

Unlocking the Value in Business Information

FINANCE EXECUTIVES ARE LOOKING OUTSIDE THEIR COMPANIES' FOUR WALLS FOR INFORMATION TO FUEL SUSTAINED, PROFITABLE GROWTH



THE IDEA THAT INFORMATION—THE messages carried by vast, orderly streams of bits and bytes—could yield decision-making insight and competitive advantage has been around since the earliest mainframes started accepting punch-cards. As storage capacity and processing power exploded, and as networking magnified the value of shared data, mastery of business information became a marker of innovation and competitive advantage. The finance function, with its broad organizational scope and long experience as the steward of financial and operating information, found itself at the very center of the effort to convert that information into competitive advantage.

Then came the Great Recession.

As finance executives had begun to settle into their roles as key performance advisers in the new millennium, the credit market's stranglehold on liquidity and the abrupt collapse of seemingly abundant growth prospects tested their grasp of finance fundamentals: funding the company, slashing costs, and managing cash and working capital. Dimming growth prospects narrowed risk tolerances and placed a new premium on finance executives' ability to understand and account for the potential downsides—and the potential upsides—of business decisions both large and small.

In this environment, CFO Research Services' past studies suggest that "information mastery" will mean something different to companies in the future than it has in recent years. Fierce competition and price pressure are narrowing margins.



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Meanwhile, a persistent buyers' market for goods and services is leaving many companies with little alternative but to deliver more value at a lower price—and to accept increased exposure to operating and financial risk as a result. At the corporate level, certainly companies will continue to struggle to produce the timely, reliable, forward-looking “business intelligence” that will help them plot a path through unstable economic conditions. But our recent research also shows that finance executives are eager to expand the scope of their business information to include, in particular, more information about their customers—and more of the external information that resides outside of their immediate control.

» Intense focus on sustained, profitable growth

The finance function's information priorities stem directly from their companies' central imperative: achieving sustained and profitable growth. U.S. companies slashed costs throughout the downturn—making an impressive return to profitability. But even though the recent recession officially ended in 2009, a robust return to growth has remained elusive. Despite these challenges, more than half of all respondents to one of our most recent surveys (52%) say that identifying new growth opportunities—not cost control—will be their primary focus over the next two years.¹

It is tempting to assume that companies are seeking new growth avenues because they see abundant prospects all around them—but in fact our research suggests something quite different. Eighty percent of senior finance executives responding to a recent survey confirm that cost control won't be enough to maintain profitability²—and 83% of finance executives confirm that maintaining profitability will be harder than it was in the past.³

What does all of this mean in practical terms? Many companies have reached the end of the line on cost-cutting; in order to maintain profitability, they'll need to pursue growth. But achieving

growth when resources are scarce—and competition is fierce—is extremely challenging, and it involves taking on risk.

Indeed, greater sensitivity to business risk helps to explain why a solid majority of finance executives responding to a recent survey (67%) confirm that financially conservative practices—including maintaining a strong balance sheet and a lean cost structure, high levels of liquidity, and strong cash and working capital performance—will contribute to competitive advantage.⁴ But maintaining financial discipline is challenging work.

For example, in a series of studies on cash and working capital management throughout the downturn, CFO Research documented the tension between the need to extend credit and relax payment terms to close sales, and the pressure to apply stricter credit standards and terms in order to promote the swift and reliable conversion of receivables to cash. Striking the right balance between these interests at the enterprise level cannot be carried out through a single policy decision. In practice, decision makers are being called on to balance those interests effectively and reliably over time—and across many transactions. Finance teams are shouldering much of the burden of establishing and enforcing that discipline, alongside their colleagues in sales, production, and procurement.

» Expanding the scope of information in search of secure growth paths

If finance executives see financial discipline as essential fuel for growth, our research suggests that they see more and better business information as the key to achieving *profitable* growth. In a recent survey, we asked finance executives which approach to sourcing business information their companies were most likely to take in order to improve their profitability: *expanding* the scope of information to produce a more robust basis for decision making, or *narrowing* the scope of information to focus on only the highest-priority items.

1. *Strategies for Better Business Insight* (CFO Research Services, Nov. 2011).

2. *Ibid.*

3. *Ibid.*

4. *Winning Strategies in the Emerging Recovery* (CFO Research Services, March 2011).



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—PETER DRUCKER

A majority of respondents (55%) reported that they plan to expand the scope of information at their companies to include, for example, more—and more-detailed—data from a wider field of business constituents—to learn directly from the factory floor, from the sales floor, and along supply chains and distribution lines.⁵

What do companies hope to learn by expanding the scope of the information they access? In recent months, customers, in particular, are emerging as a key business dimension that finance executives are eager to explore. Forty-five percent of respondents to a recent survey told us that doing a better job of analyzing their customer bases would *greatly* improve their ability to manipulate profit drivers (that is, price, variable and fixed costs, and sales volume).

While finance executives are interested in mining information about the behavior of their current customer bases in order to manage for profitability, no amount of internal data—recording transactions with current customers—can tell them much about the customers they haven’t yet acquired. But our research suggests that this kind of information, which by definition resides outside of companies’ immediate internal control, can be hard to come by: 40% of respondents to a recent survey tell us that they lack reliable access to useful external information. This means that many finance executives are eager for more information about the business environment that lies outside their companies’ four walls—more information about their competitors, and more information about their markets. As companies look for more-robust revenue streams in increasingly unfamiliar territory in the coming months, information about potential customers as potential sources of growth (and potential sources of risk) is likely to become even more valuable.

» “Information literacy” as a crucial management competency

In 1992, the great management thinker Peter Drucker published “Be Data Literate: Know What to Know” in the *Wall Street Journal*. In that article, Drucker

draws a distinction between *data* and *information*. “A ‘database,’” he writes, “no matter how copious, is not information. It is information’s ore. For raw material to become information, it must be organized for a task, directed toward specific performance, applied to a decision.”⁶ Since “Be Data Literate” was published, data storage and processing power have become exponentially less expensive and more available—but many companies are still struggling to convert their massive streams of bits and bytes into useful insight. As technological limitations become less and less of a constraint, the effective use of technology will become less and less of an IT arms race: competitive value will flow increasingly from the ability to convert data to information. Thinking broadly about information needs and information sources—and bringing pieces of information together in novel ways to yield new insight—will be rewarded.

The benefit of learning to ask, as Drucker puts it, “What information do we need? When do I need it? In what form? And where do we get it?” is access to the forward-looking, expansively-sourced, finely tailored pieces of information that underpin truly profitable decision making. Our research shows that—at least when it comes to the information they need—finance executives are intensely interested in gaining access to the external information that dwells outside their companies’ boundaries. Peter Drucker would agree. “[W]hat a business needs most for its decisions—especially the strategic ones,” Drucker writes, “are data about what goes on outside of it. It is only outside the business where there are results, opportunities, and threats.” He continues, “few businesses have tried to get information about their noncustomers. ... Yet no matter how powerful a customer is in its industry or market, noncustomers almost always outnumber customers.” In the coming months, our research suggests that finance executives will be eager to remedy that particular longstanding information deficit.

—*Celina Rogers, Editorial Director,*
CFO Research Services

5. *Strategies for Better Business Insight* (CFO Research, Nov. 2011).

6. “Be Data Literate: Know What to Know” (Peter Drucker, *Wall Street Journal*, Dec. 1, 1992)



Unlocking the Value in Business Information Sponsor's Perspective

EVERY ORGANIZATION THAT HAS A RELATIONSHIP WITH an end customer—whether it's a consumer or a business—is in the credit space. Any business that is extending payment terms is managing risk. As recent studies from CFO Research Services demonstrate, senior finance executives are seeking a blend of external and internal information to gain the best possible perspective on their risk: a forward looking (rather than merely historical) perspective that takes potential upside opportunities into account (rather than focusing exclusively on possible downsides).

CFO Research has shown that, despite years of heavy investment in process improvement and sophisticated reporting systems, executives are still on the hunt for a deeper understanding of their customer base. At Experian, we know that gaining control of vast stores of internal transaction data can lead to insight. But that effort, as CFO Research editors point out, leaves out a critical category of information for companies committed to achieving secure and profitable growth: information on *potential* customers. That information will always reside outside a company's immediate control. Therefore, to achieve the 360-degree visibility they want, companies need to combine their internal transaction and payment-history information with *external* data.

When it comes to taking full advantage of both internal and external data sources, the benefits don't end at risk mitigation. Effectively combining both categories of data yields something greater than the sum of its parts: information that enables senior executives to find the ideal customer, identify opportunities within their customer base, drive profitability in their business, and create incredible value for their organization.

Experian's business database provides comprehensive, third-party-verified information on 99.9 percent of all U.S. companies, with the industry's most extensive data on the broad spectrum of small and midsize businesses. By leveraging state-of-the-art technology and superior data-compilation techniques that cover the commercial as well as the consumer space, Experian Business Information Services is able to provide market-leading tools including BusinessIQ, an advanced, Web-based portal that delivers comprehensive business credit tools that help companies identify potential risks and opportunities and, ultimately, to concentrate their efforts on highly profitable relationships.

Making the right decision at the right time requires data freshness, data availability, and software that capitalizes on the science behind good data and good analytics. By equipping companies with the best and broadest access to the most accurate and most up-to-date

information, Experian's Business Information Services can allow senior executives to extend their business acumen across the enterprise, converting their *good* judgment into *consistently profitable* judgment.

To this end, many organizations have implemented Experian's data and analytics directly within their client management or point-of-sale service systems, so that their distributed sales staff can extend credit terms that are in line with corporate policy, without having to train each individual sales representative on credit- or risk-management practices. They simply use the software and features that they would use in any case as they interact with their prospects, allowing policy to be extended seamlessly and reliably across organizations of any size.

By partnering with Experian's Business Information Services, even small and midsize companies have access to rich data and analytics—leveling the playing field with their larger competitors. Even the smallest businesses are using this information to evaluate both potential and existing customers, with an eye toward establishing high-performing customer relationships that yield prompt and reliable payments as well as profitable sales. Today, small and midsize businesses are increasingly coming to recognize the value of a longer-term, portfolio-based outlook on business relationships and prospects, and they're reaching for the external information that can translate that shift in mind-set to sustained profitability.

As they strive to expand their customer base and drive their business to grow profitably, senior executives are working to make sure that each new relationship is a *profitable* relationship, not just *another* relationship. Experian's suite of data, analytics, and software solutions can allow the business to go beyond its current position and drive additional customer value—and additional organizational value—by finding those customers that really can be profitable relationships. Experian's wealth of data, coupled with its leading analytics and platforms, is revolutionizing market segmentation, allowing senior executives to evaluate their prospects and portfolio of clients, identify risk areas, optimize collections processes, and search for avenues to profitable growth.

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