment conduct very good or good (27.6 percent; prior year: 28.6 percent). 13.8 percent (prior year: 13.5 percent) award their customers grades of poor or unsatisfactory. And so bad debts are an everyday occurrence. In the prior twelve months only 14.5 percent of SMEs had not suffered any bad debts, whereas 17.0 percent had bad debts which totalled more than one percent of their sales volume.

## Unternehmensinsolvenzen

Die Entwicklung der Unternehmensinsolvenzen in Deutschland:

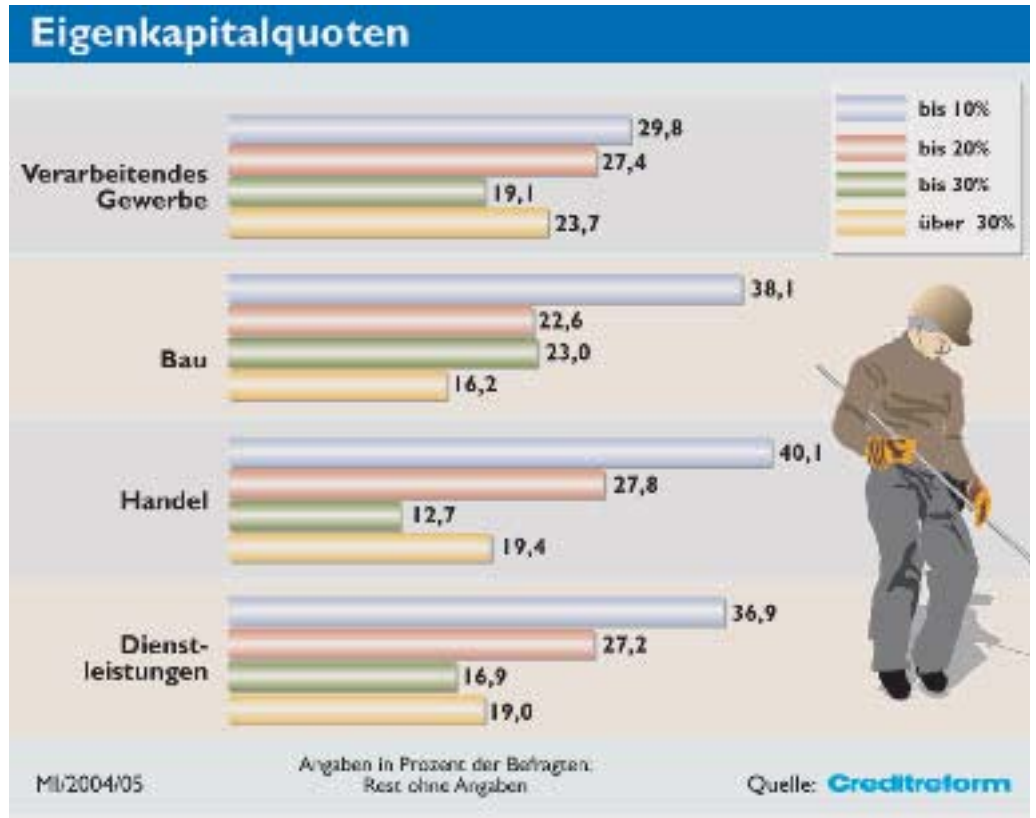


### No turnaround on insolvency front

In the first half of the year there were signs of a turnaround in the number of corporate insolvencies, with a decline in the total number for the first time since 1999. But the delight was short-lived. By the end of 2004 the total volume of corporate collapses was 39,600 – 0.3 percent up on 2003. So the long-awaited reversal in the development of insolvencies has still not occurred. And of course every business failure affects a wide circle of people: in 2004 the economy as

a whole suffered damage of 39.4 billion euros as the result of unpaid debts. And 604,000 employees faced job losses when their employers filed for insolvency.

In the field of private bankruptcies, increase in volume was far higher. 76,100 private individuals (consumers and formerly self employed persons) made their way to the bankruptcy courts, a rise of 25.0 percent on the prior year. Since the relevant proceedings were first introduced in 1999, private bankruptcies have increased more than tenfold, and no end of this development is in sight.



### Europe: Corporate insolvencies rise again

Western Europe as a whole also saw a rise in the number of business collapses. The figure increased by 1.0 percent to 156,245. The biggest contribution to this volume came from France with over 40,000 corporate insolvencies. Germany took second place. The biggest increase in the number of insolvencies was registered in Greece, where the total rose by 20.2

percent to 577. Great Britain on the other hand was able to reduce its insolvency volume by 13.4 percent. There, just 12,827 companies put in an application for insolvency in 2004.

The ongoing rise in the number of corporate insolvencies is due chiefly to two factors: inadequate financial resources and the general economic environment. Whereas in Spain small and medium-sized enterprises have an equity ratio

of 41 percent on average and are thus relatively well capitalized, the situation in Italy (22 percent on average) and Germany (20 percent, according to the BDI industry federation) is much poorer. Impacting adversely on business in Italy is the fact that invoices are settled only very slowly: on average customers take 87 days to pay their bills – the longest payment period in Europe. In Germany, invoices are generally settled within 42 days – but even that kind of delay can place a severe strain on the liquidity of small firms.

The number of jobs threatened by corporate insolvencies in 2004 was 1.6 million. The year before it was 1.7 million. The fact that the total has fallen despite the increase in the number of insolvencies is due primarily to the size of the firms which have to apply for bankruptcy. The figures are just one further indication of the fact that insolvency is a problem chiefly affecting SMEs.

In Europe, it is traditionally the service sector which fuels the insolvency volume most strongly. Last year, the relative contribution this sector made to the total volume of insolvencies increased once again to almost half of the total (44.7%; 2003: 42.9 percent). On the other hand, as a result of the good economic climate in the field of manufacturing at least in

the first three quarters of 2004, this sector's share shrank, from 11.2 percent to 10.2 percent. And it is gratifying the note that the construction sector also registered a relative decline in insolvencies: whereas in 2003, one bankruptcy in every five was in the construction industry (20.6 %), the figure in 2004 was 18.6 percent. The contribution to the total made by commerce (retail/wholesale) rose slightly last year, by 1.2 percentage points to 26.5 percent.

# Learning by teaching

Creditreform stands for financial security. This security is based not just on business information, debt collection or the other Creditreform services. The scope is much broader than that: it is to provide help in day-to-day security-related business. For this purpose, the Creditreform Academy was founded to institutionalize professional education for members. In practice-oriented one-day seminars, business people are offered direct support to enable them to assess the financial capacities of their customers and contractual partners and to act accordingly.

## Securing liquidity

The seminar "Early Identification of Insolvency Risks among Customers" is intended to make member companies aware of the early warning signals which could indicate deterioration in the liquidity situation of their customers and to help them adapt their own credit management systems to changing circumstances. Participants are given a survey of the various means for assessing credit risks and shown how they can tailor these to their own needs.

"Analysing and Appraising Balance Sheets Appropriately" is a seminar aimed at minimizing the risks involved in granting supplier credits. By learning how to analyse their customers' annual financial statements, participants acquire the ability to assess the solvency of their partners and thus avoid insolvency-related risks.

"Accounts Receivable Management in

SMEs" shows small and medium-sized enterprises how to implement work sequences and systems and establish a meaningful reporting system in order to build up efficient accounts receivable management. The follow-up seminar to this, entitled "Cash and Liquidity Management for SMEs", provides information on optimum liquidity disposition, outlines effective measures for maintaining the ability to pay one's bills promptly and describes the key elements in establishing a firm's financial status.

"Debtors Abroad" shows participants how to formulate fool-proof contracts with foreign partners, how a firm's own business terms can be integrated into contracts with partners abroad, and how to write effective reminders and dunning letters. The seminar also covers the judicial enforcement of claims - particularly in other parts of Europe. The seminar "When Customers Go Broke" provides a practice-oriented depiction of what rights and possibilities a firm has when a customer becomes insolvent.

## Only informed staff are good staff

What Creditreform offers its members it naturally also makes available to its own employees. And so it attaches a great deal of importance to further training. The work of the Creditreform Academy for staff members is not confined just to product training sessions or sales seminars. It also covers communication skills and

personal development, leadership and management skills.

### **Investments in the future**

Last year the in-house management training program – the Management Academy – was held for the fourth time.

In a six-month course, this offers future top managers and other senior executives in the Creditreform organization the opportunity to acquire the expertise they will need.

The subjects covered are marketing and sales management, law and leadership, project management, finance, taxes and controlling.

One thing all Creditreform training measures have in common is their practical orientation. When trainers are selected, for instance, importance is attached not just to their professional qualifications but above all to the scope they offer for the direct implementation of the subject matter. This guarantees that theoretical know-how can generate measurable successes.



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