Weathering the Storm:
Forecasting How Data & Analytics Impact Modern Credit Teams
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Introduction – The Modern CFO’s New Climate

Much has been written about the modern CFO and the new, modernized finance and credit department. In the past few years, the winds of change have pushed finance leaders out of their roles as cost controllers, and they’re now seen as key drivers of business growth. They’ve redefined their position to focus on being strategic advisors within the C-suite - getting face time with the CEO to discuss the direction of the business and partnering with the CIO on new technology investments.

More and more, CFOs are going on the record stating their goal is to facilitate sales and uncover new revenue opportunities, not simply to serve as Keeper of the Purse Strings. A recent Forrester Consulting study commissioned by Dun & Bradstreet found that, “The role of the CFO is no longer confined to finance, risk, and compliance management … most finance leaders are not only taking an active role in shaping their organizations’ customer-focused initiatives, they’re also leveraging their data and strategy expertise to guide their organizations toward a culture of data-driven decisions.”

The strategic use of data is the cornerstone of all this change. This new, modern CFO has been able to successfully tap into their company’s stockpiles of digital information to mine it for sustainable growth - not just to manage risk and profitability but to fuel sales and inform their company’s overall data strategy. A strong partnership with the CIO – aka Keeper of the Data – predicated this change. The CIO and his or her team maintains the technology that houses the data, but it’s the CFO’s ability to leverage the data for insight that has made them a valuable business asset and one of the harbingers of innovation.

It’s hasn’t been an easy, breezy transition for finance leaders. Back in 2013, a study by KPMG forecasted that “CFOs can help the company harness its data in a program that includes data governance analytics, benchmarking, reporting, leading practices, and intimate knowledge of the business strategy.” Since then, many CFOs admit they have yet to achieve this perfect professional triumvirate of data scientist, strategic advisor, and traditional financial controller. Three years later, a 2016 study by Ernst & Young found that a whopping 58% of finance leaders still say they need to build on their understanding of digital, smart technologies, and sophisticated data analytics. So while many enterprise-level leaders are breaking new ground for the finance function, it seems there’s still a long way to go before this new, multifunction skillset reaches full adoption.

1 The Customer-Obsessed Finance Leader in the Age of Data, Forrester Consulting, 2017
2 The Value-Driven CFO, KPMG, 2014
3 The DNA of the CFO, Ernst & Young, 2016
From Financial Steward to Data-Driven Change Agent

If change at the executive level is disrupting the CFO’s role, has this shift from risk mitigator to data-driven change agent affected the finance department as a whole? Or, are finance managers and credit advisors still using the same tools they did five years ago while leadership is under pressure to change? Lastly, is that forthcoming change always tied up in budget proposals, quarterly wish lists and adjusted priorities?

This is what Dun & Bradstreet set out to discover in revisiting the concept of the modern finance and credit teams. Last year we identified five best practices that CFO’s need to implement in order to leverage data for business insight in our research, *Wired Money: Data, Technology and Five Ways Modern Finance Teams Can Drive Innovation and Growth*. The C-suite has been heavily courted by technology purveyors hoping to transform corporations into automated, data-driven powerhouses. But has the typical financial professional benefited from these investments in data and new technology? Let’s find out if these trends gave an accurate forecast for credit and finance teams.

Taking the Temperature of Modern Finance and Credit Teams

Overall, we found that the digital age has been embraced. Every function of every department has been impacted by technology and the explosion of data; it’s not just talk coming from the corner office. We’ve come so far since workers used white-out on typewriters and tan metal file cabinets filled with olive green file folders lined the walls. Technology has freed many people and teams from manual processes that used to take much longer. Automation has redefined and replaced these manual workflows, and the tradeoff is that employees are now expected to spend less time on transactional tasks and more time on strategic ones.
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In general, finance teams are expected to be more productive and more innovative. The mindset has shifted to value innovation and not just efficiency – “work smarter, not harder.” And again, data has played a prominent role in helping organizations shift from reactive to proactive. For example, in some organizations, the CFO has mandated that the credit department be more aligned with sales in order to facilitate new business. Finance professionals can now enable sales acceleration by analyzing their portfolio of customer accounts to find the customers consistently in good standing, and applying a lookalike model to discover similar companies for sales to focus on upselling or cross-selling. Taking such a proactive approach requires a co-mingling of datasets that would have been impossible five years ago.

Of course, legacy systems and outdated programs are major obstacles to change. If one department uses an older proprietary program that no one else has access to (or would want to use), then that information isn’t able to be shared outside the team. The ability to integrate data into other applications is a requisite for innovation. One common trait of innovative organizations is adopting technology that spans various corporate functions (CRM, ERP) while maintaining appropriate access levels for key users for cybersecurity compliance.

A modern finance and credit team now has access to the right data and the right technology in order to make an increasingly accurate forecast about the future of the business. Their leaders have made the necessary investments to jumpstart this blizzard of activity. They’re not stuck on time-consuming manual processes – modern credit managers are now using automation and data integration to strike a balance between risk and opportunity. Thus, though the digital age has been fully embraced, it’s now the finance leader’s prerogative to ensure that data and technology can be managed seamlessly to support strategic growth.

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The modern credit manager is focused on quantifying risk and driving growth, and data helps them in this new role. With the right data, credit managers can prioritize collections, improve processes, make faster credit decisions, and reduce remittance errors. This proactive credit analyst uses portfolio analytics – instead of checking accounts on an individual basis, they get a holistic view by evaluating the payment activity for all accounts. Freed from data entry, the modern credit manager now has time to analyze data to uncover trends and root causes in certain customer behaviors concerning accounts receivable.

Credit departments that are looking to innovate should study their current credit approval process. How efficient is it? Would your sales team agree that orders are quickly processed? Our 2016 Wired Money report found that “if the credit approval process is slow or unwieldy, sales staff may bypass established processes and push through risky sales. An unreliable approval process could also cause the company to lose valuable, credit-worthy customers. Poor processes can undermine even the best data.”

*Wired Money: Data, Technology and Five Ways Modern Finance Teams Can Drive Innovation and Growth,* Dun & Bradstreet, 2016
Revisiting the 5 Best Practices for Data-Inspired Decision Making

We’ve learned that the modern credit manager leverages customer data for actionable insight. This ideally optimizes the collections process and creates a fluid stream of communication between departments – a credit team that works with sales is indeed proactive. Our Wired Money report discovered the need for:

1 – CLOUD CAPABILITY THAT ENABLES EFFICIENT ACCESS TO AND THE SHARING OF DATA
2 – ROBUST CLEANSING AND ENRICHMENT FOR DATA THAT IS ACCURATE, COMPLETE AND ALWAYS UP-TO-DATE
3 – POWERFUL ANALYTICS THAT RAPIDLY GENERATE INSIGHTS AND ANSWERS FROM YOUR DATA
4 – AUTOMATED PROCESSES THAT FACILITATE COLLABORATION AMONG DEPARTMENTS
5 – DASHBOARDS AND TOOLS THAT ARE EASY TO USE AND PRESENT DECISION MAKERS WITH INSIGHTS IN A DIGESTIBLE WAY

Two years later, it’s time to revisit these concepts and see if they’ve trickled down to benefit credit managers and finance teams. Let’s examine how modern finance teams have implemented these strategies.
1 – THE NEED FOR CLOUD CAPABILITIES

Software giant Oracle also predicted the trend for cloud-based solutions to replace legacy systems that inhibited data sharing. Their study, Modern Finance in the Digital Age, found that “Modern CFOs are increasingly turning to cloud-based financial management systems to replace legacy ERP systems … and deploy new functionality to complement on-premises systems. Using the cloud enables CFOs to redeploy the capital they save on IT maintenance and hardware to fund new business opportunities, and reassign IT staff to work on technology-led innovations.”

Switching to a cloud-based solution can be more cost-effective, but it does have its security concerns, and some organizations are wary of moving away from an on-premise offering. Storing sensitive financial data on your company’s own servers is more expensive, but can make it less vulnerable to data breaches. Despite the security concerns, it does seem as though more companies are moving to the cloud. As such, the marketplace has responded to demand for cloud-based finance solutions – Oracle bought the cloud-based ERP NetSuite in 2016, and Sage bought Intacct in 2017 to better compete with cloud-based software from SAP and Workday.

OUTLOOK FOR CLOUD SHARING – GOOD

2 – ROBUST DATA CLEANSING AND ENRICHMENT PROGRAMS

Data quality is a hurdle that many companies haven’t been able to overcome. Credit departments everywhere already rely on a mix of both internal and external (third-party) data from the major bureaus to determine creditworthiness. A 2017 survey by Forrester Consulting (commissioned by D&B) found that about three-quarters of CFOs use external service providers for data and analytics to fill in the gaps in their internal insight.

Of course, any data-related project can only be successful if the input is accurate and up-to-date. Dirty or decaying data makes for inaccurate analytics. You don’t want your reports showing all your best customers are located in the US and Germany because that’s where their headquarters are – you want it to show the branch location you actually do business with.

Another common data redundancy is having separate, disconnected accounts for customers that are actually part of the same corporate family. The same goes for separate account entries for the same company – think 7-Eleven and 7-11, or IBM and International Business Machines. You don’t want bad data to lead to bad decisions.

One of the best ways to build a strong foundation of data quality is to leverage an external data partner that can optimize your organization’s internal data. “Cleanse and append” is the industry term, and matching your data against another’s larger dataset of pre-mastered commercial content can help provide a valuable data structure.

OUTLOOK FOR DATA QUALITY – NEEDS IMPROVEMENT
3 – POWERFUL ANALYTICS THAT GENERATE INSIGHT & ANSWERS

Analytics has emerged as a key requirement for the modern credit team; it’s no longer just a “nice to have.” But the definition of analytics runs the gamut, and some say it’s just a fancy word for reports. According to Analytics Accelerates into the Mainstream, a study by Dun & Bradstreet and Forbes Insights, 70% of companies say at least half of their decisions are made based on analytics. Before you think these companies are using sophisticated predictive tools that cost a fortune, 40% admit their analytics consists of spreadsheets.8

As for the finance department, 63% of CFOs said they leverage data and analytics to find opportunities to fund business growth, support long-term strategic planning, and contribute to revenue via sales acceleration. While these goals seem high-level, they report the analytics have resulted in fewer credit defaults and a quicker turnaround time for credit applications – which are direct, tactical benefits for the credit department.

The key here is not the method of delivering the analytics – whether it’s spreadsheets or special software – but the knowledge gained from interpreting the data through the analytics. If your team’s monthly reports just regurgitate the general numbers that management likes to hear, that could be preventing you from gaining any real insight. Drill deeper to unlock true value from the analytics.

OUTLOOK ON ANALYTICS – IMPROVING

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8 Modern Finance in the Digital Age, Oracle/Financial Executives Research Foundation, 2015
5 The Top 5 Risks of Cloud Financial Software, TechTarget, 2012
7 The Customer-Obsessed Finance Leader in the Age of Data, Forrester Consulting, 2017
8 Analytics Accelerates Into the Mainstream, Dun & Bradstreet/Forbes Insight, 2017
Automation is the other key requirement to facilitate innovation. A 2016 survey by Credit Today found that the benefits of automation are numerous and obvious – it saves time, money, and manpower to automate what are essentially clerical duties. According to the survey, companies will have less bad debt, more accuracy, greater predictability, and the ability to increase credit lines with automation. However, credit departments that are under significant budget pressure or make high-volume/low-dollar credit decisions might not feel compelled to invest in new technology.

But with automation, the credit manager transforms into a credit analyst. They’re in a unique position, with access to both pre-sale and post-sale data they can use to drive insights across the enterprise. It’s so much more than having software analyze your account data to alert you to past due accounts (although that’s a start). The credit or collections manager is still tasked with reaching out to those aging accounts – which could number in the hundreds. For instance, wouldn’t it be better to identify accounts that have the propensity to pay late, instead of just being alerted to past-due accounts? Then, the system would keep an eye on them before it impacts cash flow.

Automation has the ability to greatly streamline the collections operation. The aforementioned Credit Today survey on automation found that three out of four (77%) credit departments have automated at least part of their order-to-cash process. But like the Forbes study, the definition of automation varies, and being “fully automated” is still rare among credit departments. The survey found that, in fact, only two of the 12 steps of the order-to-cash process are automated, and they’re the most clerical – billing and invoice processing (EIPP). To be sure, there is still a way to go for many credit departments to reduce manual processes.

“At first glance that [77%] sounds pretty good. However, when you consider that the use of accounting or ERP software is almost universal in corporate America, the fact that 23 percent have not automated any part of the order-to-cash process is telling.”

There is also untapped opportunity for credit departments to collaborate with the sales team to help find and win new business. There is already a corporate movement underway to align sales and marketing – you don’t want there to be any disconnect or miscommunication between how a pre-sale prospect is treated by marketing versus how a full-blown lead is treated by sales (and even further, how a paying customer is treated by customer service).

The same holds true for finance and sales. The credit and finance departments have access to information that can uniquely help sales, and they can collaborate to help drive growth. For example, credit managers could analyze active prospects against a roster of current customers to find the ones most likely to buy, as well as their budget, and share that information with sales. This proactive client-matching and prospect-profiling could then be used to pre-screen prospects for risk and pre-approved credit terms.
5 – EASY-TO-USE DASHBOARD AND TOOLS THAT CLEARLY PRESENT INSIGHT

With all the data available today, visualization tools (such as dashboards) provide the ability to synthesize data and present it in a pretty package via charts and graphs. Pretty much every type of software has a reporting function that provide analytics, but is it easy for everyone to use, or is it so specialized that only one person handles the reports?

New plug-and-play analytics capabilities promise instant value, but D&B’s Wired Money report warned us to “Be cautious of falling into the trap of relying too heavily on automated dashboards; they might look nice, but you may be missing key insight that comes from taking time to address not just when or where something occurred, but why it occurred. The difference between a strategic dashboard and an aggregated data dump is that the dashboard not only tells a story, but offers actionable insights.”

A truly modern credit team doesn’t just use dashboards to report the facts, but for analysis as well. Not just for observation, but for understanding.

OUTLOOK ON DASHBOARD – IMPROVING

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GOOD

IMPROVING

NEEDS IMPROVEMENT

Conclusion:

Today’s business environment demands a culture of innovation – it’s the new normal. And this digital age could not have been embraced without the storm of data that’s been unleashed on most organizations. Relieved from the burden of being a manual taskmaster all day, many credit managers are now expected to shift their focus to strategic imperatives. But, while most professionals would like to believe they work in modern organizations using modern tools, surveys have shown there is still room for improvement. Many tasks are not 100% automated, and some technologies have limited functionality. The extent that organizations embrace automation, integration, and analytics will determine whether or not clear skies are on the horizon.
