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The background of the slide is a photograph of a lighthouse at night. The lighthouse is white with a dark top section and a glowing lantern room. The sky is a deep blue, and the sea is visible in the lower part of the image.

SME's and the euro

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Audit . Accounting . Tax . Consulting . Corporate Finance .

Topics

- Our work in Slovenia
- The relevance of the context
- Our review of SMEs in Slovenia
- What these SMEs have in common
- How these SMEs tackle introduction of the euro
- How Slovenia handled the pricing issue
- Conclusions

Review of the introduction of the euro in Slovenia

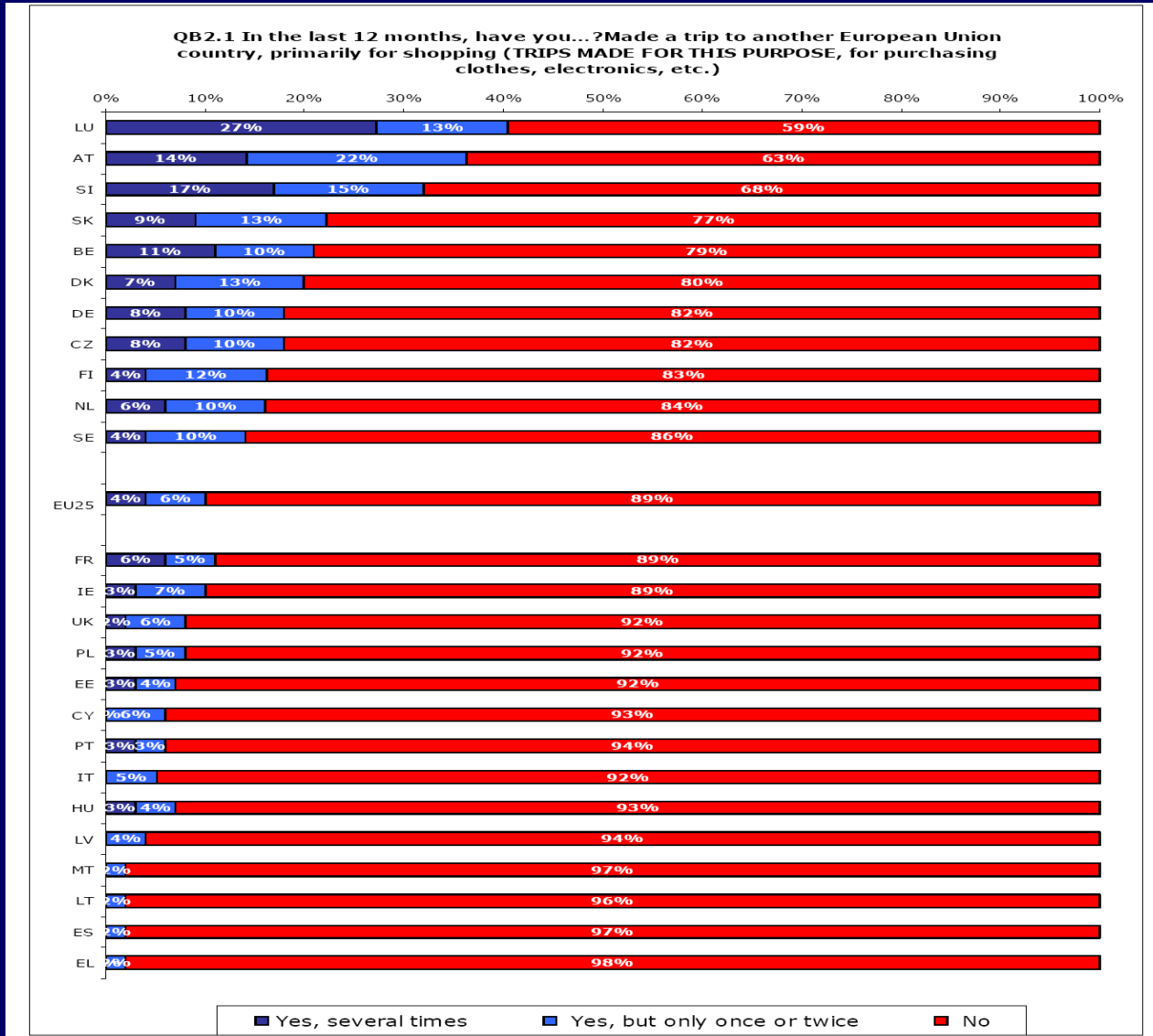
- Report is now in the public domain
- Based on qualitative interviews to 'go below the surface'
- Interviews with SMEs and their associations
- Case studies; concrete information; changeover costs

The particular context of Slovenia

- SMEs benefited from the high level of support for and familiarity with the euro in their existing operations, among their employees, suppliers and customers – and consequently low level of need for training - because of:
 - ✓ Geography – proximity of whole country to €-area
 - ✓ Legacy of Deutschmark usage in (ex-)Yugoslavia
= penetration of € as cash and book money

Slovenes had euro in their pockets

- Nearly one in three Slovenes goes to another country *specifically* to shop



Penetration of € as cash and book money

- 80%+ of life insurance policies, many loans in €
 - Many Slovenes had € bank accounts
 - Many companies, large and small, had € ledgers, and used € in cash and non-cash transactions
 - Many 'big-ticket' items priced in € (property, rental)
- ✓ High ratio of sole traders able to use personal cash in the business in early 2007; not statistically proven but qualitatively significant

Our review of SMEs in Slovenia

Ranged from hairdressers still writing out bills by hand to ...

a new entrant in telecoms using one of the world's leading ERP systems

What do these SMEs have in common?

- They are **both** small SME's
- They are too busy to worry about the euro
 - Moreover, cash handlers focus late to very late - and too late for retail kit planning
- They are price-takers
 - they price in relation to the competition
 - they derive their price from their suppliers' prices
 - if they are cash handlers, they may price for convenience
 - they did not - on the whole - price in relation to price commitments

What else do they have in common

- They need to do individual impact analysis
 - For a cash-intensive business, moving from a highly granular to a much more granular currency can increase working capital requirements because of the cash tied up in tills/machines
 - For trading companies, not only the cost of currency exchange will disappear, but the cost of cross-border payments will come down (significantly)
 - Working out their new pricing so that they remain competitive is something only they can do
 - They may have to repackage to get prices right in euro
- *SME's who do impact analysis are in the minority*

How do they handle introduction of the euro?

They rely on:

- **Trade associations** - for awareness, but translating awareness into knowledge, understanding and action is easier said than done; case studies play an important role
- **Banks** - they trust their banks to get it right, and for the banks this is a commercial opportunity which they must be alert to
- **Accountants** - they rely on them to handle closing/opening balance conversion, tell them what to do about invoices, etc.; this is a key channel for getting messages on impact analysis across
- **Software suppliers** - they rely on them to know rules and to handle conversion (of everything from cash registers to data centres, and of current and historic data); government fine-tuning of rules must be completed well in advance; ensuring these suppliers are aware of and understand the rules and client needs is vital
- **Customers** - to tell them how widgets should be packaged (a problem with granular currencies)

The issue of pricing - Slovenia's approach

- dual price display legislation
 - at central rate from late 2005 (only in event of voluntary dual price display); compulsory at central rate from March 2006, then at conversion rate to June 2007
 - not anti-inflationary per se
 - important awareness-raising function
- Statistical Office analysis
- PriceWatch scheme
- price commitments,
 - but not until December 2006

Conclusions

- No 'magic bullet' for engaging SMEs
- Target the channels which will ensure a smooth operational changeover
 - and use them to maximise the message that there is more to introduction of the euro than meets the eye
- Adopt price commitments early
 - but don't expect miracles
- It's a cliché, but no less true:
the devil is in the detail

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