

# Analysis

## Customer & Market Oriented Credit Management: Information Needs in an Integrated Environment – Part 4

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### Abstract

*In credit management, information is key to measure performance. From an integrated point of view, we need to determine how the performance of credit management is actually measured. In the final part of this series, we need to answer the question how credit management performance is related to our strategic business objectives. As such, we need to know what kind of information do we really need to register, monitor and analyze our business efficiently and effectively, and what kind of software solutions support this information need best? Although there is a lot we can measure, there is much more we do not need to measure at all. Determining the right information needs and analytics to measure and interpret the information is essential to measure the performance of credit management correctly. To determine and facilitate our information needs, we need people who understand the business, as well as people who understand the (ICT) systems (preferably a bit of both worlds).*

Information is, of course, only useful if information helps us to make better and faster decisions, otherwise information only detracts us from what really matters. An integrated technical solution should therefore be flexible, scalable, 'intelligent' and capable of 'understanding' and measuring the whole business process. Throughout the organization this kind of software must be able to support efficient and effective communication and cooperation efficiently (user-friendly, role based, flexible, simple, workflow and result driven) and effectively (analytics, reporting, alerting, escalating). Dedicated software must be able to support and facilitate the business processes and/or business functions in an integrated way. To make high-end integration of credit management technically possible systems may ideally need to support the following aspects:

- Flexible/dynamic/role based reporting with a focus on daily operations (right time alerting, workflow);
- Right time decision making (especially in terms of risk and value management);

- Management by exception principle: only get the information when you need it and get the information in time, so you can respond to it accordingly;
- Incident and query management (registration, alerting, escalation, workflow driven);
- Process KPI driven metrics and event triggering (operational, workflow and role based);
- Segmentation techniques (differentiated dunning paths based on risk/value combinations, treat each customer according to his risk/value profile);
- Customer relations (preferably aligned with existing CRM systems);
- Cross-functional historical and operational analysis, and correlations (over multiple databases and/or processes);
- Workflows and mid term predictions (marketing, sales, credit risk, predictive analytics);
- Easy/fast deployment (in line with market dynamics);
- Continuous operational (real/right time) performance measurement and improvement (analytics); and
- Integration with, and focus on, the business process and operational needs.

These features come down to systems which are able to track and measure operational daily performance related to past performance over the whole business process. Besides, such a solution must be able to deal with the dynamics of our daily operations and markets. Doing business is not only how we perform today, but also about how we will perform tomorrow. How will the market look like tomorrow, and how we can prepare ourselves for these conditions today? At this moment most automated credit management solutions show one or more weaknesses in:

- Reporting (not flexible enough, hard coding, static, lack of business intelligence (drill down) functionality);
- Automated decision making (business rules);
- Prioritizing (in terms of risk/value);

- Deployment times (implementation may be too long, too complex, too expensive);
- Capability of measuring the whole business process and understanding cross functional relations (business process related KPI's);
- Accuracy in terms of right time measuring/correlating daily performance with historical performance (we often act too late, for instance, after the event has taken place);
- Graphical User Interface (too much data, poor presentation of data, complex to use);
- Flexibility in terms or easily connecting to other systems and databases without slowing down operational system performance;
- Analytics (advanced statistics);
- Forecasting capabilities (advanced trend analysis in terms of cash flow, working capital, profitability, etc.); and
- Software business model (technology (consultancy) driven, licences and maintenance cost, customer support).

Of course, information and functionality varies with the complexity of your business model and processes. Currently solutions to deal with the above mentioned topics can be scarcely found in operational business intelligence, business process management or predictive analytics. Often a combination of software solutions is required to offer the full scope of functionality (if required of course). This is a rather new territory, but current market and technology developments offer increasingly more interesting opportunities to enable integrated credit management efficiently and effectively.

### **Measuring is essential, but what do we actually need to measure?**

If we want to manage our business, we need to register all kinds of information, so that it can be measured and analyzed. For many organizations, Measuring itself is not so complicated, but what we need to measure and how to interpret it is. If you want to know what to measure, then we must first think about which Key Performance Indicators (KPI's) are essential for our core business performance. That implies that we need to have a sound understanding of our business processes and the market, and how they related to, and have an impact on, one another.

Once we determined which KPI's really matter to our business performance, we need to have a system that is technically able to measure data, interpret data,

and efficiently communicate the results within the organization. Especially in operations, process related KPI's are important to enable decision making at the right time, and in the right place. This implies that a solution should be role and workflow driven with a strong focus on both operational as well as strategic performance. For example, credit management may have set a year target to reduce the Days Sales Outstanding (DSO) with X days, but what does a reduction in DSO really mean in terms of business performance? To answer this question we may need to interpret DSO in a broader (cross functional) perspective. This could mean that we need more advanced reporting and analytics to answer questions like:

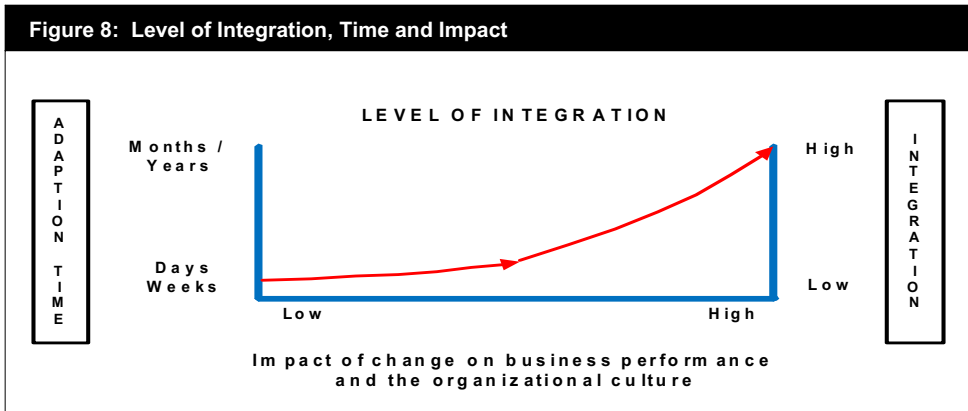
- What is the correlation between DSO and sales and/or profitability?
- What is the relationship between extended credit terms, sales and bad debt?
- What are the root causes of a change in DSO, which customers are involved and how did they perform in terms of sales and profitability?
- How does risk relates to a mitigation/shift in payment behaviour?
- How can scoring be applied in order to identify out of pattern behaviour?
- How must out of pattern be defined for your business?
- What is the correlation between complaints, customer retention, customer loyalty, and sales?
- Which customers suffer most from complaints and what is the correlation with sales?
- What is the impact of process disturbances on cash flow, working capital, sales and profits?

In other words, when we look at credit management from an integrated point of view, we need to bring many other factors into the equation. Not only do we need to ask ourselves what we want to measure, but also how to measure it, and how to determine the relevance of what we have measured relates to our own performance, and the performance of other related departments and market performance. Answering these kinds of questions are essential if we want to measure and manage integrated credit management profoundly. It takes experienced people who understand the business/business processes and intelligent and agile systems to answer the questions who are relevant to our business. If we want to position credit management as an integrated business

function, we have a lot of interesting technical and organizational challenges to face and problems to solve.

### Pitfalls along the Path of Integration

Organizations must realize they may have to walk a long and difficult road before credit management has been fully integrated into the business process. In general, it may take a lot of time before the effects pay off, as a change in the way people need to think and act likewise is required. Independent research indicates that organizational culture is more influential on the bottom-line performance of an organization than anything else. No management idea, regardless of how good, will work in practice if it does not fit the organizational culture. *Figure 8* shows how integration, time and impact on performance and organizational culture are related.



Therefore, the speed of change needs to be adapted to what the organizational culture can practically 'absorb'. For an organization it may be better taking 20 small steps at the time, rather than a few large steps ultimately leading to failure (for both the organization as the customer). Especially where automation is involved, we need to be very careful in our proceedings. The reasons why so many automation projects have partially failed in the past are numerous, but the most important reason always comes down to poor communication and alignment between people (culture) and business processes.

We often seem to think in just technical solutions, but we should never forget that doing business is a process that takes place between people and systems. Therefore, people (culture) and the business process should always be given first priority before thinking about any software solution at all. Understanding the business process and the people involved are key elements in the decision making process. If your business process is not in place properly, then you

should improve or fix this first before thinking about anything else. Automating a bad process (and possibly with the wrong people) is far worse than not automating at all. People seem to like it to write hefty reports on this topic, but past experiences and business cases give a clear warning signal. Think first, stay very close to the business (people/culture and processes) and define your current and future information needs carefully. Until you feel secure that all signs are green, you can take the next step and make a start in exploring the market for suitable solutions. Once again, do not automate a bad process and take your time, so the organization and your people can gradually learn and adapt to a different approach in thinking and acting.

### **Conclusion**

The reason why some companies are more successful in implementing integrated credit management than others can not only be explained by how companies (management) think about credit management as a business function, but also on how these companies have aligned their credit policy and procedures with their business processes, their business objectives and how well they communicated all this within the organization and to their customers. A lot of problems arise in organizations because departments simply do not know (or do not want to know) what to expect from each other.

From an organizational point of view, it may look as if departments work together but in reality many departments seem to act only according to their own agenda and personal interests. Besides, processes and systems are sometimes often not properly aligned to make efficient and effective communication technically possible. The root cause why departments (people) are not able to communicate policies and/or procedures clearly and effectively within the organization, mostly lies in fundamentally poor communication and cooperation, which often results in mediocre operational performance and profitability, which obviously may go at the expense of business continuity.

By communicating a simple, clear, practical and non-threatening message about what you do, why you do it, and how you like to do it, you create a basis of mutual understanding, which is essential for building positive and effective internal relations. With a focus on the customer (value) and the business objectives, people can start to work out ideas and procedures how cross functional activities can be made easier, more effective and more profitable for both sides. Just like doing business, communication and cooperation is a two way street where both parties need to benefit. This does not imply that you will not have any further conflicts, but at least you will be in a much better position to solve daily problems in a structured and effective way and avoid situations which are not in the interest of the customer and/or the organization's objectives. Identifying operational 'win win' situations, where departments can cross-functionally benefit from each other instead of opposing each other, is an important prerequisite to create conditions for effective cooperation and cross functional integration.

The bottom line in credit management is that if people in organizations focus on the customer, the market and the business objectives, align and integrate this dynamically and strategically into the organization's way of thinking and acting (people, culture, processes and systems), organizations can create excellent conditions for long-term competitiveness, profitability and continuity. The understanding that communication and cooperation are essential prerequisites for integration is key.

Finally, we should not underestimate the importance of the organizational culture. The organizational culture is often a decisive factor on how fast an organization can adapt to change. Don't start a process of integration if your organizational culture and/or business processes is not ready to deal with its implications and requirements. Get full management support and take your time to start working things out in a constructive, consistent and realistic manner. If you follow this road it may be the best way to ensure an effective and profitable cross-functional integration of credit management into your organization. The ultimate motivation which pleads for the integrated customer and market oriented approach of credit management is that it will not only be profitable for your organization, but for your customers, operational efficiency, productivity, sustainability and ultimately business continuity as well.