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Managing the Customer Life Cycle in Uncertain Times

The only thing certain about change is that it is inevitable.

Savvy credit managers across all industries know that nothing is immune to change. Now, more than ever, managing the customer life cycle in this dynamic environment presents both challenges and opportunities.

To avoid being overwhelmed by events throughout customer relationships, credit managers must manage customer life cycles actively rather than let the inevitable turn of events manage them. Our approach to our clients at the different stages of the relationship life cycle has to be flexible and opportunistic. In these challenging economic times, with fraud and loss rates on the rise, a one-size-fits-all approach to customer management won't provide the best results.

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The life cycle of a customer relationship has four distinct phases, and what works to evaluate and respond to issues in one phase may not be effective in another phase. Selecting the most impactful tools and the best approach to customer management can have a significant, positive impact on customer outcomes. Recognizing the different phases and understanding the unique issues associated with each phase creates opportunities

for developing customized approaches that will improve outcomes. Following are some issues and possible tools to consider when evaluating customers as they pass through each phase of the relationship life cycle.

Phase One: Business Verification/ Fraud Identification

This initial phase is characterized most clearly by the process credit managers go through to confirm a prospective customer is, in fact, who they say they are and that the company is one with which they want to do business. But is it truly enough to verify the validity of the business only? A newly established company may have no history of fraud and be an apparent good risk, but what about the business owner? What is the history of the individual? Today's credit managers need to be more guarded, and this is the phase in which to be most diligent.

A client of ours is one of the leading bank card processors. With an average of 10,000 new small-business credit applications requiring evaluation every month and fraud rates increasing at an alarming rate, this client came to us seeking an improved method for fraud prevention. The service we provided was an automated tool used to authenticate the commercial entity and the owners of the company. We also activated a unique feature that assists in identifying business owners with a history of establishing new business fronts for the purpose of conducting fraud, an unfortunate yet growing problem in these economic times. The result was an increase in the number of applications being processed each month—made possible through a reduc-

tion in the amount of time needed for manual reviews—and a decrease in the number of fraud accounts opened monthly.

Phase Two: Decision Making

Typically, the need to make decisions is prompted by any situation that requires a credit manager to evaluate and decide how to proceed with a customer, and this can occur at any point in the customer life cycle. To assist in this process, credit managers can receive services that provide customer updates quarterly, or they can receive ongoing “triggers” from changing customer files. Triggers provide continual updates on both potentially damaging and positive commercial activity. Some credit managers receive updates and triggers that evaluate the personal credit report of prospective customers only. Others stick with strictly a commercial evaluation. Based on research showing that blended scores—which include both personal and business data—capture 46% more small-business deterioration than commercial data alone, many of our clients opt to receive and evaluate blended data that takes into consideration the history of both the business and the business owner. The logic is that the more information you feed into a model, the more predictive it will be, and blended data gives creditors a balance of both consumer and business information.

Recently, another client approached us with a goal of increasing credit account approvals without incurring an increase in loss ratios. Previously, this client had been evaluating customers utilizing consumer data alone. Our recommendation to use blended scores helped to reduce the cost per application by 11%, increased the ability to determine more accurately an appropriate credit risk cutoff and ultimately increased approval rates by 9%.

Phase Three: Account/Portfolio Management

While sometimes not a top priority in good economic times, in today’s environment—where financial outlooks can seemingly change overnight—ongoing account/portfolio management should be an active process with every customer throughout the relationship as a preemptive strategy to mitigate loss. Our clients have found that relying on aging reports alone can mask bigger problems, and having a full 360-degree view of each customer is necessary to make educated decisions.

Because customer situations can change rapidly, when considering a portfolio management system to assist you in this process, look for one that allows users to instantly assess current information on a customer’s payment history and provides a platform for incorporating other sources of third-party data. A good system also enables multiple users within an organization to review information efficiently, look at customer data through the right filter and assess each customer’s business condition on a case-by-case basis.

Actionable intelligence that allows users to interpret data and risk correctly is an invaluable asset. Keep in mind, particularly in these tough times, you don’t want to overreact and perhaps push away good business because of what may be no more than a servicing issue. That is why it is important to incorporate risk indicators. For example, when customers are late with a payment or appear to be experiencing other signs of

distress, credit management and collections teams must work closely to interpret events correctly and to make the appropriate decisions to secure repayment. Here, again, risk-based triggers provide continual updates on both potentially damaging and positive customer commercial activity, acting as an early warning system and enabling early action.

Phase Four: Collections

Often seen as the beginning of the end, collections is the life cycle phase you hope your customers never reach. However, in the current economic environment, an increasing number of customers are reaching this point and requiring focused attention by collections managers. Although the collections process has had few innovations in recent years, there are tools that can help to improve outcomes. For example, an Experian study found that 20% of the addresses creditors have on file for debtors are incorrect. To ensure your communications reach the right person or department, consider utilizing a commercial skip-tracing tool to uncover alternative contact information and to identify who at that debtor is handling payment to other companies. The most effective services are tied to robust commercial databases and quickly can scan and provide alternative billing addresses, saving collections managers and teams significant time and effort while improving outcomes.

Once you’ve got the right contact, other services can ensure that your communication is opened, read and understood. Third-party letter notification services can help with customization of letters. Always look for a partner that can provide supplemental and value-added content to your communications. Often, expanding your communication focus from debt collection to education can help customers to understand the ramifications of the collections process and to bridge the gap between notification and payment. Experian clients utilizing related services have improved returns anywhere from 4% to 9%.

While at times the current economic environment can feel a bit overwhelming, credit managers should know that there are tools at each step of the process to help guide a course of action and to drive results. Methodically attacking each stage of the life cycle presents managers with an organized, disciplined approach for tackling the messiest of situations. Just as every customer is unique, our responses to each development must also be customized to meet specific challenges. As we all strive to manage our business in this increasingly complex environment, a little help from third-party resources and an approach tailored to each step in the life cycle can be invaluable assets. ●

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