Ebook

5 Strategies for Achieving a Best-in-Class Credit & Collections Process

Table of contents

Introduction 3
Key strategy No. 1: Refine your credit policies 5
Key strategy No. 2: Know your customer 6
Key strategy No. 3: Keep an eye on existing customers 7
Key strategy No. 4: Be flexible 8
Key strategy No. 5: Break down the silos 9
How Esker can help 10
About Esker 13

Introduction

Trading on credit has become necessary for companies looking to drive sales and improve their competitive advantage. Today, the majority of B2B invoices issued worldwide involves trade credit,[1] however, an invoice on credit is at risk of payment delay. These delays can jeopardize cashflow or lead to the invoice eventually being written off as uncollectable.

The COVID-19 pandemic has been a major cause of increased average payment times and write-offs (2 to 3 times higher than in 2019[1]). Also, companies are moving towards insuring receivables and customer credit risk. Prior to the pandemic, 50% of companies resorted to self-insurance, while today, that number has grown to over 80%[1].

For businesses looking to secure their cashflow it is essential that they **optimize their credit and collections process and minimize customer risk.** Even though it appears the worst is behind us, it's impossible to know what 2021 and beyond have in store, so now is a good time to **review your company's credit and collections management practices** and take them to the next level.

According to a recent PwC survey[2] on the impact of the pandemic and the way businesses operate now and in the future, **78% of CEOs agree that remote collaboration is a lasting reality.** Shifts towards remote working and automation are here to stay and implementing digital tools will help ensure business resilience.

Digital infrastructure, flexible working and employee well-being will top priorities as businesses reconfigure operations to secure growth in the next 12 months and beyond.

[1] Atradius 2020 Payment Practices Barometers.

[2] PwC CEO Panel survey. July 2020.

Here are **5 key strategies** & tech tips to help you implement a best-in-class digital credit & collections process

01 Refine your credit policy

Reviewing your credit and collections strategy is the first step to implementing a first-rate credit-to-cash process. The basis of your process should be to make sure that your plan is in line with your needs and objectives, from credit-granting procedures to knowing how and when to begin collections proceedings. Your requirements may evolve over time, be it following a business expansion, merger or even an economic downturn, so it's a good idea to **regularly review** the situation and **adjust your policy as needed.**

A clear credit policy increases the efficiency of your credit management process and secures the entire credit-to-cash cycle, ensuring that all customers go through the same standardized process. Credit and collections decisions are regulated and easier to make, enabling you to spend more time on complex scenarios.

By sharing a defined credit policy with your order-to-cash (O2C) teams, you ensure that all customer-facing stakeholders understand the company policies and convey the right message to customers. Developing a coherent credit policy conveys a professional image, improves customer relationships and increases your chances of being paid on time.

Key questions to ask

- **What are the procedures for your customers when applying for credit? Are they standardized? How many customers slip through the cracks?**
- **What criteria are used when granting sales credit & how are terms adapted?**
- **How often are customer credit terms reviewed?**
- **Are the collections strategies well defined? Is your customer portfolio segmented?**
- **How have write-offs evolved recently? What is the usual DSO?**

Tech tip:

Dedicated KPIs & dashboards: Get real-time insights into valuable AR metrics with dashboards and KPIs. Gain visibility to improve overall performance monitoring, better know your customers and review your credit policies (root-cause analysis, reports on write-offs, risky customers, etc.).

Automation tool: Fully automate low-value tasks (e.g., sending email reminders) and streamline long and costly processes such as managing credit application workflows for new customers. This frees up your team to focus on complex scenarios and ensures timely follow-up, thereby optimizing cashflow.

02 Know your customer

Now that you have defined a comprehensive credit and collections policy that provides guidelines on decision-making for different customer types, you need to get to know your customer in order to accurately apply them. What better way to do that than collecting information directly from the customer? Customer onboarding is key to creating strong and successful customer relationships.

Make sure to **collect accurate and pertinent information** to properly assess credit terms. A **credit application form** is a good way to centralize the necessary information, including:

- Business information & profile
- Products & services they intend to purchase from you
- Potential references
- Main contacts: AP for collections, invoice approvers, etc.
- Any other relevant information needed to complete your assessment

Be sure to also **leverage the expertise of your Sales team** to complete the customer assessment, as they are the primary contact and often have valuable insights — such as recent or upcoming acquisitions, large deals or product and marketing campaigns. These insights can prove useful when making credit decisions.

While customer-provided data is essential, we recommend that your new customer profile also include **third-party information** in order to obtain a more accurate view of the health of the business you are assessing. Credit bureaus can provide reliable and up-to-date indicators on the applicant's financial health and payment behavior.

Combining information from your customer with external data gives you a comprehensive overview of the applicant and allows you to make informed decisions that align with the current credit policies.

Tech tip:

Centralized data: A dedicated credit management tool centralizes all pertinent customer information, including third-party credit data, through API integration with credit bureaus, giving you access to all the information you need in one single interface. This enables you to make informed decisions quickly and efficiently.

Digital credit application forms: Customizable credit application templates allow you to thoroughly address different customer profiles or languages as well as automate the entire customer onboarding process.

03

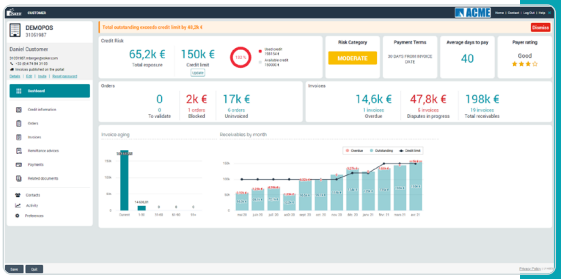
Keep an eye on existing customers

Once a credit assessment has been completed it is not set in stone. A regular review of all parameters needs to be done to adapt to changes in situation – the customer's as well as your own.

A wide range of criteria can influence customer risk. **Evaluating risk and customer behavior is critical** when selling on credit so that payment defaults can be avoided. Customer risk should be continuously monitored in order to implement the most up-to-date credit and collections processes throughout the entire customer relationship.

Credit bureaus regularly provide updated information and help monitor the potential evolution of a customer's risk. Additionally, you can also make use of customer data that has been collected internally to better assess their risk levels by examining **payment behavior history, credit limit utilization and aging balance.**

The customer's risk level can be accurately assessed and appropriate actions taken by combining both external and internal information sources. Obtaining an accurate picture of your customer's financial situation and behavior affects the quality of the entire O2C process.



Tech tip:

Predictive analysis: Anticipate customer behavior with predictive analysis and proactively make appropriate decisions when it comes to collections processes. An AI-powered solution uses historical data to assess and monitor payment patterns, provide estimated payment dates, determine risk levels and prioritize calls accordingly.

Automated alerts: Stay informed on credit risk evolution with customer alerts, which facilitate monitoring and ensure that important information is not missed. Simplify the updating of credit and collections procedures.

04

Be flexible

The last year has shown just how greatly businesses are impacted by unexpected events. In order to succeed and overcome fluctuating conditions, flexibility is key when it comes to credit and collections procedures.

Standardizing rules and guidelines will ensure functioning processes, flexibility and adaptability, allowing you to **easily respond to a customer's changed situation** (solvency, risk, payment behaviors, etc.). Your credit and collections strategies need to be adapted accordingly.

The longer you wait to turn an overdue invoice into cash, the higher the chances are of never getting paid. **Foresight and adaptation** are key to on-time payments. A reassessment of a customer's risk evolution should be performed at frequent intervals.

We recommend segmenting customers according to risk levels and payment practices prior to taking appropriate actions, such as proactive collections, blocking or unblocking orders or credit limit reviews, depending on the particular segment.

Another possible solution is targeted messaging for specific audiences such as unreliable payers or customers with a certain aging balance. This type of segmentation will provide more efficient monitoring of existing customers and help in setting priorities for credit management and collections actions.

Tech tip:

Root-cause analysis: Get real-time insights about reasons for late payment and/or disputes and better understand what can potentially go wrong in the process in order to adjust accordingly.

Automation tool: Automate your AR processes and be alerted when an unexpected event occurs (credit score changes or missed payments) so you can react quickly and keep risk under control.

Secure cloud platform: Access information anytime, anywhere. Provide your team with enhanced flexibility to succeed when major organizational changes occur.

05 Break down the silos

Oftentimes the teams involved in the process have access to different yet relevant customer information: A sales agreement can influence the customer's payment behavior, while erratic payment trends noted by the collections team affects the account manager.

Facilitating communications between O2C teams encourages information sharing and ensures that all stakeholders have the right data at their disposal to make the best decisions at every level of the process. The collective vision and ultimate goal is to maximize sales while minimizing cashflow risk.

Beyond communications it is **collaboration** between teams that helps stakeholders make the most relevant decisions throughout the customer journey. These decisions can affect the entire O2C team in the determination of credit limits, updates, order blocking/unblocking credit approvals and payment recovery.

Although collaboration is key, it is often complicated by circumstances such as at decentralized or global organizations with teams in different locations or working remotely. Nonetheless, improving collaboration and sharing information throughout the credit-to-cash process pays off by optimizing overall efficiency and minimizing credit risk while also enhancing the customer experience and ultimately increasing sales.

Tech tip:

Integrated platform: Centralize AR-related data to make relevant information accessible to all O2C stakeholders through an integrated platform. Assembling these materials manually and sharing them effectively across O2C teams is nearly impossible.

Collaboration tools: Enhance team communications and collaboration with digital tools such as dispute resolution, escalation management and approval workflows.

How AI-driven automation can help

Esker Credit Management and Esker Collections Management are part of a comprehensive AR solution suite, which uses AI technology to remove the all-too-common obstacles that prevent businesses from collecting receivables in a timely manner. From credit management to cash application, Esker automates the AR processes that matter most to your business.

Establish customer creation, onboarding & monitoring procedures that fit your strategy to ensure the functioning of downstream processes.

Collect receivables in a timely manner to secure revenue & optimize cashflow.

Obtain a 360-degree view over your customers' behaviors through customer management — from orders & invoices to payments or claims — in one integrated interface.

Esker's AR solution suite: remove obstacles in the credit-to-cash conversion cycle & get paid faster

Manage customer credit risk > **Deliver invoices efficiently** > **Collect cash intelligently** > **Simplify payments** > **Accelerate cash application**

Hi, we're Esker

Founded in 1985, Esker is a global cloud platform built to unlock strategic value for Financial, Procurement and Customer Service leaders and strengthen collaboration between companies by automating source-to-pay (S2P) and order-to-cash (O2C) processes.

38

years of experience with 20+ years focused on cloud solutions

1,000+

employees serving 850K+ users & 1,700+ customers worldwide

15

global subsidiaries with headquarters in Lyon, France & Madison, WI

€159.3

million in revenue in 2022, with 90+% of sales via SaaS activities

Business success is best when shared

At Esker, we believe the only way to create real, meaningful change is through positive-sum growth. This means achieving business success that doesn't come at the expense of any individual, department or company — everyone wins! That's why our AI-driven technology is designed to empower every stakeholder while promoting long-term value creation.

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