



Navigating a changing economic landscape

Driving business profitability through the credit department

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Australian businesses are operating in uncertain times; the global economic outlook is shaky and the domestic environment has become more volatile as a result. This information is not new; businesses receive daily reminders of the continuing fall-out from the US sub-prime crisis, with news headlines touting the increasing number of disasters and discussing the impacts on business, the global economy and the flow on effects to consumers.

While the fallout from widespread defaulting on sub-prime loans has not been experienced before, changes in economic conditions occur all the time. Risk management professionals are continually challenged by the need to deal with change and, they are expected to meet this challenge in a nimble and effective manner no matter what the economic situation.

The trap that people can fall into is to react impulsively to the alarming economic headlines. Such reactions however usually result in lost productivity and have even been known to cause detrimental impacts on corporate profitability.

This doesn't need to be the case. By acting strategically and providing insight to the business, credit management professionals can play a critical role in assisting the organisation to manage the changing economic landscape. In fact, by thinking outside the square and working with areas of the business not traditionally plugged into the credit department, you can have significant positive impacts on the business's bottom line.

Importantly however, you must ensure that the credit and risk function is operating effectively before you seek to assist other areas of the business to maximise their potential.

Maintaining the right direction for the business

In good economic times, such as Australia enjoyed for much of 2007, executives are often able to relax their operational management with no real detrimental impact on the business. When the environment turns however, as it did late last year, many businesses find themselves caught out and as they scramble to regain control they often inflict even more damage on the business.

The latest bout of economic turmoil is providing a steep learning curve for many businesses and for credit managers there are three important lessons to be learnt:

1. Ensure that your organisation has a comprehensive risk management strategy in place at all times. If you try to implement these processes when conditions get tough you will be running behind and will struggle to ever make up the lost ground.
2. The timeliness of information is critical to effective decision making. Make every effort to automate your credit risk management processes and ensure that you receive constant updates on all required information.
3. To be effective risk management processes need to be flexible. Ensure that your evaluation process is continuous and that you are able to respond quickly and efficiently to changes in the economy and to changes in corporate strategy.



Using credit information to drive profitability in other areas of the business

Credit professionals have a plethora of information at their fingertips which can and should be utilised by other areas of the business. In particular, customer performance and risk profile data is extremely valuable information for a sales and marketing team.

This data is useful throughout all stages of the customer lifecycle however it is particularly valuable in the client prospecting stage.

The key to effective prospecting is establishing appropriate targets and this requires a thorough understanding of what constitutes a good customer. Risk and payment behaviour information held within the credit department should be a central component in any determination regarding the desirability of a business as a customer. This information can help to predict both a customer's expected creditworthiness and their overall value to the business.

By taking this information from its natural place in the credit department and providing it to the business, you can help to drive profitability and deliver value far beyond your perceived traditional role. This occurs because your data will ensure that the business does not waste valuable resources targeting customers that are a credit risk or will not generate ongoing profits for the business.

Attaining new customers is important for every business however the benefit this brings will be eroded if that customer does not pay on time or does not pay at all. Late payers impact business cash flow, often preventing a business from seeking growth opportunities. They also drain valuable resources as staff are forced to chase outstanding debts.

It is important to be aware that this data alone will not allow the business to achieve its desired outcome. Realising untapped prospecting opportunities requires the completion of thorough customer segmentation and analysis that utilises a variety of data sources.

However, if properly executed, the teaming up of the credit department with other areas of the business will lay the foundations for strong and profitable relationships through all stages of the customer lifecycle.

An effective risk management function that shares its data and allows the business to understand its customers and prospects is an unbeatable combination. This partnership will help your organisation to navigate the current economic turbulence.

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