Next Generation Analytics Required to Manage in Today's Dynamic Business Environment

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Abstract:

In the era of digital disruption and big data, businesses are continuously looking to improve their data sets and use analytics to increase efficiencies, profits and smart growth. But big data is not the silver bullet. It does not automatically come with meaningful insight. For today's commercial credit manager, maximizing the flow of credit and mitigating operational risk requires the ability to predict outcomes through financial health indicators.

In an era of disruption marked with rapid technological changes, cost pressures, and evolving customer expectations, businesses need to move fast to stay competitive. Now more than ever before, companies are looking for better business intelligence delivered quickly to make the right financial decisions.

This disruption also comes during a time of economic uncertainty when the experts remain divided on whether the market will continue to grow or if a recession is on the way. The challenges and risks associated with this uncertainty include the status of global economies, tariffs, trade and a workforce increasingly reliant on gig workers.

Taking advantage of modern techniques and best practices in commercial data analytics can help companies manage through this dynamic business climate, for example: finding financial proxies to predict performance; improving accuracy by using verified vs. self-reported data, and; focusing on the most recent trade experiences and increasing response times with real-time analysis.

Let's explore three challenges in today's dynamic business environment, where innovative capabilities in business analytics can improve the ability to navigate opportunity and risk.

Impact of private companies

With 28M private companies representing 99.7% of the businesses in the U.S., understanding the risk associated with them is vital when extending credit and managing collections. Getting accurate information on these companies for research and modeling has been difficult with traditional data sources. Public financial reporting is not required for private companies and therefore, much of the information is self-reported by CEOs and CFOs on an as-needed basis.

Here are a couple of approaches to help overcome the lack of accurate, meaningful information on privately held companies.

Verified financial proxies

Leveraging a consumer analytics approach to business information, companies are now able to predict the credit worthiness of a business based on their purchasing behaviors. Understanding what companies are buying, how and when they pay for it are crucial data points when it comes to predicting their financial health. This information is also aggregated through the accounts receivable process and therefore is inherently verified, improving overall accuracy through the manner with which it is reported.

Like FICO for consumers, the opportunity to incorporate spend behaviors into business credit scores is a powerful mechanism to predict financial outcomes. It helps gauge the right credit limits upfront, mitigate risk after credit has been extended and prioritize collection strategies. Similar to credit statements for individuals, the B2B spend is also available segmented across purchasing categories for even deeper insight into financial transactions. For example, spending more on manufacturing materials would signal potential for growth whereas a reduction in shipping would indicate potential for decline.

Whether it's a transportation company looking to process credit applications, a beverage distributor looking to centralize centers or a company looking to acquire another, businesses are constantly looking for ways to mine the best data for predicting outcomes. Harnessing purchasing behaviors tracked within an accounts receivable portfolio offers a better way to understand the financial health of private companies from a verified source.

Data contribution from multiple sources

The most robust insights are acquired by pooling information from different companies and vantages to provide a broader, more accurate view of customers, suppliers and prospects. This includes payment behavior, purchase behavior, spend across industries, locations, expansion, downsizing and more. Once the data is available, it can be categorized and segmented in a variety of ways to identify relationships amongst different industries and areas of business.

For example, Joe's Restaurant in Kansas City might pay its bills six days past due every month. A data point that just scratches the surface in terms of financial insight. Now, information is available to look at a company holistically, as an ecosystem of partners and vendors to reveal the most complete business profile. In the ecosystem for this restaurant, it might include purchasing and payment behaviors related to the vendor providing employee outfits, food and produce, payroll services and more. This broader analysis will help derive a more comprehensive view into financial performance.

Crosschecking and updating the profiles of businesses with a contributory database model also improves accuracy and currency. Inherently data contribution enables the continual flow of new information through its system which is crucial to getting the facts right. Finding a solutions partner with established operations focused on continual data refresh should be a priority when evaluating data providers. They must be dedicated to frequent updates from multiple sources to consistently deliver the best results.

As a business grows, keeping on top of its customers' financial situations is challenging. However, keeping a watch on what they are buying and how they pay for it are important factors that can determine the shape of its financial health. Taking advantage of verified financial proxies with data contribution from multiple sources provides a mechanism to devise effective credit and collection strategies.

Need for speed

At a time when five percent of U.S. companies go out of business every day, it is critical to understand the full financial proxy of companies with which credit is extended through collections. With today's technology, changes in the risk status of a company can be known in minutes and tools to manage these changes are accessible 24/7.

Here are some ways to take advantage of today's technologies to increase response times.

Not just big data, but relevant data

The rapid acceleration of technology in the last several years has paved the way for the proliferation of big data. While the race to provide the largest number of records continues, the size of the data stops being important if it is not relevant to the needs of the person trying to make the right decisions. If all the information one has on a company are static reports on locations and demographics, it's not going to be enough to make significant decisions in today's constantly changing, disruptive business world.

Now there are capabilities to access more than what a company reports using unique insight to predict future actions. In addition, this data can be sliced in multiple views. For example, one can see how many raw materials are coming into a manufacturing plant and how much product is being shipped out, essentially turning information into intelligence to help make smarter decisions faster.

Similar capabilities include the use of categorizing trade experiences for relevancy, artificial intelligence to identify relationships between suppliers, buyers and industries, as well as business verification techniques to enhance fraud detection and KYC efforts.

Connect the dots faster with data visualization

Perhaps one of the most impactful progressions in big data is visualization. Easy-to-read, colorful charts and graphs are game changers when it comes to absorbing raw benchmarking data. It puts everyone—from the executive team to credit managers and IT—on the same page by clearly illustrating behaviors and trends, as well as potential issues and opportunities. When insights are more easily identified, response times are quicker – and decisions to adjust models, optimize scores and manage day-to-day operations happen at a much faster pace.

Self-serve solutions

To manage in today's fast-paced environment, technologies have been developed to provide access to business-critical information on-demand. These solutions are configurable to meet specific needs and offer flexibility in how the information is delivered. Beyond cloud services with 24/7 access from anywhere and alert notifications emailed to the inbox, some of the newer innovation includes self-service batch appends, robust APIs and real-time scorecard wizards that present data-driven insights in a variety of easy, intuitive formats. Data analytics innovation is enabling faster response to change and higher quality information for decisions.

The concept of self-serve also translates into pricing. More a la carte or pay-as-you-use models are entering the market. We first saw the disruption in conventional pricing in the telecom industry, when T-Mobile offered consumers the option to have a contract-free service based on data usage. In 2017, Comcast launched XFinity Mobile, providing customers pay-as-you-go plans per gigabyte usage. Metromile and Esurance sell drivers pay-per-mile insurance. Amazon, Apple and others are continuing to challenge cable companies by delivering media-streaming options that free people from bundled services they do not use.

Benefit of benchmarking

The importance of performance benchmarking cannot be overstated, especially when you're in the business of extending credit to private companies and small businesses. Whether you're comparing the market, specific industries or peers, the right benchmarking data can provide essential insight into customer-related trends, behaviors and trajectories. It can reveal emerging risk and opportunity occurring within your portfolio. Here are a few areas of importance to consider when benchmarking:

- **Industry breakouts.** This helps you understand how you compare with others in your industry and provides deeper insight into the performance and trends of the industries with which you are extending credit.

- **Financial proxy.** Use financial health indicators, such as purchasing and payment behaviors, as a guide for assessing the performance of privately held companies.

- **Firmographics baseline.** Performance can vary greatly depending on location, company size, ownership and other variables. You will want components most important to your organization available for benchmark segmentation.

- **Trended data.** Having a view of the same data points over an extended time period can reveal emerging trends and point to future performance trajectories.

- **Currency matters.** To get the most accurate benchmarking view, it's important to have a significant sample size that mirrors your customer base or industry and has a dedicated process to ensure data sets are frequently updated. You can address this issue by confirming the depth and breadth of business coverage with the third-party data provider, and just as importantly, confirm the provider's commitment to refreshing the data. Also, be sure the data reflects the same time period covered by your customer data.

Monthly performance benchmarks can improve business agility by helping you quickly identify change to adjust strategies, adapt credit decisions and mitigate risk. Inquire about the automated delivery of monthly benchmarking data, since some providers offer this option.

The future: Disrupt or be disrupted

In the era of digital disruption and big data, businesses are continuously looking to improve their data sets and use analytics to increase efficiencies, profits and smart growth. But big data is not the silver bullet. It does not automatically come with meaningful insight. For today's commercial credit manager, maximizing the flow of credit and mitigating operational risk requires the ability to predict outcomes through financial health indicators. These unique insights are found in the purchasing behavior of companies—what they buy and how they spend their money— delivering the intelligence needed to devise the correct strategies.

The modern world of commercial credit data requires flexibility, agility and innovation in order to be responsive to the change and uncertainty around it. Business information will need to continually evolve, grow in breadth and depth and be delivered with accuracy and speed. The ability to quickly innovate must be coded into the DNA of the modern commercial data analytics provider. Continually aggregating data from thousands of sources, providing unique insights into businesses, and delivering predictive analytics for decision-making are crucial in helping companies keep pace with today's ever-evolving business environment and digital needs.

About the author: Greg Johnson, Chief Operating Officer at Cortera, has spent his entire career with data related enterprises. From data storage and management to software and analytics, Greg has extensive expertise in leading teams to achieve improved financial and operational performance. During his 16 years at EMC Corporation, he led the creation of what became one of the largest manufacturer captive finance organizations. At LexisNexis Risk Management, part of Reed Elsevier, he held multiple leadership roles during his 10 years with the organization to include the development of their strategic partner program. Greg is passionate about the power of data analytics and has seen firsthand what the capabilities can do for organizations in the U.S. and abroad. Recognized by customers and colleagues as a trusted and strategic business partner, Greg consistently empowers organizations to refine operations and fuel growth by harnessing data-driven technologies. Greg holds a Bachelor's Degree in Financial Economics from St. Anselm College.