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Know Your Customer – Credit Management in Times of Increasing Customer Risks and Rising Customer Insolvency Numbers!

Michael Köhler, Consultant Risk Management, Hanse Orga Group

Liquidity is the lifeblood of any company. Even with full order books, many companies have failed because of a lack of liquidity. Efficient credit management is therefore critical to the economic success of a company. Today this applies more than ever, given the uncertainty of the global economic climate for 2017.

The cautious and very slow growth in 2016, both in the US and globally, is under threat by a growing level of insecurity. Experts expect rising corporate insolvency numbers and fear distortions in world trade; among other factors due to unforeseen political developments.

In its World Economic Outlook published in January 2017, the International Monetary Fund (IMF), for instance, expresses uncertainties with respect to the political positions and measures of the new US administration and their implications for world trade and the global economy. Euler Hermes, in its latest Global Insolvency Index, expects an increase of company insolvencies by up to 3% in the United States. Globally, more insolvencies are also anticipated. According to Dun & Bradstreet's Country Risk Score, the global risk has even gone up compared to 2009.

In addition, the lengthy period of falling interest rates is set to come to a halt with rates expected to start to rise again in 2017. The Federal Reserve is likely going to continually increase the base rate in 2017, which will make refinancing more expensive for businesses and lead to bad debts having a more negative impact than in times of "quantitative easing". All of these trends contribute to companies increasingly focusing on preventive action and risk minimization measures once more.

In times of volatile markets and uncertain prospects, us credit managers are more than ever faced with the task of being familiar with our customers' financial situations down to the last detail in order to avert damage from the company. Our main responsibility here lies in gathering, managing, analyzing, and interpreting internal and external data. This is the only way for us to best assess our customers' payment habits and to take preventive action where necessary. The results are mapped as indicators (credit limit, credit index, etc.) which, in turn, control any follow-on processes such as blocking orders and customers, or organizing debt recovery processes. To this end, the customer-related information and key data must be integrated in the company's "order-to-cash" process.

Today there already are remarkable technical options for supporting the procedural requirements in credit management. In view of the increasing level of innovation and digitization, we can expect this trend to continue unabated.

Innovative technologies uncover significant optimization potentials, assist our work, and bring about time and cost savings. Smart software solutions provide up-to-date reports that are prepared based on different KPIs, in real time, and at the press of a button. SAP users, for example, have the option to automatically determine credit limits and customer scores using specialized credit management software. With SAP HANA, businesses now also have access to an efficient in-memory technology that is able to process huge amounts of data ("big data") in a matter of seconds. Typical credit management processes, such as onboarding or credit limit request submissions, can thus be organized more efficiently than ever before. Thanks to interactive web interfaces and "Fiori" apps, credit management is now also possible on mobile devices like tablets and smartphones, creating an entirely new experience for users. Field-based sales staff, for instance, benefit immensely from this option, as they have all important customer and credit rating data available in real time so that they are well prepared for their customer meetings. As credit managers, we use the interactive dashboard to keep track of our customer portfolio and the associated risks at all times. This allows us to identify bad debt risks and payment delays on the part of the customer in due time. Instead of merely responding, we can therefore take preventive action and as a result safeguard and optimize the company's liquidity.

In summary, we can note that it is becoming increasingly necessary to implement professional credit management processes due to fiercer competition, rising insolvency rates, and deteriorating payment habits, both domestically and abroad. At the same time, modern technologies and the tremendous innovative strength of the IT industry give us software solutions and tools with features that cover all our needs and enable us to effortlessly master the challenges of our time—today and in the future.

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Michael Köhler
Consultant Risk Management, Hanse Orga Group

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