

„Factoring is an attractive product for all kinds of industries“

Interview with Michael Menke

PB Factoring GmbH complements the financing options supplied by the Deutsche Bank and Postbank in corporate banking, by offering diverse tailor-made solutions along with standard products such as in-house and export factoring. Michael Menke, who is an expert in the field, has been with PBF since the time of its foundation, and as managing director responsible for its development since January 2002. Here he talks about the beginning of his career in factoring and takes us on a brief tour of the factoring landscape and how it has been changing. (Ed.)

FLF Mr Menke, what brought you into factoring?

I became involved in factoring at a very early stage, while I was still working on my degree dissertation. A contact I had at university drew my attention to the Bertelsmann Group, and in 1990 I began working for Bertelsmann Financial Services. Within a short period of time I was being given an increasing number of responsibilities there, until in 1998 I was given the opportunity to go and work in the USA.

I had nothing more to do with classic factoring for the time being. I worked in the States until the beginning of 2001, when the prospect of e-business was really taking off. It was my job to develop a location for financial services and to create solutions for e-business payments.

FLF How did PB Factoring begin?

For me the number one question at the time was "where do I go from here?" Via a personnel consultant I got a job at the Postbank, where they were looking for someone to build up the entire fields of logistics and financing, working in cooperation with the Deutsche Post.

The company was founded in the autumn of 2001, but initially there was no structure apart from an entry in the German Commercial Register. Everything from EDP to a specific concept had to be developed and put in place. Monika Loock-Weber and I were formally appointed co-managers of the company on 1st January 2002. Monika Loock-Weber came from the Société Générale, which had closed its factoring business; many customer were happy to come over to us as their new service provider.

In the early years we focussed on the typical German small and medium sized business sector, including German sellers of receivables and their customers. Our product was promoted as classic full service factoring and in-house factoring.

Initially we sought to develop a financing and logistics solution, working alongside the Deutsche Post, a solution more or less analogous to the Financial Services packet offered by Bertelsmann. However, we were not able to implement it in the way we had intended, but we had enjoyed a good relationship with the Deutsche Bank since 2003 already, meaning we had two excellent business partners, the Postbank's corporate customer unit and the Deutsche Bank AG. Thus we were able to enhance and develop our product portfolio, widen the product spectrum, increase the choice of factoring solutions and offer individual solutions designed to meet the specific requirements of specific customers.

FLF In what way has the market changed?

As a result of our collaboration with the Deutsche Bank and their access to major businesses, in some cases global players, we had to extend our range. We diversified our factoring product accordingly and examined the requirements for offering factoring services to the sellers of receivers operating under other European jurisdictions.

Consequently, we relate well not only to classic German small and medium businesses, but also to major companies, kind more likely to be



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among the clientele of the Deutsche Bank. The financial crisis of 2008/2009 was something of a defining moment for factoring. Even major companies were made aware of the advantages of factoring vis-à-vis securitization.

FLF What is PB Factoring's contribution?

The advantage of PB Factoring was and remains that we are able to purchase major accounts receivable portfolios. Thanks to our software, with our customised software installation, we were in the position from the very beginning to provide a service to numerous sellers of receivables with thousands of debtors on their books.

On the one hand, we still serve German small and medium sized businesses, in other words, we continue to operate a standard factoring business. On the other hand, we play in a league where we can support major, sometimes globally active, businesses from different countries. For example, we are presently managing a complex engagement in which the customer has twelve different receivables sellers in twelve different countries. PB Factoring accompanies the customer all the way, a challenge in itself. Each contract has to be compliant with the national law of each country involved. The international claims have to be insolvency-proof and the relevant currencies have to be available. Needless to say, it is also necessary to deal with the fine differences which exist between markets from one country to another.

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So the theme is pretty complex, yet it does mean that because we are operating as just one business, we can serve different markets under different jurisdictions with appropriate solutions to hand. Team know-how in

effective structuring of complex constellations presented by the sellers of receivables is an outstanding quality of PB Factoring.

FLF What was your most important innovation?

From the start we have set great store on being as digital as possible. The factoring branch is digitally structured in any case. Communication with customers takes place online, addresses and receivables data are supplied electronically. The processing of the accounts receivable is also digital.

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Receivables are hardly ever processed manually; everything is done with the pressing of a button. Of course that's not the end of it. In their way fintechs have pointed to a further way forward.

Beyond that, I believe that the fundamental change in image which factoring has undergone in recent years has led to a higher level of recognition and acceptance. In the past, factoring was seen as offering a supplementary credit lifeline to businesses that were unsound financially. This has all totally changed. Solutions can be offered which are eminently able to service major transactions, including personalised solutions, making it possible to service a much wider market. An early use for liquidity purposes is one feature of that.

Another new characteristic is the covering of balance sheet themes, which is playing a growing roll: obtaining financial relief on the one hand and on the other reducing the number of outstanding invoices,

aspects which have now come to the fore. Factoring companies in these instances have quite clearly adapted to market requirements and the needs of their customers, something which you can see reflected in the rate at which factoring is growing.

FLF How did it come about that factoring has become a mass product?

Owing to the wide variety of suppliers in the German factoring market,

factoring has become available to a greater number of businesses, pointing to further growth, amplified by the background of booming online trade and the practice of "buy now pay later". That's when a classic factoring business is called for, classical factoring being basically nothing other than the buying up of accounts receivable. We can see that the classic factoring concept, albeit sometimes given another name, is becoming ever more important.

In addition to that, a wide variety of factoring specialisations have become established, for example in the healthcare sector or for the legal profession. In the same way that we have focussed on major transactions in recent years, others have looked to smaller and medium sized companies for their target market.

FLF Would you say that factoring is sufficiently well established and its usefulness generally acknowledged?

These days most CFO's and businesses are familiar with the notion of factoring, including those that have not yet begun to use it.

The current situation is strikingly similar to the financial market crisis of 2008/2009. Many businesses have learnt how important alternative refinancing options are. Since the ASM market was not working either, a stronger demand for factoring solutions arose. The market has been behaving similarly during the Covid crisis. The demand for a factoring program is continuing to grow. It is important for many businesses to have a modern financing option, one which is linked to turnover, in contrast to the usual classic credit products which banks provide.

FLF What are the salient features of factoring?

Factoring is an attractive product for all kinds of industries and scenarios, that regularly includes the structuring of a major engagement, which is particularly challenging. There is no blueprint solution and new questions are constantly arising. That's what makes it all so exciting: the branch's

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diversity, and the diversity of the customers who come to us and the challenges awaiting us.

At the same time the regulator keeps posing new challenges too. Not to be forgotten either is the greatest challenge of all: digitalization. How can we continue to improve there? How can the onboarding process for the sellers of receivables be made even easier? How can we simplify the debt processes? Here we can learn from fintechs. We must also not forget all the ESG challenges. In our case for example we have added a part to the internal sales department decision making process, by means of which we appraise the sustainability of the accounts receivable seller. This is a

matter of considerable complexity we are dealing with here, so there is no time to get bored. Given that so many aspects are involved, the future can only be exciting.

FLF Do you face new competition because of digitalization?

Obviously that's something we need to keep an eye on. Still, I am rather sceptical about the likelihood of any company appearing likely to pose a long-term challenge from that quarter. Our clients are for the most part not fintech target customers anyway. Fintechs aim is to provide small traders with the opportunity to sell their receivables.

Nevertheless, I can certainly envisage collaboration scenarios, or learning from fintechs. After all, they have developed some interesting starting points. There is no question that they have a role to play but I very much doubt that they will prove able in the long term to drive current providers from their market position.

Platforms are another story, platforms meaning providers who bring the sellers of receivables and investors together. That can really present a challenge to classic factoring models and the established supplier. Platforms provide a kind of liaising role, linking up the seller of receivables and investors. What takes place on these platforms is not far removed from a receivables auction. The solutions currently on offer are very creative and they could indeed become significant competitors for classic factoring business.

We need to continue to follow developments. There too there are doubtless good opportunities for collaboration. Platforms work principally from the side of those with accounts to settle, that is to say the debtor, whereas the factoring branch works principally from the side of the sellers of accounts receivables. The two services which are provided in such cases could complement each other; but let's not compare apples and oranges. Factoring is regulated and subject to supervision. To date platforms own no factoring licence and their primary role is to work as an intermediary.

FLF What projections are you making for the factoring market?

Have a look at the factoring growth rates in Germany over recent years: the factoring rate is currently 8.4%, the factoring rate being defined as the volume of factoring business in relation to gross domestic product. In Great Britain it is 11%. The Netherlands, France and Italy have a market penetration of 14%. In Spain the rate is 16% and the EU average is 11.1%. So we have some way to go in Germany. Compared to other forms of financing, we are still in a niche.

FLF Twenty years in the one branch is quite some time: what has customer feedback been like?

A large number of our customers have been with us over many years, a significant number of whom entrusted us with their business from the very beginning. On the occasion of our twentieth anniversary we had a small gift sent to our customers out of gratitude for their loyalty and long years of collaboration with us. The reaction to that was very positive, something we were very happy about indeed, because it shows that we have been getting a lot of things right. It is also an incentive to continue to be there for our customers and work out mutually satisfactory solutions with them in the future. -