OnGuard

insight in credit management

strategic use of information sources

OnGuard
software for credit management

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the Crystal Ball of credit management

"We should have seen that coming…" Chances are you've uttered this phrase more often than you would like to as a result of an unexpected event impacting your credit management activities. More often than not, the phrase should have been "We could have seen that coming". If you've got your credit management up to a strategic level, it might even become "We CAN see that coming!".

Successful credit management is fundamentally about increasing the predictability and thereby reducing the risk associated with your cash inflow. By making smart use of data supported by OnGuard's technology, you can look into your own crystal ball, allowing you to make more informed business decisions and reducing risk for the future.

This paper will give you an overview of the variety of sources that are available and possible approaches that you can choose to help you construct your own crystal ball of credit management.

This paper consists of different chapters treating the following subjects:

- Internal and external information sources and what you can achieve with each source or by combining them.
- An outline on how you could improve your credit management by segmentation, customer scoring and applying the right action for the right person at the right time.

information sources

The most obvious starting point in increasing your knowledge of your customer portfolio is by obtaining valuable information about your customers. Lots of our customers use paid external information sources to assess the credit-worthiness of their customers. Rightly so, because this externally sourced information is carefully compiled by experienced analysts and typically gives a good macro-level view of a business's financial health. Our experience however shows that many credit management organisations underestimate or simply don't make use of the even more valuable customer information they collect on a daily basis. After all, a customer may show different behaviour towards you compared to their other suppliers, depending on the nature of the relationship you have with that customer. Are you getting the most out of the data available to you in your daily credit management practice? And if so, are you balancing what you get externally with what you know internally?

get strategic with your customers

Now that you have all the data at your fingertips, how do you make sense of it? And how do you use it to your benefit? Our most successful customers have become very strategic about their credit management. Think about your daily life. Ideally, you'd like to be treated in a way that suits your preferences and needs the most. That might not be the same way your neighbour wants to be treated, however. A strategy that has been applied in marketing for many years already is segmenting and profiling your customers. All of your external and internal data sources supply you with characteristics about your customers: their size, industry, location and purchasing volumes, but also payment history, creditworthiness and more. Based on these characteristics you can split your customer portfolio into homogenous groups and define the best strategy to achieve faster payment for each specific group. In doing so, you give the right level of attention to the customers that require it and can find the best way to reduce risk of default and achieve better results across your portfolio.

who are your best paying customers? who are the worst?

Obtaining the right information and segmenting your customer portfolio into homogenous groups is a big task at first, but pays dividends over the long run. However, your customers can change along with their behaviour. If you have only a handful of customers, these changes are something you can monitor by hand. But what if you're dealing with hundreds or thousands of customers, with new customers being added on a daily basis. For most of OnGuard's customers monitoring and tracking behaviour manually is simply too labour intensive and very prone to errors. Wouldn't it be great if you could automatically monitor changes to a customer's own behaviour, but also supplement it with various external data sources to ensure that you always have the most accurate assessment of a customer's situation available to you? Our best-in-class customers use scoring models to monitor the changes in behaviour within their customer portfolio and adapt collections strategies to best suit the situation. They do this automatically on a daily basis, thereby keeping risk to a minimum and ensuring the right action is taken, for the right customer, at the right time.

strict on the process, gentle on the person

Everything mentioned so far is about building solid processes leading to more predictable results. Let's not forget, however, that credit management is still an interpersonal activity. No matter how great your strategies and derived processes are, if you don't listen to your customer and fail to build a relationship, you won't be getting the most out of your credit management. You can extract valuable information from your customers directly which builds upon the processes you have in place. When was the last time you spoke to your customer about their business challenges and how you take mutually beneficial actions from a credit management point of view?

The sources for your own crystal ball of credit management are at your fingertips. OnGuard's experience in delivering world-class credit management software based on years of implementation experience around the globe, can help you use data and knowledge you have obtained in the past to make better decisions today, increasing predicta

informed credit management with external sources

from information overload to interpretation

Today's world is about information, information and information. You can find anything you want through a couple of mouse clicks. Information on business in general, country GDP performance, cheating banks, bankrupted organisations; there is a chance of an information overload.

But the biggest challenge is not the overload, but using the bits of this information to your benefit. You can gain a lot by combining this information with what you have available internally. There are solutions such as ours which score and interpret the information provided automatically, and present a single numerical score based on all the variables at hand. In the following paper we will discuss various external sources credit managers can gather information from.

the two biggest external sources

Information providers

There are quite some information providers in the field big and small, but best known providers are Dun & Bradstreet, Experian and Graydon. They provide financial information on customers from an own database. These are mostly based on reports pulled from the Chamber of Commerce. These reports often include ratings or scores based on an analysis of the company's financials, as well as detailed calculations.

Insurance companies

If you are in a high stake business with large invoices on a single customer, chances are that your organisation has credit insurance. In short, these insurers offer policies covering the non-payment of invoices by your customer due to numerous reasons. They provide credit limits and additional information so you know at all times what the maximum exposure is with a customer that is covered by the insurance. This information is of course valuable to credit management. Stories of one or more customers defaulting on their payments and taking down the supplier in their wake are not uncommon. Credit insurance and the information it offers is, therefore, not something to be taken lightly.

getting 360° insight in a single system by combining with internal sources

Both sources of external information we have mentioned are very useful on a day-to-day basis with regard to credit management. They enrich your image that you have of your customers. They give insight in which customers you can give more space, or the ones on which you need to keep a close eye. Gathering internal information is just as important, or maybe even more important in order to successfully monitor, segment and score your customers. Having these insights available to you is a big step towards increasing the predictability of your credit management.

drilling into internal sources of information

from siloes to centralised intelligence in credit management

The chances are that the organisation you work in has siloes, in smaller or larger extent. It's natural for an organisation, but it's also quite a pity since a lot of information relevant for the whole company is lingering around in systems which are perhaps inaccessible to other teams. In this article we will discuss internal sources of information from which you can gather information to make your credit management more predictable and deliver greater returns.

ERP

The ERP system that the organisation uses is a very rich source of information. It offers the basic data to run credit management, such as invoice information and also the contact details of your customers. But there is a lot more information that can be of use in making your credit management more predictable. Have you considered using data specific to your organisation such as the code for the business unit the customer sits in or the country or province he is residing? Everything which can be used to segment your customers more strategically and move away from a homogenous approach can help.

CRM

It can happen that the customer information in your ERP system is not up to date. How do you know which contacts are the ones most up to date for commercial as well as financial issues? A great source of information is your company's CRM system. The CRM system can provide you interesting insights into the stages new sales opportunities are in, so that you can plan ahead and perhaps proactively engage with sales, preventing foreseeable risks. Valuable customer insights derived from your CRM data can be a great contribution to your credit management process, simply by importing it into your credit management environment.

order management system

Depending on the line of business your organisation is in, you might also be using a separate order management system. It could also be of benefit to have access to this as credit manager. Since you have a different stake in a deal than for example a seller, your decision might be different as well. You might also have information at hand that someone else doesn't, so it's important to keep the communication open and clear between the teams. Messages such as refused orders by the customer, transporters that can't drop the delivery or a request for POD, could very well be important to you in your credit management position.

complaints management system

If you are using a separate complaints management system, you should be using the insights that flow through it to your advantage. Non-payment of an invoice often stems from easy to resolve issues, such a wrong address, a missing PO number or an incorrectly priced product. Knowing what is going wrong and why will help to uncover root causes to complaints, resulting in an improved credit management process. Ideally, complaints management should even interface seamlessly with your credit management software, so you always have a complete picture of the payment situation for any given invoice.

getting 360° insight in a single system by combining with external sources

These are just a selection of the valuable data sources to drill into within your own organisation. The challenge with most systems is to put this together into one holistic view, helping you do make better credit management decisions. OnGuard offers credit, collections, complaints and cash allocation software which employs a sophisticated customer scoring system as well as automatic profiling and segmentation based on information from external sources, as well as internal sources as mentioned above. Putting all of these puzzle pieces together will help you achieve a 360° view of your customers thereby improving your ability to reduce non-payment risk and make your cash flow more predictable.

using internal and external information for 360° intelligence

from customer insight to customer intimacy

From marketing the sale to the delivery, and from after sales service to the invoice; it all concludes at credit management. If the relationship between a credit manager and a customer ends with a positive and two-way dialogue as opposed to a reactive, one-way approach, chance is much greater that the customer will order again.

This shows that a credit manager needs to know everything about their customer, even before the invoice is sent. This can be achieved by bringing internal and external sources of information together into a solution which gives you the ability to treat every customer like an actual individual customer and increase the predictability of your customer's payment behaviour.

external sources

Credit managers can get information from information providers and from credit insurers. These sources provide information and advice on credit limits and other factors influencing (potential) payment behaviour. They have also supply rich information on national economic outlook, specific markets and specific industries. This information can provide solid strategic insights based on in-depth analysis developed by these specialist external information providers.

internal sources

The internal sources involve anything that's happening within the organisation which can influence the credit management or collection process. After all, generic external information may well hold true for the interactions you have with your customers, but nothing is a better predictor of future behaviour than the customer information you collect yourself on a daily basis. Whether this is sales related CRM data, order information or just the historical customer payment information, each is a valuable source of information to help improve the your credit management decision making process.

from insight to action

Gathering all the information from its sources is an excellent starting point. But information really increases in value if it's put to action. This can be done by segmentation of your customers based on the criteria acquired, creating different dunning profiles per segment which can change dynamically, and scoring based on the combination of the internal and external information you have collected. This is really putting the insight into action.

5 steps to improve your credit management by not taking action

How do you apply the knowledge that you have gained from different sources? After analysing the data you might uncover patterns or causes for certain issues. Before choosing what action you want to undertake with your clients consider not taking action for a change. You might achieve more by dividing the energy and resources that you are investing into your credit management smarter:

1. asses your current approach

How long ago did you implement your current dunning strategy? Is it still up-to-date? Taking a closer look at your processes and procedures regularly is bound to yield results. When are your actions planned, how many actions are planned? Are they planned at the right time and is the frequency and amount effective?

2. plan intelligent actions

Adapt your actions to the size of your outstanding invoices. You should not spend too much of your time on chasing the small sums: an email is a quick and cost effective way to remind your customer of his outstanding invoice(s). For a larger amount you could consider sending a letter, this still does not take up much of your time is more formal and appropriate for the situation. If the sum of your outstanding invoices exceeds a certain point it might be wise to call your customer directly instead of mailing or emailing hem. Investing your time to engage into a personal conversation will pay off in this case.

3. plan focused/targeted actions

Segment your customers into groups based on a combination of information and criteria:

- Internal information (historic payment behavior and complied appointments)
- External information (credit information)
- Risk level (based on history, industry, country)

Divide your clients into profiles and adapt your dunning strategy to this.

4. plan actions at the right level

Make sure to match a collector of the right level to the action that is required and the person that needs to be contacted. A combination of the invoice sum and clients profile helps to determine if a junior or senior collector should be responsible for collecting it.

5. use pro-active actions

Consider planning an action before the due date of your invoices. This may seem to cost you extra care but could save you time in the long run. It is an opportunity to detect possible questions or queries about a delivery or invoice that might otherwise cause a delay of the payment.

conclusion

Segmenting and profiling your customers and combining this with a risk assessment can save you time and money. A regular checkup of your processes will prevent you for investing your efforts in the wrong things. If you focus on taking the right action for the right person at the right time you might find yourself doing nothing more often.

adapt your collections strategy with customer scoring

In your daily work as a credit manager, you deal with a variety of customers – some of whom have a good record for payment and others that have little or no regard to the agreed payment terms and conditions. In an ideal world every customer receives individual treatment based on their unique and individual circumstances. However, most credit management processes treat all customers in the same, often negative way and act with no regard for the actual circumstances or customer's track record.

who are your best paying customers? who are the worst?

Individual treatment of each customer is probably not feasible. Segmenting your customers in groups can help you to treat customers in a more suitable and effective way. Obtaining the right information and segmenting your customer portfolio into homogenous groups is a big task at first, but pays dividends over the long run. However, your customers can change along with their behaviour. If you have only a handful of customers, these changes are something you can monitor by hand. But what if you're dealing with hundreds or thousands of customers, with new customers being added on a daily basis.

customer scoring models

For most of OnGuard's customers, monitoring and tracking behaviour manually is simply too labour intensive and very prone to errors. Wouldn't it be great if you could automatically monitor changes to a customer's own behaviour, but also complement it with various external data sources to ensure that you always have the most accurate assessment of a customer's situation available to you? Our best-in-class customers use sophisticated scoring models to monitor the changes in behaviour within their customer portfolio and adapt collections strategies to best suit the situation. They do this automatically on a daily basis, thereby keeping risk to a minimum and ensuring the right action is taken, for the right customer, at the right time.

OnGuard Customer Scoring

OnGuard Customer Scoring is a standard functionality available in all OnGuard software solutions. An OnGuard Customer Score is comparable to an external rating or score.

However, an external rating or score is based on the generalised payment history of your customer whilst an OnGuard Customer Score is based on the actual, factual history of your customer's payment history with regard to you, as a supplier based on your terms and conditions.

By including external scoring in an OnGuard Customer Score, you can combine the generalised data available in the external market with specific information based on your customer's performance. This produces a balanced score optimised to your specific situation. By then linking the OnGuard Customer Score to the OnGuard Profiles, the actions best suited to the specific customer situation can be generated and implemented.

conclusion

It is probable that you have more data and information at hand then you thought you did before reading this paper. You will be able to deliver greater results by combining internal and external sources with a strategy that fits your organisation and your customer's best. Chances are that you can improve insights in your credit management quite easily. Having these insights available to you is a big step towards the predictability of your credit management.

contact and more information

Are you ready to benefit from smarter credit management? Get in touch with us today to define what your specific business case might be. Contact us via +31(0)294 256 666 or via info@onguard.com. Follow @OnGuardGroup on Twitter to stay up to date.

www.onguard.com

about OnGuard

Can you imagine a working environment in which you always refer to your debtors as customers? Would it help you stay ahead if you could realise more transparency and interaction around your accounts receivables and achieve faster payment of your invoices? At OnGuard we believe that nurturing strong customer relationships is the key to optimising your credit management. We offer sophisticated software in which cash allocation and credit management can be integrated into one single solution that focusses on customer relationships as well as financial transactions.

Our clients report significant DSO reductions within one year by applying our philosophy of customer intimate credit management. In a business environment where unpredictable payments put the customer-supplier relationship at risk, we at OnGuard support doing business based on shared trust and moral commitment. This is what drives us to go the extra mile for you.

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