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A Credit Community: Why Your Company Should Be Sharing Its A/R Data

The National Association of Credit Management (NACM) was founded for one simple reason: to ensure the free flow of credit information.

In 1896, the year the association was founded, the United States was still reeling from the economic crash three years earlier. A number of factors led to the Panic of 1893, but one of the most notable symptoms of the depression was a rash of unexpected business failures. So serious was the problem that a "Congress of Credit, Collections and Failures" was held as part of the 1893 Great Exposition in Chicago, a meeting which led to further exploration of ways for credit practitioners to help each other. Three years later, 82 delegates from several local credit groups met in Toledo, Ohio to endorse a national movement, creating NACM.

This spirit of having credit professionals help one another by exchanging their data serves as the backbone of NACM's mission, and its newest product, the National Trade Credit Report (NTCR), which continues to provide benefits to buyers looking for credit information provided by sellers, rather than self-reported by the customer itself.

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But more than just helping sellers, the benefits of sharing accounts receivable (A/R) information stretch far beyond what those 82 delegates could ever have imagined back in 1896. Contributing data to NACM's National Trade Credit Database, which is used to generate the NTCR, pays dividends to sellers, buyers, industries and the economy at large.

Customer Benefits

Respondents answering "yes" to NACM's June 2012 survey, which asked "Do you share your full accounts receivable information or tradelines with any credit reporting company?" gave numerous reasons in follow-up interviews for why they submitted their data. Among the most unselfish of these was that contributing data helps good customers grow their businesses.

NATIONAL TRADE CREDIT REPORT

"We feel that our credit information is necessary for our customers to build their credit score," said one survey participant.

Access to credit has been a significant issue as the U.S. continues to wend its way out of a devastating recession and into real, lasting growth. Small businesses, especially, have faced enormous challenges in acquiring even a fraction of the credit they need to stay afloat. For example, the Federal Reserve Bank of New York's latest Small Business Borrowers Poll found that demand for microloans had reached a peak, but that getting these loans was often exceedingly difficult, reserved for only the most qualified buyers with the cleanest credentials. The difficulty of actually getting credit from a bank has even led businesses to stop seeking it entirely. In the same poll, the New York Fed found that nearly 50% of small businesses that did not apply for credit did so out of fear of rejection. They were right to do so, in most instances, as the poll indicated that only 13% of respondents that had applied for credit in recent months received the full amount that they requested. Slightly more than one-third of applicants received only a portion of the desired line of credit.

Too often, discussions in the credit world revolve around a company's worst customers: the fraudsters, the delinquents and so on. But every company probably has a customer that pays on time, or does their best to pay on time. They deserve whatever help they can get from their suppliers, especially from something as painless as submitting A/R data to a bureau or database like NACM's that could help them get more or better financing from a bank or another supplier. "For our customers that pay timely, it is perceived to be a tremendous benefit to report the timely payment activity," said one participant, who also obliquely referenced the leverage that reporting A/R balances gives a vendor. "Conversely, for customers that pay slowly, it is an objective means of sharing their history."

Sharing A/R data should make credit professionals and their companies feel good because it helps them help their customers, turning a "you owe me" relationship into something symbiotic and friendly. But it's no secret that reporting data allows the seller to inform their buyer that their lack of cash toward payment will not be kept secret. As much as it helps good customers get the credit they deserve for paying on time, sharing tradelines also has the potential to encourage slow payers into better behavior. "[My company] reports their entire portfolio A/R to a credit reporting agency as a 'soft' collection tool. Reporting our receivables gives us extra leverage for collecting on accounts, especially where this portion of our customer base tends to have a different perspective regarding making payments within terms or paying finance charges," said Debbie Coder of NOCO Energy Corporation. "We feel confident that our customers are a little more motivated to pay within terms now that the receivable is forwarded to a credit reporting company."

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Industry and Economy Benefits

Whether the A/R information companies report is positive or negative about their customers, the fact of the matter is that sharing this data makes it possible for banks, regulators and policymakers to assess industries and the actual state of the economy.

So many of the actions of state and federal regulators come down to what the problem appears to be rather than what the actual problem is. The issue isn't always that things are terrible, but that things *seem* terrible. But the gap between what policymakers know and what they think they know becomes increasingly smaller when a broad swath of an industry's members begins to share their data. "We believe it strengthens our industry when we share A/R," said one credit manager from a large telecommunications provider. By making this data available, banks and lenders can more accurately judge an industry and, maybe, loosen up credit, allowing that industry to invest in itself and eventually generate a macroeconomic benefit. One of the less-discussed benefits of sharing A/R is also that it weeds the scammers out of an industry, strengthening things overall and making it easier for money to make its way legitimately into the market. "Our primary focus is not on helping our competitors identify great paying customers," said the participant. "It is actually to help keep the con artists and fraudsters out."

Such a phenomenon even goes beyond specific industries and into the economy as a whole. It's easy to see the benefits that sharing A/R data can have on one individual company. For a solid buyer that pays according to terms, having sellers that report how well-behaved they are can result in real monetary benefits in the form of more affordable credit. Multiply this fact by as many good paying customers as there are in the market today, and the effect of data sharing becomes much more resonant. Widespread contributions of A/R data aren't necessarily the cure for all of the recession's lingering ills, but it's logical to believe that increased data accessibility can create a clearer picture of the state of the economy, meaning market actors can react to it sensibly and hopefully find the right path toward overall growth.

Credit Community

All of the reasons that a company might have for not sharing their A/R data fall apart in the face of the overwhelming reality that trade data tells the truth. But of all the reasons that credit professionals had for submitting their A/R data, the most popular was an aspect that isn't easily quantified. "As credit managers, we have to make daily decisions regarding the creditworthiness of potential customers," said Stella Ross of Drake Materials. "This cannot be done in a vacuum. As a member of NACM, I rely on the strength of our organization to be able to provide timely and accurate input as I work through my daily credit decisions. It is only possible to get out what you put in to anything and that is especially true when dealing with our credit community."

In this way, sharing A/R data allows credit professionals to form a community: a group of like-minded professionals that bands together for their, and the entire country's benefit. Credit and risk management, as a business function, has a great amount of value, and the economy as a whole needs to be made aware of its value. Sharing is a means to that end.

It might also represent the only part of the credit management practice that intersects with eastern philosophy. "I feel that it is my duty to help others," said Bill Riat, CCE of Anchor Industries, Inc. "We all know how hard it is to get good data to make good decisions. We all need to help each other, including competitors, to get good data so we can make good decisions. By sharing my information, I feel I have good Karma and, by doing so, I am able to get good information."

"What goes around comes around," they added. ●

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This is the second of a series of articles on the exceptional quality and value of the NTCR. The first, "A Good Place to Start: Digging into the Nuts and Bolts of the National Trade Credit Report," appeared in the June 2012 issue. Look for more information on the NTCR in future issues.