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FINANCE FUELING SALES

Credit Departments as Drivers of Profitable Growth

Four Steps Toward Finance Partnering with Sales to Find Opportunities and Spur Profitability

By Bob Porreca

EXECUTIVE SUMMARY

The modern credit department is playing an expanded role in supporting sales and driving business growth. Traditionally, credit departments have focused on identifying potentially poor customers, thereby reducing losses and mitigating risks. Although this remains a critical function, credit departments also possess a wealth of data that can be mined to identify new business opportunities. With the help of new technologies, credit can work with sales departments by tapping into customer data and sharing insights for increasing sales. As these efforts mature, best practices have emerged to help companies:

- Shorten the sales cycle with centralized credit decision making, robust prescreening processes and expanded automation of credit approval.
- Build stronger customer relationships by using customer insight to reduce credit holds, modify credit limits and find up-sell opportunities.
- Generate new prospects with analytics that optimize and segment a company's portfolio to identify prospects that look like its best customers.
- Improve the integration of information systems, processes and people to strengthen the collaboration between credit and sales.

In many companies, these initiatives are part of a wider push to integrate systems, data and processes so that all enterprise functions work in unison toward corporate goals. Every department—not just sales—has a vested interest in the company's success. By building a genuine partnership with sales, credit managers will become opportunity managers who help their organizations achieve greater profitability and growth.

CREDIT DEPARTMENTS CHALLENGED TO PROVE GREATER VALUE

Customer Finance executives and credit managers have long played a crucial role in helping their companies avoid unnecessary risks by providing clear-eyed analyses of prospective customers, managing risks and collecting payments from existing customers. But as corporations face increasing pressure to reduce costs and find new sources of revenue, the credit department, like every aspect of the business, is under pressure to demonstrate increased value to the company's bottom line. It is not enough for credit departments to simply act as gatekeepers to prevent bad credit decisions; they are also expected to support company efforts to expand sales and meet growth targets.

Credit managers clearly understand the need to enable sales. In a survey by Credit Today, 34% of credit and finance professionals said that "working more closely with sales" was a top priority. But achieving this goal has proven more difficult than expected for many organizations. Credit and sales departments often operate at cross purposes. Sales personnel are rewarded with commissions and so push to extend easy credit to maximize sales and commissions.

In contrast, credit personnel are not rewarded for sales, but they may be reprimanded for lax credit standards; and so they apply credit rules cautiously to minimize bad debt, slow pay and other risks. Such circumstances tend to promote tension and conflict rather than cooperation between credit and sales departments. A lack of integration among their information systems, databases and processes further hinders information sharing.

Consequently, effective collaboration most often occurs only at the initial point of sale when new customers are approved and credit limits established. After that point, the credit department may provide little proactive analysis or insight aimed at expanding business with customers.

In truth, credit and sales departments share many important goals. Both want their company to increase its revenue and profits. Both want consistent and predictable credit policies guided by real insight into customer behavior.

Each brings to the table unique customer knowledge that can help the other succeed, particularly when their data is combined in rigorous, ongoing analysis of the customer lifecycle. The challenge is overcoming traditional obstacles to cooperation.

TECHNOLOGY ENABLES SHARING AND USE OF INFORMATION ACROSS FUNCTIONS

Recent trends in technology are breaking down corporate silos, including those in credit and sales functions, by enabling information sharing. For example, enterprise resource planning (ERP) systems have automated the exchange of information across manufacturing, sales, accounting, credit and other departments. Similarly, multiple functions are gathering and sharing more data about their customers in customer relationship management (CRM) systems. However, intelligently consolidating and tapping into these disparate data sources is not always easy. One option is to utilize third-party business data services that can help companies unlock and enhance the value of their vast data stores. For example, a third-party data service can cleanse and enrich the data, thus facilitating efficient information sharing among a company's systems to generate an accurate and complete picture of their customers. With the emergence of advanced analytics, credit organizations can leverage their customer data to identify promising business opportunities and automate credit management processes for faster, more efficient decision making.

These developments open the door to greater collaboration between the credit and sales departments through the sharing of data and insights about customer characteristics, trends and needs. Other departments, such as marketing and business development, can also derive similar benefit from a closer partnership with credit by leveraging a more complete view of customers. The result: Lower costs and expanding opportunities.

BEST PRACTICES FOR CREDIT-SALES COLLABORATION

There is no precise blueprint or path for improving the credit department's partnership with sales. Each organization must shape its activities to reflect its unique culture, operating model, processes and business goals. However, in working with companies that transform their credit departments into profit and growth centers, we have identified four best practices. Successful companies:

1. SHORTEN THE SALES CYCLE

2. BUILD RELATIONSHIPS WITH EXISTING CUSTOMERS

3. GENERATE STRONGER NEW BUSINESS PROSPECTS

4. IMPROVE INTEGRATION OF INFORMATION SYSTEMS

> Shorten the sales cycle with centralized credit decision making, robust prescreening processes and expanded automation of credit approval.

Centralizing credit operations and decisions, as opposed to deploying credit resources across the enterprise, offers several advantages. It establishes a single, standardized process that is more predictable for sales and customers and provides both with a single point of contact for addressing credit issues. Automation also helps avoid the inefficiencies and problems that can arise with manual processes, such as the many phone calls, e-mails and faxes, rekeying of data, ad hoc credit reporting and inconsistent application of credit limits and other policies—all of which increase the potential for errors and delays.

The data and capabilities already exist for more widespread prescreening of credit applicants. For example, third-party services can supplement a company's own firmographic data about prospective credit customers; in addition, third parties can provide robust financial and risk measures, which can be calibrated to a customized set of credit rules. Companies can also create separate prescreening processes and rules for new customers, thus minimizing risk.

Automating prescreening and approval processes essentially pushes the company's internal credit policies all the way to the actual point of sale, whether the sale occurs at the office, on the company website, or in the field through the use of mobile computing devices. In fact, automation significantly increases the benefits of a mobile sales force (see sidebar). Customers are better served by the swift and efficient approval process, as are the sales and credit teams.

Not all decisions will be automated, but automation will enable companies to quickly address the clear-cut approvals and disapprovals, so they can begin doing business immediately with promising customers. Equally important, sales personnel won't waste time chasing prospects that can't or won't pay, while the credit department can focus its resources on resolving more challenging credit issues.

This approach also lends itself to creating an online credit application process. Many companies already have the ability to receive e-signatures and securely store credit applications and other related documents. An online credit application creates a consistent and compliant process that improves sales and customer satisfaction by enabling an instant answer, while also allowing the company to maintain control of the process and decisions through a customized set of rules.

Build stronger relationships with existing customers by using customer insight to reduce credit holds, modify credit limits, and find up-sell opportunities.

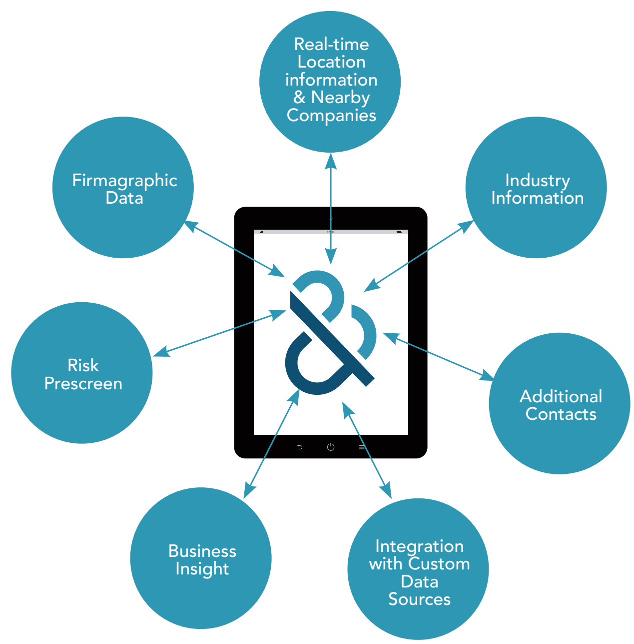
Credit limits are often set based on a customer's initial order, rather than on the customer's future needs or capacity. In addition, once credit limits are established, they often remain fixed unless the customer requests that the ceiling be raised. Over time, growing customers may find themselves hamstrung by unnecessarily low credit limits. Customers may even inadvertently exceed their limit and cause their account to be put on hold, leading to a frustrating scramble to get the order released. As a result, companies—and their sales teams—are potentially leaving money on the table and causing dissatisfaction because they don't fully understand their customers' needs, capabilities, or risk profile.

Credit departments can help rectify this problem by providing sales with data and analytic insights about each customer, including which customers are reaching their credit limits and/or have the ability to spend beyond their current limits. This proactive approach not only ensures profitable customers will have access to the credit they need, it also provides up-sell opportunities for sales teams. For example, business and risk-based intelligence can identify low-risk customers who are under utilizing their credit limits, thus making them good prospects for increased sales. Business intelligence can also help sales staff understand which customers are expanding their businesses and have the resources to increase their sales. Companies should constantly monitor the risk levels of their portfolios and modify the credit limit and terms as appropriate.

Another valuable source of insight is a customer's corporate linkage. An understanding of corporate linkage, which is the legal ownership relationship between different companies within a corporate family tree, can reveal previously unknown connections among customers. With this information, sales can see who their biggest and best customers are and develop promising leads of prospects that are legally related to those customers. In addition, sales can allocate resources more efficiently, identify cross-selling and up-selling opportunities and determine the appropriate service levels for the biggest and best customers. By forging a stronger partnership with the sales department, credit departments can help sales forge stronger relationships with their customers.

MAKING PROSPECT/CUSTOMER DATA AND SERVICES AVAILABLE—ANYTIME AND ANYWHERE

Mobile devices enable firms to deliver real-time business information to sales personnel whenever and wherever they need it. This not only includes basic firmographic data, such a company's size, locations, executives, important contacts and other CRM information, but also risk pre-screening of potential customers. Sales staff will know where to spend their time by instantly qualifying and prioritizing prospects based on their credit worthiness. Mobile computing is especially useful for companies that automate their credit approval processes, because sales staffs are able to close deals anytime, anywhere.



Generate new prospects with analytics that optimize and segment a company's portfolio to identify and target its best customers.

Most companies possess a wealth of information about their customers, but it is often trapped in multiple systems, such as ERP, CRM and accounts receivable systems. By cleansing and integrating their internal data, companies can create a powerful 360-degree view of their existing and potential customers.

However, it should be noted that this step depends on accurate and complete matching of the different businesses within the databases. Many companies use name-recognition software programs, but these often fail to accurately consolidate all the ways a company may be represented—or misrepresented. That is, a single company could be identified by its corporate name, trade name, acronym, abbreviation or misspelled versions of these names. Matching software that cannot effectively reconcile business names and data will yield fewer customer insights and perhaps even provide misleading guidance to decision makers.

Once their internal data is cleansed, companies may also use third-party data services to enrich data and provide more robust insight to create an optimized customer database. Companies can then build profiles of what their best customers look like using analytics that examine firmographic data, risk levels, profitability, predictions of future risk and other variables. In addition, these profiles can be segmented according to industry, geographical location, business size, years of operation and other business categories. By understanding risk and profitability across these segmentations, companies can work with marketing and business development to target prospects that look just like their best, most profitable customers.

Improve the integration of information systems, processes, and people to strengthen the collaboration between credit and sales.

The creation of fully integrated credit and sales organizations will not take place overnight. Companies should develop a strategy and tactical plan and then begin with manageable steps that address the technological, organizational and cultural challenges. Companies must lay the groundwork for integrating systems and improving data sharing. For example, they might begin by setting up a working session to build an integrated workflow solution to consolidate their CRM, ERP, sales and collection systems. Some companies start by mapping out a "perfect world" quote- to-cash process to help guide discussions and architect their plan. The move to cloud computing is simplifying system integration and driving down the costs, particularly as companies implement online and mobile applications for instant answers on credit limits and other issues.

COLLABORATION DRIVES RESULTS

By working together, credit and sales departments have been able to:

– Improve cash flow by reducing Days Sales Outstanding to 2-3 days

– Shorten sales cycle time by 10-12 days

– Increase up-sell/cross-sell opportunities by 2-3 percent

– Increase pipeline close rate by 2-5 percent

** Estimates based on past results*

Companies can also make organizational changes to foster a culture of collaboration. For example, some companies are sending their credit staff on sales calls with sales staff to help the credit staff better understand the needs of their company's customers. It also helps to forge a closer partnership between credit and sales personnel. In addition, most credit departments could begin sharing existing insights with sales and marketing to provide customer insight. Credit could compile lists of customers that pay on time or are underutilizing their credit limits, information that could improve services and increase sales. Credit and sales could also review limits together more often.

Some companies have created committees to review accounts receivable and credit policies, thus formalizing the credit-sales partnership and ensuring enterprise- wide attention to customers and credit decisions. As a result, the decision-making processes always take into the consideration the perspectives of both credit and sales. These processes tend to be flexible so decisions are based on the knowledge and insight that credit and sales have regarding each customer. This ensures consistent, predicatble outcomes that maximize opportunities and minimize risks.

Cooperation between credit and sales ultimately becomes a two-way street. Not only does credit assist sales, but sales assists credit. Sales can act as an extension of collection activities, using its understanding of customers to help resolve collection issues quickly and amicably. Each plays a mutually reinforcing role in providing insight into opportunities and risks, identifying market trends, understanding customer behavior, and delivering customer service. Once these efforts begin, credit and sales will discover new ways to collaborate.

We have seen companies achieve significant benefits as they put these best practices into place, such as shortening the sales cycle by up to 12 days; increasing up-sell and cross-sell opportunities by 2% to 3%; and increasing pipeline close rate by up to 5%.

GETTING STARTED

Company leaders intuitively understand the power of data and analytics to derive insights from the credit-sales partnership, but undertaking such an initiative can seem overwhelming. Where should a company start? The process can be best understood as three basic steps:

Step 1: Information Gathering. Identify all sources of your customer data.

Step 2: Matching. Rationalize your business and customer data so you can integrate it and make it available across your enterprise.

Step 3: Analysis. Apply advanced analytics to understand and better server your customers, as well as identify your most promising prospects.

Although the plan is simple, not all of the activities within each step are necessarily easy. Matching and integration can pose a significant challenge for many companies. Devising the right analytics can demand persistence, creativity and perhaps new skills. Nevertheless, the time and investments is far exceeded by the payoff in improved customer service, increasing numbers of high-quality prospects, and a bigger bottom line.

CONCLUSION

The effective integration of enterprise data, systems and processes provides the foundation for an organization in which all component pieces work together to support the core business and promote growth. The credit department can play an essential role in these integration efforts, particularly by providing sales staff with valuable insights into existing and prospective customers. The ability to integrate and analyze large databases of customer information can yield significant benefits, such as more accurate and efficient prescreening of customers, online credit screening and automated approval, reduction of credit holds, identification of up-sell opportunities among existing customers and more precise targeting of new customers. The value of the credit department thus expands beyond its ability to help the company avoid bad customers. Credit can help the company find good customers and deliver better service to them.

ABOUT THE AUTHOR

Robert (Bob) Porreca is as Senior Channel Director with Dun & Bradstreet's Global Product Solutions organization. Mr. Porreca has 32 years of experience in information management and credit risk management at Dun & Bradstreet. Over the years, he has held a series of leadership positions in data management, data strategy and product development for credit risk. Most recently, he spent four years as a Risk Management Specialist to better understand customer needs, the credit and collections process and how customers want to interact with D&B data and services. Mr. Porreca was the driving force behind the company's global initiative to create D&B's proprietary DUNSRight Data Quality process, the process D&B uses to produce quality information. He holds 2 patents for Product Development. In his current role, Bob is responsible for supporting D&B's sales teams and customers as a D&B product and best practices expert on credit risk management. Recognized as an industry thought leader, Mr. Porreca is a frequent speaker at industry events and webinars on the credit risk management. He has co-authored papers in the past and is proud to author his first paper, Credit Departments as Drivers of Profitable Growth.

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