



Evolution of Credit Management

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There are ever-changing trends affecting the credit and accounts receivable management. This \ paper was written in 2009 by John Broderick, President (retired) of Smyyth Credit (now Credit2B.com). It provides timeless guidance on how to meet the demands of change and prepare for credit management of the future. You will note that the impact of technology was an area not fully explored, the impact if which was not seen with such clarity in 2009, so we added this to the preamble, written in 2017.

Preamble (2017)

So much has happened in Credit Management over the last decade that it is difficult even to remember what the work day was like when “technology” was still in the computer room instead of on the desktop. This transformation will continue, of course, and ten years from now, you’ll wonder how ever did they manage back in 2017.

Credit management is evolving into a data-driven, function driven by artificial intelligence (AI), robotic processes (RP), advanced scoring analytics (ASA), and automated workflow that eliminates most of the manual tasks and duties previously performed.

The spreading and analyzing of financials, social credit group meetings, reference calls, faxes, emails and never-ending follow-ups are all being replaced by automation and workflow systems

Streamlined systems bring Sales, Credit and the Customer into a common platform where information and business functions are done with one entry and a click.

Virtual credit networks exponentially expand now score-able trade data without the need to travel to in-person group meetings.

Credit managers, who once often equated the level of their responsibility with the number of people they commanded, now are managers of “resources” assembled to accomplish the corporate goals. The resources could be internal or external, human or computer, data or algorithm.

None of this has changed the need to understand the credit basics of business economics, industry trends, and the “Four C’s” of credit.

It has changed, however, the way that the “credit basics” are deployed. Whereas they used in an unstructured way of *thinking* and mentally processing a credit risk decision, the need in this and the next decade is to deploy data and these decision factors in a structured scheme usable by computer systems, using AI and RP. In the most advanced companies, the “old” way will be out, and the new skills will be required.

This period we are in will likely be last gasp of the old business modus operandi, and as the present generation retires, they will be replaced by new thought-leaders in credit management that grew up in the internet age and having a distinct technology bent.

Meeting the Demands of Change in Credit and Accounts Receivable Management

As industry consolidation continues, there is always a possibility your present position could be caught in the ongoing battles of merger, centralization, decentralization or business process outsourcing. Or if your company is implementing an ERP system such as SAP, your position will be affected and may be different in ways you may not have anticipated. Technology, Globalization and E-commerce all have an impact on your future.

The irony is that at the very time the need for skilled professionals is at a peak, as companies are forced to upgrade technology and strategy to remain competitive they must adjust and reorganize the work force to keep pace with these changes. As a consequence, job security today depends on the answers to “How marketable are your skills?” and “Have you kept your skills current? Are you benchmarking your and your department’s performance against your peers? To further add discomfort, as a credit management professional you recognize that your field is transitioning. Are your skills up to the challenge of becoming a “Customer Financial Service Professional” or a “Customer Support Finance Manager”? Entire job categories in credit and accounts receivable management have been redefined by these changes, and you need to keep up.

Evolution of the Traditional Credit Management Function

As Credit Management is seen differently, the processes behind the function will be performed differently. The primary philosophical change has been the transition from the traditional Credit role to the newer arena of Customer Financial Services. A separation between Credit Risk and Accounts Receivable and Collection management is becoming apparent.

In addressing the Credit Risk portion of the Customer Financial Service role, a Fortune 200 client included the following in their mission statement for a Corporate Manager of Credit Risk.

“Companies must develop strategic responses to be more competitive within an ever-changing business environment. It must be recognized that creative and long-term processes must be applied to the issues of Customer Evaluation and Financing. The scope of these evaluations encompasses, not only the traditional discipline of Credit Risk Evaluation, but extend further into the realm of, ‘Getting to know your customer and your marketplace’. In essence – ‘Know who you are doing business with.’ As important as gaining this knowledge is the proper dissemination of it by recognizing the Customer Financial Services Department as the key supporter of the overall sales effort.”

Credit Management is being entrusted to those who have schooled themselves beyond the short-term trade credit perspective, which had been the traditional role of the Credit Manager.

The difference is that in tomorrow’s world it will be mandated that the Credit Manager be a long-term investment advisor to Finance while at the same time be a key supporter to the Sales effort. Skills in the areas of Economic and Market Research will be expected. In the job descriptions seen over the past years, there has been a significant increase in the number of companies requiring the Credit Manager to determine the P&L of customers and transactions. The question being asked is, “How can you determine how much risk to take if you don’t know how much profit is at stake?” This type of analysis, which has been the traditional realm of a Corporate Financial Analyst, is sometimes being transitioned to a Credit Risk Manager.

Evaluation of business partners is requirement we are seeing with increased frequency. The Credit Risk Manager should recognize these customers who will be tomorrow’s winners and develop them. Early commitment to and investment (via credit exposures) in these customers will mean long-term profit opportunity. Credit, viewed as opportunity, is a long way from credit viewed as a 30-day transactional activity.

In some organizations, the Credit Risk Manager has become synonymous with “Deal-Doer.” Recently, a Credit Director we know saw a news article about shipping barges being purchased to use as prisons. He started the process within his company to become the financing source for these transactions resulting in a net profit of over seven million dollars. It is this type of “out of the box” creative thinking that will get noticed by top management.

Developing Multidisciplinary Order-to-Cash Skills

It is essential be able to succeed in a cross-discipline environment. As the push continues for flatter, more customer-responsive organizations, the adaptable Credit Manager must

incorporate “risk as opportunity” in day-to-day thinking. It is only by combining knowledge of Economics, Technology, Marketing and Finance that a Credit Risk Professional will be able to meet the full range of expected challenges.

There are solutions to manage what can be viewed as an insurmountable mountain of knowledge. The Internet provides information faster and with more depth than ever before. Trade information previously available only in time-consuming meetings or one-to-one can now be shared with ease through Internet systems such as Smyyth Networks 100 million plus record credit data scoring interchange. Outsourcing to expert Credit Management companies often provides overhead savings combined with better results. Credit Scoring Systems and Predictability Models provide the tools to manage large portfolios with fewer people. Knowing how to access, analyze and effectively disseminate information will have more importance than ever before.

You should view your job as managing corporate assets and resources to get things done: internal, external, virtual, and technology. Your view should be agnostic about who does what - no longer is Corporate America into building fiefdoms- as long as you get results for your employer.

Customer Financial Services Vs. the Credit Risk Function

The Customer Financial Service / Customer Care organizational set-up is not yet universally accepted or defined, although there are a number of assumptions which can be made based on what we have seen. The unbundling of Credit Risk, Accounts Receivable and Collections is the most visible, with Credit Risk becoming a specialty with a heavy emphasis upon finance. As a result of this split “Credit Departments” will be smaller, but staffed with more highly skilled professionals. As your inter-departmental exposure increases, opportunities outside of Credit should follow, and we have seen increasing numbers of credit-trained individuals promoted to areas such as Strategic Planning, Project and Trade Finance, and Marketing. The traditional areas of growth such as Treasury or Cash Management are still available as well.

It is possible the Credit Risk function will not report into Customer Financial Services at all, but rather be attached to Corporate Finance or even Marketing. A Credit Risk Department tends to be small with a group of well-educated people dedicated to the financial evaluation of strategic partners and opportunities. Sophisticated Scoring Programs such as Smyyth’s RationalScore system are increasingly handling the day-to-day Credit issues. This is one area where the impact of technology is having a significant effect upon the Credit Function.

Within the framework of Customer Financial Services, important career decisions need to be made. If you are a great manager of people and good with technology then it may be best to move towards the Customer Care side of the organization. If you enjoy analysis and “deal doing” within the Credit Risk structure, then you must follow this path. A great

deal of career unhappiness can be avoided with self-analysis and following the path that complements your strengths. The good news is that the split in Credit functions to Customer Financial Service or Credit Risk offers career flexibility to pursue differing paths.

Customer Care Encompasses Order-to-Cash

Another assumption concerning Customer Financial Service is that the Order to Cash Business Processes will fall within the responsibility of this function. This may be inclusive of Accounts Receivable, Collection Management, Order Entry, Billing, Customer Service, Deductions Management, possibly Credit Risk, and even some areas of Logistics. Smyyth has seen Director level positions reporting to the VP of Supply Chain Management. The value of cross-discipline training is as clearly evidenced here. On the Order to Cash side of the business, the emphasis is on, "How do we get things done?"

Though the emphasis here is clearly on the practical, the Customer Care Executive must exhibit the type of management aptitude and strategic thinking that anticipates growth and the advantages of new technologies. Shared Order-to-Cash services among several business units makes sense and are the wave of the future, opening up great executive opportunities for expert management types in much large operational settings.

Teaming-Up in the World of Credit Management

"Teaming" has principally been used in large corporations to facilitate shared communications and shared objectives. Originally taken from assembly line process management, "Teaming" requires cross training to maximize efficiencies. When one examines the major process issues, which requires interdependencies between credit, customer service, collections, accounts receivable and logistics, the benefit of the "team" approach becomes apparent. You need to embrace and not fight this idea, as it offers impressive promotional and learning opportunities.

Outsourcing as an Alternative to the Traditional Credit Management

From a functional standpoint, just as with credit risk, there will be a significant need to augment internal processes with third party technology, expertise and services. In a Customer Care scenario, the focus is upon the labor-intensive tasks of collection and customer deduction management. Increasingly, management is recognizing the value of outsourcing the labor-intensive tasks to organizations that specialize in performing these functions. As with the credit risk function you will be called upon to establish relationships with outside vendors where it is cost effective to "rent" as opposed to employ people. As mentioned before, technology that marries internal and external operations is particularly important, as is the idea of managing assets and resources whether internal or external, to meet the corporation's objectives.

Harnessing Change in Customer Financial Services

Simple facts make sense here. Change within the context of Customer Financial Service represents opportunity for those who take advantage of it. If you have more responsibility, you will earn more. If you are multi-disciplined, you have greater job security. If you function with the cutting edge of management tools, your skills welcomed in the job market. The most serious obstacle to career growth is resistance to change. At Smyth we are positioned to see broad trends because our work is a re

flection of our clients' needs. We see that the vocabulary of the field is changing. Position titles such as, "Retail Trade Promotions Manager", "Field Customer Support Manager", "VP of Credit and Securitization" and "Director of Asset Control and Recovery" are replacing the traditional Credit Manager and Director titles. The positions are different, but many times it is the approach to the position that is different, not the skill sets necessary to perform successfully.

International Credit Management

During the past few years, the positions that include "Global" or "Worldwide" in the title have increased dramatically. This is true even in where the international aspect is only one component of the position. What is clear is that Credit Professionals are today expected to know International Trade and if a company is not yet doing business internationally it is inevitable. Required knowledge includes Country and Political Risk Analysis, Credit Insurance Administration, Letter of Credit and International Security Instruments; a knowledge of Bank Procedures and Emerging Markets Risks. Even where a true International specialization is not called for, there is a need to be familiar with the fundamentals. In larger companies, it is often the case that a specialist in international credit is hired.

From a career standpoint, international credit offers an interesting choice, as these positions are often higher paid than their domestic counterparts. However, since they are "Specialists" they may not have the broader career options. Continued globalization may change this. Nonetheless, International Credit is a necessary step towards total credit management competency.

Skills for Today's Credit Management Professional

That the Credit Management Field is demanding new knowhow has not diminished the need for the same two sets of broad skills that are universally important. "Hard Skills" are knowledge-based and include the specifics of the field, such as Bankruptcy and Lien Laws, Financial Analysis, International Trade, etc. "Soft Skills" include leadership, communications, presentation, decision-making, etc.

In the Credit Research Foundation's CFP Skills and Training Survey," Perceived Training

Needs for Credit Executives – in the Next Five Years”, there is a definite sense that the hard skill sets are a higher priority. In the top five only one soft skill - Leadership - was emphasized. The top five also included Global Risk Management and three technology categories.

When the question is asked somewhat differently, “What training needs are necessary for success over the next five years?” the trend reverses itself with the soft skills of Writing, Assertiveness and Leadership being ranked in the top five skills, with hard skills such as Technology following in this ranking, Global Risk Management fell to seventeenth on the list.

New management trends start with the big companies and then move to smaller organizations. Keeping-up with these trends will ensure that you understand and can contribute when change is proposed. *Caution: one of the primary reasons good managers lose their positions is reluctance to adopt or lead change.*

Trends

- Credit will increasingly be viewed in a more senior management context. Reporting relationships will change as the traditional credit and customer financial services are redefined.
- Companies that transition to ERP systems and consolidated operations will be more likely to embrace “Customer Financial Services” as the umbrella organization.
- As a career, the Credit field offers more potential than before, *but for fewer people.*
- More formal education and credentialing will be expected of credit risk professionals, and management skills for the Order-to-Cash functions.
- International skills and knowledge is a big, big plus.
- As credit shifts to the long-term view, those with corporate finance or banking background will fill the credit role in many companies.
- There is an increasing need for outsourcing services, and the credit executive should see the job as one of managing *resources*, internal and external.
- Technology is a never-ending learning process and a weakness for many managers.

Providing Value to the Bottom Line

It was stated earlier that job security, and personal economic security, will be answered by “How marketable are your skills?” This question is equally valid inside your company as on the outside, when seeking a new position. There is no better way to demonstrate your value than by demonstrating the capability of bringing bottom line value to your company. Today’s economic climate demands you to do that.

Smyyth/Creditek provides world-class, end-to-end Order-to-Cash SaaS Technology (Carixa), and Outsourced Services, to enable companies to attain extraordinary cash flow and profits using best practices for management of credit, accounts receivable, collections, deductions, disputes and cash application.

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