

# Controllers Update

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## ONLY TEN PERCENT OF FAST GROWTH COMPANIES OBTAINED BANK LOANS IN 2Q02, PRICEWATERHOUSECOOPERS FINDS

**B**ank borrowing is at a low point for fast growth companies. The uncertain economy, more-vigilant lending committees, and the government's post-9/11 accelerated depreciation allowances may all be contributing factors. The few "Trendsetter" companies that did obtain new financing in 2Q02 are growing faster than their peers, and are comparatively more open to alternative financing over the next 12 months. These are highlights of PricewaterhouseCoopers' latest "Trendsetter Barometer."

In the second quarter, only 13% of fast growth companies—an historic low—reported new financing (off eight points from the prior quarter), including 10% that completed a new bank loan, and 3% other financing. Product and service sector businesses reported similar low levels of activity:

### New Traditional Financing Obtained (and Change from Prior Quarter)

	Bank Loan	Other Financing	Net
Product Companies	10% (-9 points)	3% (-3 points)	12% (-8 points)
Service Companies	11% (-7 points)	3% (-4 points)	13% (-8 points)
Net	10% (-8 points)	3% (-3 points)	13% (-8 points)

This slowdown occurred although bank interest rates remained low, averaging 5.53%.

"New borrowing by fast growth companies has fallen to its lowest point in the eleven-year history of the 'Trendsetter Barometer' survey—despite attractive interest rates," said Tracy Lefteroff, PricewaterhouseCoopers' global managing partner for private equity and venture capital. "And, while some businesses may be making do with less in an uncertain economy, banks also appear to be tightening up the lending process," he added. "In the 2Q02 quarter, 12% applied for a new loan, and 2% reported being rejected—for a failure rate of 17%. But in 4Q01, when 25% applied and 2% were rejected, the failure rate was only 8%—so it has doubled in just two quarters.

"There is undoubtedly also a connection between reduced loan demand and the government's temporary accelerated depreciation allowances for post-9/11 recovery," Lefteroff noted. "Thanks to

these allowances, most expenditures for capital projects are covered by internally generated funds, lessening the need for external financing."

### Profile of New Borrowers

The relatively few "Trendsetter" companies completing new loans or financing this quarter are standouts. Compared to their peers on the sidelines, they have a track record of faster growth over the past five years: 1,847% versus 1,414%—an edge of 31%. In 2002, they expect growth of 15.1% versus 12.6%, respectively—20% faster. And, they expect to grow at an above-average rate over the next 12 months: 16.2% versus 14.7%—or 10% faster.

Likewise, more of those obtaining new funding are planning major new investments in business growth over the next 12 months: 50% versus 37%, respectively, and, on average, they expect to spend at a 25% higher level.

*continues on page 4*

## Electronic Billing

### A Process Improvement That Helps Everyone

*By Mary S. Schaeffer*

**A** paperless office has long been the dream of innovative, forward-thinking professionals. While it is not yet a reality, certain innovations are bringing this dream closer. Imaging and workflow technology were the first giant steps forward. Lately there has been another innovation that could bring a paperless office within the reach of virtually every company, and make expensive imaging equipment obsolete in the process. We are talking about electronic invoicing. Recent IOMA statistics show that 25% of all companies, regardless of size, are either using electronic invoicing now or plan to do so within the next year. We spoke with five companies about the specifics of the products they offer (no two are identical) and about some of the obstacles billing and accounts receivable professionals run into when they try to implement electronic invoicing. These are only a sampling of the offerings currently on the market.

Electronic invoicing is the delivery of invoices, most likely over the Internet, to a customer's accounts payable department in electronic format. No paper is received—although the invoice can be printed at any time—and the accounts payable department can then forward the invoice, via e-mail, *continues on page 3*

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## CFOs Expect Slight Increase in Fourth-Quarter Hiring Activity

A slight increase in the hiring of accounting and finance professionals is anticipated during the 4Q02, according to the Robert Half International Financial Hiring Index ([www.rhi.com](http://www.rhi.com)). **Seven percent** of chief financial officers (CFOs) surveyed plan to expand their accounting and finance departments, and **3%** expect staff reductions. The net **4%** increase is up one percentage point from the third-quarter forecast. The majority of respondents, **88%**, anticipate no change in hiring.

The national poll includes responses from 1,400 CFOs from a stratified random sample of U.S. companies with 20 or more employees. It was conducted by an independent research firm and developed by Robert Half International Inc., the world's largest staffing services firm specializing in the accounting, finance and information technology fields.

"Financial hiring projections have fluctuated just one percentage point from quarter to quarter this year, which is evidence of a more cautious hiring environment in the United States," said Max Messmer, chairman and CEO of Robert Half International. "Businesses appear to be waiting for indications of a sustained economic recovery before adding new employees.

Minimizing expenses and maintaining cash reserves remain a priority for most companies," Messmer added. "As a result, finance and accounting professionals adept at budget control and cash-flow management are in particularly strong demand."

### Accounting and Financial Hiring – By Region

CFOs in New England are most optimistic about employment activity in the fourth quarter. Fourteen percent of financial executives expect to add personnel and **4%** foresee staff reductions, for a net hiring increase of **10%**.

"The healthcare, residential real estate and local banking sectors are leading growth in the region, creating an increased demand for financial professionals with experience in these industries," Messmer said.

The Middle Atlantic and East South Central regions of the United States also projected net hiring gains above the national average. CFOs in each region foresee a net **7%** increase in hiring activity during the fourth quarter.

### Accounting and Financial Hiring – By Industry

Businesses in the finance, insurance and real estate sector can expect the greatest net increase in hiring activity during the fourth quarter, according to executives surveyed. Fifteen percent of CFOs said they plan to hire accounting and finance professionals and just **1%** intend to cut back on personnel, for a net **14%** increase in financial hiring activity. This is the third consecutive quarter that projected hiring activity in this industry has outpaced the rest of the nation by at least five percentage points.

Hiring forecasts for the wholesale and business services industries also exceeded the national average, with CFOs in both sectors projecting a net **7%** increase in hiring activity. ■

## Stock Options: FASB Proposes Three Methods

The Financial Accounting Standards Board (FASB) proposed three alternatives for accounting for stock options that companies would be able to choose among.

The existing approach and first choice is to expense options awarded in the fiscal year in which they decided to begin expensing options.

The second approach would allow companies to count both new grants and unvested options issued since the beginning of the fiscal year.

The third method would give companies the choice to retroactively restate three years of prior statements to reflect options granted over those years.

Also, the Board proposed requiring companies to report stock options quarterly to the Securities and Exchange Commission, as opposed to the current standard that companies disclose stock options in their annual reports. FASB rejected a call to move the disclosure ahead in the report, voting instead to leave it in the footnotes.

Aggressive accounting practices and corporate scandals impelled a call for more transparent financial statements, prompting the Board to reconsider how companies account for stock options.

The FASB said earlier this month it "applauds" companies that are now looking to follow the lead of Coca-Cola and others.

A formal outline of the requirements is expected from FASB in October. ■

## Q & A's from the Internet

## Tracking

**Q** Our company, which is in the wholesale produce distribution business, offers a 401K plan with a Profit Sharing Plan. The company does not offer any 401K match. However, in profitable years, a significant profit sharing contribution is made into the plan. My question: Have you ever seen a situation where a figure (say \$.01 per case sold) was used as the basis for the profit sharing contribution, with the understanding the company must still meet certain profitability criteria for there to be any profit sharing contribution for the year? The whole point is to give some incentive to our employees as they see the pot grow. My concern is that they will feel that is owed to them.

**A** I've not seen any thing like that in a profit sharing plan. I do see your point regarding employee perception of the sharing basis. In my experience with incentive-based compensation, the more complex the formula, the less incentive it provides. Employees are less likely to understand the plan and it becomes less motivating. In general, complexity in incentive-based compensation plans carries a risk that the plan won't "incentivize." ■

## **Electronic Billing**, *continued from page 1*

to whoever needs to approve it. The information is also then available, without further keying, to be housed on a network for data retrieval. If it is combined with electronic payments, the information is then forwarded back (without rekeying!) to the vendor.

### **Why Is Electronic Invoicing Attractive?**

In addition to the elimination of mountains of paper, accounts receivable professionals like electronic invoicing because:

- it eliminates mistakes due to rekeyed information;
- there are currently fears about the mail;
- it makes the workflow to route invoices for approval a no-brainer;
- it reduces costs; and
- it makes it difficult, if not impossible, for others to blame the mail for their own shortcomings in processing paper.

### **Usage**

So, you ask, if this is such a great deal, why aren't companies signing up en masse? We wondered the same thing and asked the product sponsors. The obstacles include:

- cost;
- implementation time;
- budget constraints;
- internal resistance to change;
- lack of ease of use;
- difficulty in signing up partners; and
- fear.

### **Overcoming the Obstacles**

Accounts receivable professionals who can determine why their companies and their customers are holding back are in the best position to offer a counter argument for why electronic invoicing is the right choice. The recent anthrax scares with the mail may provide the impetus needed for some companies to take the electronic billing plunge—although to date none of the companies interviewed have seen an increase in activity due to mail concerns.

If budget constraints or cost are issues, iPayables' Kim Rawlings suggests presenting "compelling return-on-investment data to build the business case for the initiative." She is happy to help credit professionals interested in her product make the case. BillingZone recommends the same approach. Its representative points out that EIPP offers both billers and payers a significant value proposition by eliminating paper from the process. It suggests that improved customer service, cash management, and accuracy in tracking and taking discounts are added benefits that can be factored into the equation.

Those facing the anonymous complaints of "it will take too long" or "our customers won't use it" should rely on documentation provided by the service provider. "We lay out a well-defined process and work with clients to ensure that the project is managed," says Open Business Exchange's Martha Perlin. Many of these vague complaints vanish when people understand what is expected of them and how the electronic invoicing process will work.

Fear of the unknown is a concept many accounts receivable professionals have encountered when trying to implement a new process. It is also what many are finding when they mention electronic invoicing in their own shops. "Validating the concept is probably the lengthiest process involved to garner buy-in from companies as a whole," points out Direct Commerce's Lisa Sconyers. Such an application offers big money savings opportunities as well as extreme process streamlining, but our current economic market has instilled fear and conservatism toward implementing new technology," she concludes.

Sconyers has a few recommendations for credit professionals who find themselves facing this dilemma. She suggests they begin by calling and getting a referral from a customer already using the product. She points out that since her company can quickly and efficiently configure and integrate its application in a matter of days, a pilot program will give potential clients the opportunity to test the product firsthand at no risk.

## **Selecting the Best Service**

The products of the five companies interviewed for this article each have distinct advantages, and each works differently. A company interested in pursuing the e-invoicing route will base its own decision on its:

- existing internal processes;
- budget;
- corporate culture; and
- willingness to mandate change both internally and externally.

Check out the websites or contact those vendors whose products interest you. Although e-invoicing may seem like a leading-edge approach today, in just a few short years it will be commonplace. Remember when the use of p-cards was considered innovative?

### **Websites to Check for Additional Product Information**

[www.billingzone.com](http://www.billingzone.com)  
[www.directcommerce.com](http://www.directcommerce.com)  
[www.ipayables.com](http://www.ipayables.com)  
[www.obexchange.com](http://www.obexchange.com)  
[www.xign.com](http://www.xign.com)

*Excerpted from Essentials of Credit, Collections and Accounts Receivable (John Wiley & Sons, August 2002) by Mary S. Schaeffer, editor, IOMA's Report on Managing Credit, Receivables and Collections. ■*

### **Free IMA E-mail Account**

The IMA is pleased to announce that as a member you can register for a free IMA E-mail account.

IMA E-mail will allow you to send e-mail messages that carry the IMA prestige with an e-mail address of "YourUserName@theima.org."

Read all about the benefits of the IMA-branded e-mail account at [www.imanet.org](http://www.imanet.org) and sign up for your free IMA E-mail Account today!

## Controllers Update

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*Editor*  
Jack Fingerhut

*Marketing &  
Communications Editor*  
Kevin McGuinness

*Design/Graphics/Production*  
Patricia Keeley

*Production Assistant*  
Julie Todd

For information on membership in the Controllers Council of the IMA, call 201-573-9000 or 1-800-638-4427; or e-mail to: [migs@imanet.org](mailto:migs@imanet.org)

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**CONTROLLERS UPDATE**  
10 Paragon Drive  
Montvale, NJ 07645-1760

### *Q & A's from the Internet*

### **Full-Time Accounting**

**Q** *Do any of the federal contractors out there practice full-time accounting (accounting for uncompensated overtime)? Can you give me a brief summary of how this works in your organization from the proposal through the billing of the contract? Also, what are the perceived benefits?*

**A1** The company I work for is a federal contractor and we don't practice full-time billing. I think the primary benefit—which is a big one—is that it paints a realistic picture of the actual time worked, which helps in future budgets. The challenge is that, outside of accountants, few people can understand what's going on with the weighted average rates and all that good stuff and it usually leads to lots of questions from the government side.

**A2** I would be careful with this issue and carefully research the "Uncompensated Overtime" definitions within the current DCAA Manuals. Also I would research the CAS principles in terms of cost allocations, especially if you have both CPFF contracts and Fixed Price contracts. This compliance issue will apply whether or not your organization falls under "Modified" compliance or "Full" compliance. This research is mainly to fully educate upper management in the potential risks. If you have the pleasure of a DCAA floor check, the auditor will search for Direct or Indirect Exempt employees who answer yes to "working overtime". The main push will be in a "Cost plus" and "Fixed" environment. ■

### **Bank Loans**, *continued from page 1*

Specifically, more new financiers have increased spending plans for sales promotion (44%; 14 points higher than the others), IT (44%; 12 points higher), new product development (42%; six points higher), and research and development (27%; ten points higher).

In addition, new hiring is expected among 81% of new borrowers, versus 64% for all others (17 points higher).

"It is noteworthy that those obtaining new financing have a stronger growth profile than their peers, and therefore may have greater need to supplement with outside financing, particularly for non-capital items," said Lefteroff.

### **Alternative Financing Increasingly Attractive**

Nearly a third (29%) of those obtaining new financing are contemplating alternative funding sources for the year ahead (11 points higher than those inactive). Options under consideration include "angel" investors, 17% (eight points higher); venture capital, 12% (two points higher); and private placements, 12% (seven points higher).

"Banks would be wise to court these standout companies with a strong need—and track record—for financing," said Lefteroff. "There are many attractive alternatives available that may one day prove to be irresistible."

*PricewaterhouseCoopers' "Trendsetter Barometer" is developed and compiled with assistance from the opinion and economic research firm of BSI Global Research, Inc. ■*