

Payment term recommendation

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1. Introduction

this document describes in detail the process and requirements for country risk assessment. The aim of this country risk assessment file is to be:

- Source of information about Country risk
- Source Recommendations on payment method and payment terms for Business and Credit Management teams
- Source for the scoring evaluation of a customer. Country risk and commercial environment scoring is taken into account on the customer rating
- Recommendation of Payment terms as driver to improve DSO performance
- Common approach on country risk and share best practices on the credit risk management inside the group
- Recommendation of payment method recommendation to mitigate the risk

2. Process Overview

2.1 High level flowchart

Scope



APAC



EMEA



LAM



NAM

ERP



PI1



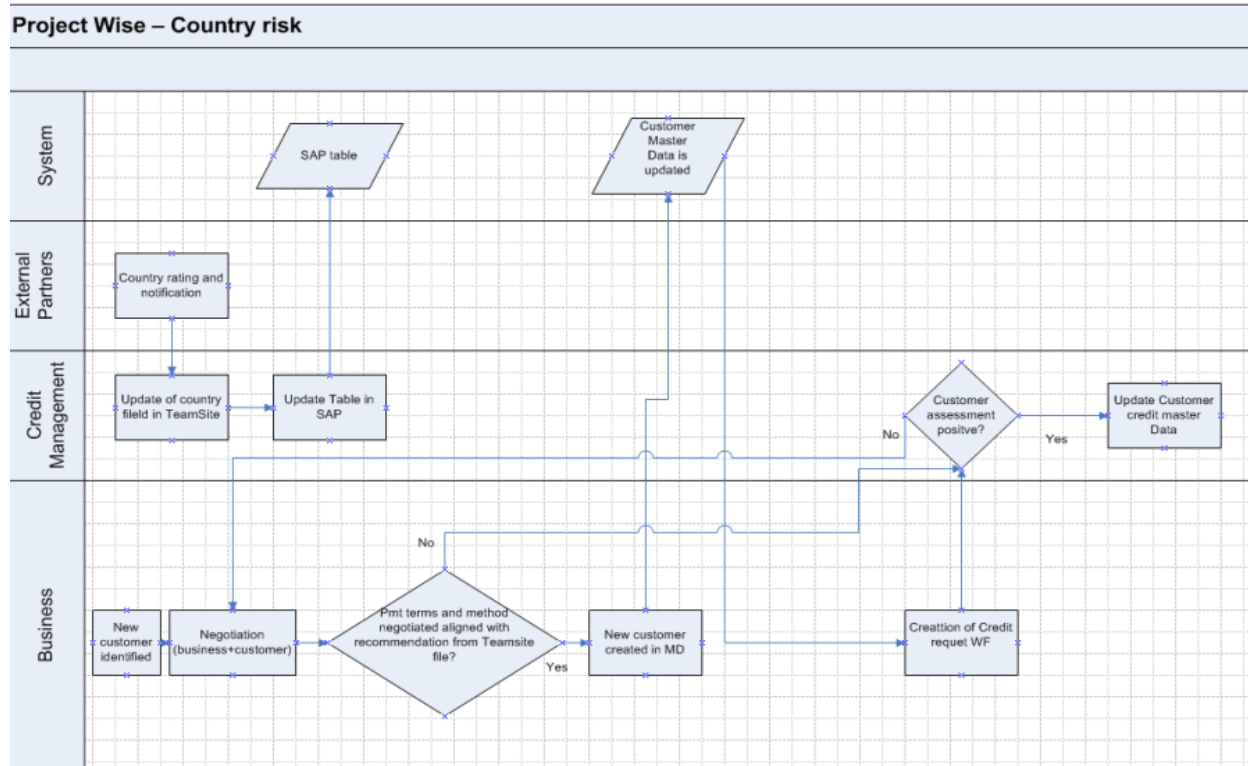
PF1



WP1

References

Attachments



2.2. Describe the process at high-level

Credit Management team is the owner of the process and is in charge of:

- Updating at any time the Country Risk File about scoring, payment duration recommendations, payment method recommendations (recommended and acceptable ones) and relevant comments for each country in which Sales teams have business.
- Communicating those recommendations in details to local Sales Teams whenever it is appropriated and depending on the geographical situation of the customer country
- Communicating main recommendations and highlights to Credit Committees and Risk Committee on a quarterly basis
- Ensuring consistency of the Country Risk File on a quarterly basis by the Guardian

2.3. Describe general principles

The major mission of the Country Risk process is to help Sales Teams to maximize DSO performance by recommending most appropriated payment terms duration.

The second mission is to alert the Sales Teams when there is an immediate political risk due to a special event (war, embargo) that could create overdue and bad debt.

The following points define the main objectives of the Country Risk process:

- To mitigate the credit risk by sharing best practices within the Credit Management network
- To provide a relevant Country Risk Scoring up-to-date that is a part of the final credit rating in the customer credit file.
- To provide relevant and updated Country Risk information to the Group, available to all Sales and Credit Management Teams at anytime.

2.4. Describe constraints that apply

Mains constraints identified are:

- Coordination of Information
- Respect of payment terms recommendations by the Sales Teams
- Consistency and updating between the Country Risk Files and table in the system

2.5. Describe the scope of the process

This document applies for world wide Credit Management and Global or Regional Business Unit Sales Teams of the Group. Thus the geographical scope includes: Europe, Latin America, North America and Pacific Asia. Even companies with no access to FSCM or SAP systems are concerned by this document as the Country Risk File is available on the intranet (Teamsite).

3. Detailed description:

3.1. Country assessment:

Solvay rating is based on the evaluation of political and commercial risks provided by Ducroire.

As per the following scales Ducroire evaluates:

- political risk of the country from 1 (the lowest risk) to 7 (the highest risk);
- Commercial risk of the country from A (the lowest risk) to C (the highest risk).

Evaluation Scale:



Solvay scoring combines both criteria into one score and represented by a numeric scale identical to Ducroire political risk scale - from 1 (the lowest risk) to 7 (the highest risk) using the principle of "the higher commercial risk of the country, the higher its impact on the total score".

This means that if Ducroire evaluates commercial risk of the country as "low", the impact on Solvay scoring will also low and vice versa (e.g. countries with political risk rating of "2" and commercial risk rating "A" get Solvay scoring of "2"- low risk, countries with political risk rating of "2" and commercial risk rating "C" get Solvay scoring of "4"- medium risk).

The correlation of Ducroire ratings and Solvay score are indicated in the following table

Correlation between Ducroire ratings and Solvay Scoring		
Ducroire Political risk rating	Ducroire Commercial risk rating	Solvay scoring
1	A	1
1	B	2
1	C	3
2	A	2
2	B	3
2	C	4
3	A	3
3	B	4
3	C	5
4	A	4
4	B	5
4	C	6
5	A	5
5	B	6
5	C	7
6	A	6
6	B	7
All further ratings	All further ratings	7

Ducroire constantly updates the ratings and provides on-line data for all the interested persons. The last version of countries political and commercial risks evaluation is available on Ducroire website as per the following link:

<http://www.ducroire.be/WebDucDel/Website.nsf/TRiskEn?OpenView&StartKey=A&Count=300&Expand=1>

3.2. Payment terms

3.2.1. Payment terms recommendations

Considering the worldwide activities of Solvay Group where production site and buyer may be located in different continents (and obviously often located in different countries) the period of time, in general needed for delivering of the product cannot be precisely estimated.

Consequently, transition time is excluded from the duration of payment terms recommended by Credit management. It is expected that users of the file will add on top of recommended payment terms duration the necessary number of days for transition, if there is a transition between different continents or similar to such a transition and if the recommended payment terms duration is not enough.

The recommendations on payment terms duration provided by Credit management are result of analysis of:

- average payment terms duration generally used in a country in different industries (regular benchmarking is used, e.g.: EPI by Intrum Justitia, Le MOCI);
- Best practice - most efficient payment terms duration used by different GBUs in a country.

Recommended payment terms duration is considered as reference for GBUs and acts as a support in decision taking process and DSO planning.

As a part of further development of the process the transit time might be included into recommended payment terms.

3.2.2. Payment terms management:

GBU decides on customer payment terms and CM updates SAP in accordance with GBU decision.

CM team recommends payment terms based on information from country risk file. GBU can decide to follow these recommendations or not.

CM team is considered as guardian of payment terms in SAP, aligned with GBU guidelines. CM team must be able to fill different payment terms according to the commercial organization.

Payment term deviation between the payment term on the commercial organization and the payment in the order will be a reason block in credit control (see credit control DRS).

Transaction code to update payment terms is ZWOC07T for CM.

3.3. Payment method recommendation:

Payment method is divided in 2 categories, recommended and acceptable payment method.

- Recommended: on this column, Credit Management Team will provide his main recommendation.
- Acceptable payment method: considering that some countries can have more than one recommended payment method, this 2nd allow credit manager to give a 2nd recommendation if his main recommendation will not be suitable.

Payment recommendation is divided in 4 different types, i.e., cash in advance, Documentary credit, documentary collection and open account:

- Cash in advance: payment in advance
- Documentary credit: Letter of credit, Letter of credit confirmed etc...
- Documentary collection: 2 types of collection, Document against acceptance or Cash Against Documents
- Open account: Bank transfer a detailed presentation of the payment method will be embedded in the file, this presentation can be find at this end of this document, section 4.

3.4. CM comments:

The column "comments" allows credit management to add additional that he may consider relevant. Example of some topics that can be added in this column: specific legislation in the country, embargo on a certain product, payment should come from a bank outside the country etc...

3.5. Roles and Responsibilities:

In this describes the roles of each actor and also the responsibilities:

Owner of the file: Credit management is the owner and the guardian of the file. The file is updated by CM team.

Update of the file: Credit Management zone coordinator area will be in charge to update the file each time he received a notification of the new risk rate or any relevant information related to a country under his scope. The country risk is ONDD information. Credit Management will receive an automatic notification from Ducroire whenever the country assessment is changed. (This notification should be subscribed directly through ONDD on the link below: http://www.ducroire.be/WebDucDel/Website.nsf/MailingList_SubscriptionFormEn?OpenForm)

Consistency of the file: To ensure the consistency of the file, a guardian among the CM team will be nominated. His role is to ensure the consistency of the file and check if the Solvay score is updated accordingly with the last Ducroire country risk assessment. This review will be done in a quarterly basis.

Users: Sales team and CM team

Location of the file: The country risk file will be located in a common share point accessible to all CM team and sales team. A specific location will be defined in the TeamSite (or other share point drive according to the new knowledge management policy). Edit rights will be granted only to CM team. The others user will have view access.

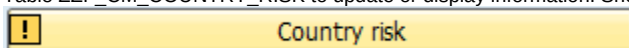
Communication flow: Notifications of main changes (scoring, recommendations) will be sent by the responsible of file update sent to CM network (and then to sales manager if relevant). It will be recommended to CM network to set an alert in the shared point tool in order to be informed about any update. In case of special event (wars, embargo, special recommendations...) CM zone coordinator will be entitled to send a communication to CM network + zone & finance GBU managers. Each quarter CM team will communicate the main scoring changes, highlights, recommendations changes to credit/risk committee members

Downgrading of a country: in case of a country is downgraded to 5, 6 or 7 CM should take the appropriate action about the outstanding in order to mitigate the risk along with business and ensure that the next sales condition in direction of the risky country are according to the new environment

3.6. Manage country risk and payment term information:

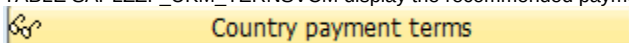
Solvay score is part of the scoring process. Country Solvay score should be maintain in SAP in order to be taken into account on the credit assessment

- Table ZZF_CM_COUNTRY_RISK to update or display information. Shortcut available in credit management menu



. The impact of the scoring is described in Scoring procedure.

- TABLE SAPLZZF_UKM_TERNVCM display the recommended payment term by country. Shortcut available in credit management menu:



- Update payment terms by payer:
 - WP1: ZWOC07T
 - PF1 : VD02

3.7. Reports

- Based on the country risk rating, reporting about exposure in risky country. Exposure by risky country score: rate 5,6,7
- Report on the consistency between the payment terms recommendation and the payment terms invoiced: **BW_QRY_MVFIAR01_0011**

Country Risk indicators						
Efficiency Indicators:	Scope	frequency	Format	Responsability	Sender	Receiver(s)
nbr and % of customers with a payment duration higher than recommended or acceptable duration?	Zone	monthly	Excel	CM	CM	Process Manager / WISE operational Manager
Outstanding by risky country (score >=5)	Zone	monthly	Excel	CM	CM	Process Manager / WISE operational Manager
Follow-up indicators:						
Standard payment terms deviation:	Zone	quarterly	Excel	CM	CM	Credit Managers
- customers with payment terms out of recommended or acceptable duration						
- distribution by country, activity and sales office (TBC with business)						

4. Attachments and references

Name of the file	Title of the document
Payment method presentation	http://teamsites.solvay.com/sites/CICCNAPTAITC/WISEProject/Public/Payment%20method%20presentation.pptx
Country risk file draft	http://teamsites.solvay.com/sites/CICCNAPTAITC/WISEProject/Public/Draft_Country%20Risk_v3%20(2).xlsx