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The Impact of Technology on Credit Managers: The Convergence of Data, Analytics, and Process Automation

As credit and collections managers survey their profession, they see a ground swell of support for new technologies. After years of declining budgets for IT investment, there is pent up demand for productivity enhancements in the form of centralization, standardization, and outsourcing of financial functions. The reasons are numerous.

- Inaccurate forecasting of DSO, write-offs and loss provisions is no longer acceptable.
- Enterprise Risk Management (ERM) is more important today as memories of Enron, Tyco and other corporate scandals are fresh in the minds of CFOs.
- Sarbanes-Oxley has created an urgent need to implement company-wide internal controls.

Even though the economy has turned, companies are still looking to do more with less. Consequently, the elimination of redundant and inefficient tasks and the automation of repetitive tasks are crucial. Credit and collections managers need to be able to deliver on these needs, while at the same time, managing their continuing day-to-day activities. ROI is also playing a larger role in today's climate. These pressures are creating significant challenges because the state of credit and collections technology for many companies is woefully inadequate.

Among the hurdles are:

Rigid Technology: Despite some recent progress, Enterprise Resource Planning (ERP) vendors lack the full range of capabilities necessary for complete trade receivables management. Frequent, extensive and costly upgrades and customization are often needed. Additionally, many companies still have multiple ERP systems across business units and countries, underscoring the need for a single unifying view. To address these issues, some companies have created a patchwork of third-party software solutions, spreadsheets and home-grown systems that fail to provide a full feature set, do not easily scale with their businesses and lack critical workflow capabilities.

Data Granularity: Although a wealth of credit data sources are available today, many companies still rely on a single data bureau for all credit decisions, and a majority of companies lack an automated scoring process to review accounts. In fact, as evidenced by a recent Credit Research Foundation report entitled "Credit Scoring: The Future of Decisioning in the A/R Process", only a third of all respondents are currently using scoring. The same report showed that the vast majority of respondents rely on a single vendor as their primary source for scores. The complexity and inflexibility of these systems tend to hamper the use of multiple sources of data due to the problems associated with linking and maintaining such sources. Companies only further complicate the situation when they attempt to blend multiple data sources for scoring or automated processing. For multinational corporations, these problems are exacerbated due to the complexity of managing data on a global scale.

Project Prioritization: ERP upgrades and corporate governance obligations such as Sarbanes-Oxley compliance—including their associated business intelligence implementations—compete for IT resources. IT departments are under pressure, and budgets are still so thin that even projects with strong ROI projections can be delayed significantly.

System Integration: It wasn't long ago that the main questions credit managers asked vendors were, "Does your system do X?" and "How much does it cost?" Today, it is no longer sufficient to have one system that will do "X", and another that performs "Y." Regardless of the type of financing, issuers of credit are realizing that too much time is wasted handing off tasks, toggling between screens, duplicating data entry and trying to keep separate systems synchronized. In the article "Middle Market Lending: Trends in Credit Granting, Loan Operations and Process Improvement" (*Business Credit*, September 2003), John O'Connor identifies the centralization of financial analysis tasks

as being of critical importance for successful middle-market lenders. It is not only centralization in one location, but also the transitioning from a disjointed sequence of tasks into a unified process, that leads to greater efficiency and reduced operational risk. If forms are faxed from one office to another; if numbers are copied between spreading tools and underwriting systems; or if risk assessments available in one system are manually imported into another, then the issuer of credit not only loses time and customer satisfaction, but also runs an alarming risk of costly errors and omissions.

What is the alternative?

Coupled with the challenges of legacy technology, the business pressures on managers lead one to conclude that a complete solution is difficult to implement. To create such a solution, companies need to weed through a growing list of vendors, technologies and data sources while at the same time managing their daily activities. In this process, credit and collections managers are not looking for first generation standalone applications that require companies to choose between buying the most full-featured workflow suite or getting the most accurate analytics and data. Additionally, lenders have little interest in being forced by software vendors to adopt any particular processes. Given the differences in operating models, borrower profiles and credit policies, a process that works well in one environment is not necessarily useful in another. How, therefore, can the objectives of unified processes and best-of-class components be reconciled? The answer lies in technologies and standards such as XML, SOAP and web services, which have created a new class of applications that can be rapidly deployed and integrated to solve real business problems quickly and economically. Technologies built using these standards increase the level of collaboration between companies through integration at the business process level.

It is especially illuminating to explore the implementation of one of these technologies, web services. Web services have been defined by IBM as "self-contained, modular application[s] that can be described, published, located and invoked over the web. Platform-neutral and based on open standards, web services can be combined with each other to create business processes that facilitate interaction among customers, employees, and suppliers." In the context of a credit or collections system, web services allow customer information, bureau data, A/R data and third-party analytics to flow into a single repository or system.

An example of web services in action is depicted in Figure 1.

By encapsulating information in standard XML format, web service tools strip away the graphical user interface and data storage components to focus on the very essence of the offering: the underlying data. The tools take a specific input (e.g., financial statement data), and produce a defined output (e.g., default probability). The credit analyst transmits the input via a secure web connection to the service provider, which returns an appropriate automatic response. The entire computer-to-computer dialog takes place via XML, using a data transmission format that eases cross-vendor integration. Projects that used to take months are now accomplished in days as long as both participating applications are able to communicate via XML. This has immediate benefits for the systems vendors and their clients. Different system providers can develop applications in cooperation, each focusing on what they do best, and then merge their offerings. The client receives a best-in-class solution with the flexibility to purchase and use only those components that are truly needed.

This advantage is magnified by the deployment of the solution in Application Service Provider (ASP) mode. The next generation of

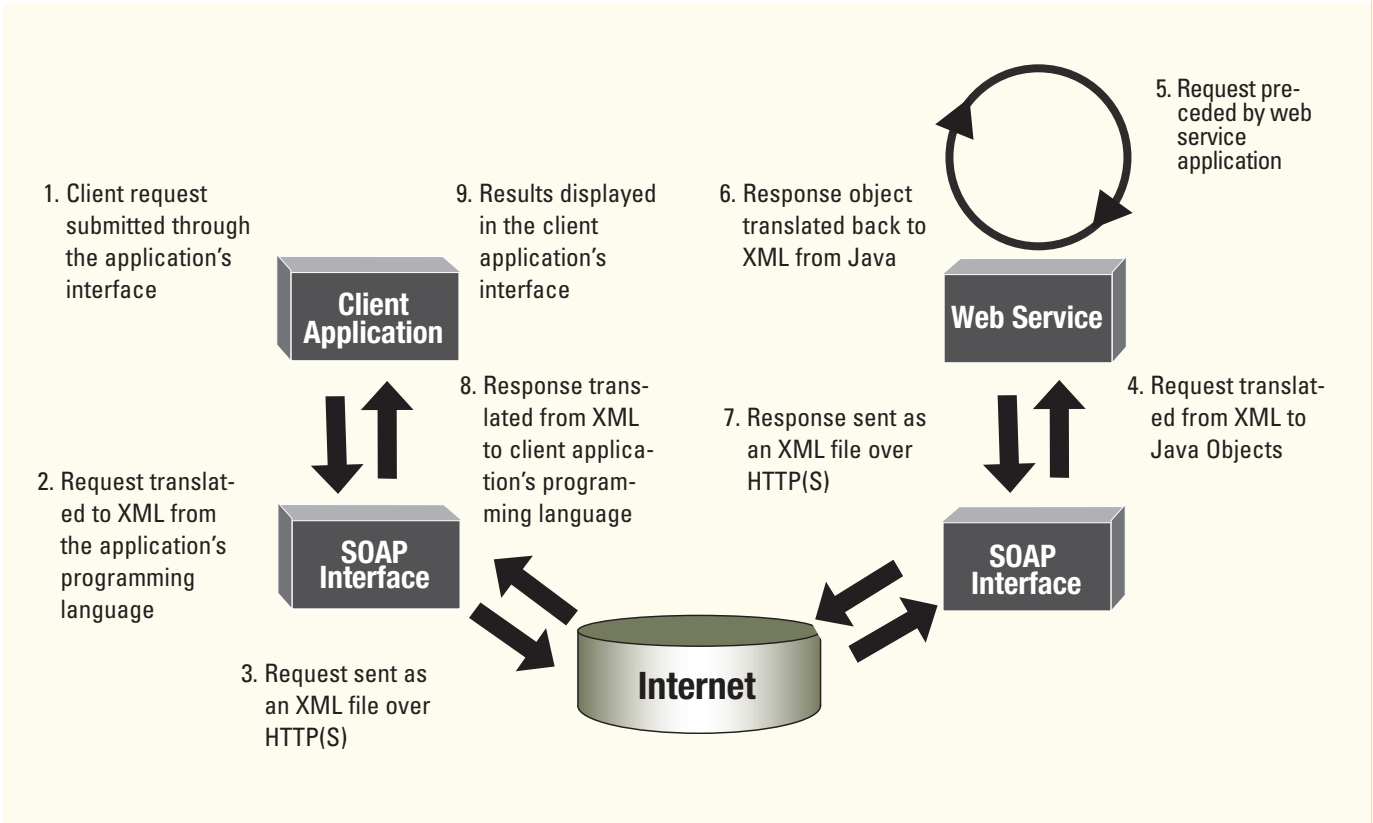

Table 1: Traditional Approach vs. On-Demand & Web Services Approach

	Legacy	On-Demand ASP / Web Service Model
Functionality	Complex and rigid	High-value and flexible (e.g. best-in-class)—The most accurate analytics, the most up-to-date data from the most appropriate source, the most advanced workflow and automation tool, complete user control, no compromises
Customization	Requires significant consulting, high IT involvement	Flexible, configuration-based, user-defined, low IT involvement (if any)
Integration	Proprietary and lengthy	Open, standard-based, real-time
Complexity	High	Low, user-centric, self-help
Operating Costs	High initial investment, substantial ongoing maintenance costs, significant upgrades required to get the latest technology	Low and predictable, more rapid ROI, low risk subscription, no IT upgrades or hardware / software investments
Time to Value	Long (months & years), significant initial investment, break-even many years out	Short (weeks), quick to break-even, low-risk investment

Source: Adapted from work by the Stencil Group

software companies functioning as Application Service Providers (ASPs) are now delivering on the broken promises of ASPs of the past, and with the hype of the first generation ASPs well behind us, a new series of providers is now thriving. The ASP business model has resonated well, and high-profile examples of successful ASPs are now enabling accounting, customer relationship management (CRM) and credit and collections automation functions for customers around the world.

To take this idea a step further, "on-demand" ASPs and Web Services are delivering business value today. These new technologies are helping managers address the challenges of corporate governance, new accounting standards, and enhanced risk management despite limited budgets. With a simplified approach to technology, managers can more effectively focus on what they truly want and need. The ability to easily add web services from different vendors provides the necessary flexibility to customize a single solution for many different users across many different industries. The ASP solution acts as hub and workspace for automation, process workflow and data aggregation, enabling rapid, accurate transaction-level processing while at the same time providing the ability to maintain portfolio visibility. For example, a credit solution can be configured to access web services from a credit analysis provider to meet the specific needs of each unique client and type of lending, whether it is trade credit, leasing or small business loans. The underlying application service is the same for each client, but the data, rules, scorecards, and analytics are unique to each subscriber. And, because these solutions are web-based, they are easily accessible and centralized even in a distributed environment. Regardless of location, the user only requires an Internet connection and a web browser. The key advantages of these technologies are outlined in Table 1.

What does all this mean for a credit manager?

Web services increase the level of collaboration between companies and systems through integration at the business process level. On-demand or ASP solutions provide low-complexity and lower, more predictable operational costs, while also delivering high value functionality with limited IT involvement. The combination of web services and an ASP empowers users to expand, integrate and customize without undertaking time-intensive and cumbersome projects. In the context of credit, flexibility is essential, as issuers of credit must be able to configure systems to address the requirements set forth by their operations, customers, risk tolerance and product set. The Internet and the associated wave of standards have allowed companies to interact with their customers and suppliers in a whole new manner, and the next step is for financial functions and the flow of cash to do the same. Over the months and years to come, corporations must continue to partner with internal and external technology providers to lead technology-based change, leveraging IT to lower costs, streamline tasks, and accelerate the velocity of the other order-to-cash cycle. This provides both a challenge and opportunity for credit managers—a challenge of imminent change, but an opportunity to embrace and lead by utilizing new technologies.

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