

Trade Tape Reporting: Is It Worth Overcoming the Obstacles?

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Editor's Note: *In last September's edition of Credit Today, the Monthly Survey asked readers whether or not you submitted trade tapes to credit reporting agencies or industry groups and for your reasons why. A smaller percentage of readers than we expected (roughly one third) reported sending trade tapes, and the issue sparked an interesting debate about the merits and risks of sending trade tapes. This article from Experian, a leading provider of trade payment information, is a response to the concerns of Credit Today readers.*

Some of the concerns expressed by Credit Today readers included confidentiality, accuracy, disputes, and technical issues - all valid concerns - are discussed here.

Why Bother?

If more creditor grantors would report their commercial accounts receivable to the credit bureaus, everyone would reap the rewards - your customers, your credit managers, your collection managers, your finance managers - even your sales force. Reporting trade tape data is simply modernizing what you do already - exchanging information to reduce risk.

The idea behind automated trade tape reporting is to share your information in a way that makes you comfortable, while maintaining the highest degree of accuracy possible. Almost every business that reports information has one or more of these concerns at one time or another - dealing effectively with all these issues is the core business of credit reporting agencies. Since the credit bureaus first began automating their systems in the early seventies, they have evolved to accommodate just about every scenario. Today, the demands for highly detailed, accurate and current information, delivered at lightening speeds, have driven firms such as Experian, D&B and NACM to be highly creative and much more aggressive in providing not only the right incentives, but a "programmer friendly" environment.

With so much legislation surrounding the use of consumer credit information, the ability to access enough 'business' data is becoming a necessity. Manual reference checking in the consumer-lending environment today is practically unheard of. Why? Virtually every legitimate credit grantor reports to at least one bureau, if not to all three. Even if not required by law, consumer creditors quickly get used to the idea of reporting after fielding hundreds of calls from irritated good-paying customers who can't get credit elsewhere due to a lack of credit! Think about it: If you personally have good credit, don't you want the world to know about it? Or at least your next creditor? Wouldn't you be a bit upset if you couldn't get the 15 percent discount that the nice salesperson at Nordstrom's told you about just for opening a new charge account with them right there at the register? You'd be paying full price for that pile of new clothes if your best and biggest "suppliers" were not sharing your payment experience every month to the bureaus. Is your company contributing to this frustrating environment or to the credit bureaus?

Confidentiality Issues

One of the major causes of concerns was the fear that your customer base will fall into the wrong hands. Protection of your customer information extends deep into the processes and is the cornerstone of these bureaus' existence. A few of the many procedures in place to keep your information only where it belongs include (1) identifying your trade experience by a business category instead of your name, (2) high security electronic data transmissions, (3) numeric internal identification, (4) password protection and (5) separation from compiled marketing files.

As far as using your trade tapes as a source for marketing lists, no bureau in its right mind would do it as it could potentially dry up their "inventory" and eventually put them out of business. Most of the major firms that provide business-to-business marketing lists compile them from hundreds of other sources such as yellow and white page listings, purchased demographics, telephone surveys and public records. The only use of the credit file is to provide risk assessment on a list that's already been selected from the marketing database or another outside marketing file. Allowing your data to be mined by your competitors would not only be unethical, but would seriously impact the continued success of these bureaus.

Do you fear that your competitors will figure out your largest and best paying accounts and steal them away? I hate to break the news to you, but if your competitors have half-decent sales people, they already know everything about your best customers, including your arrangement. Thank your customers for that. It's amazing how much your "best" customers will reveal to your competitors when they are trying to get a better deal for themselves. Luckily, simply knowing the quantity, the volume, the payment experience, or even your price, does not mean that your competitors will be able to steal your clients. If that were the case, they would have put you out of business long ago. The credit bureaus don't want to make it any easier than it already is for those sales reps, so they never disclose your identity on credit reports or to your customers, unless you specifically authorize it.

Accuracy Concerns

Another concern expressed by those not participating in trade tape programs was that of the accuracy of the data. Clearly, no one wants to have potentially erroneous information reported. Don't worry. The bureaus don't want you to either. If you know your

receivables have some serious issues it's certainly better to hold off reporting for now.

But if you seem to be plagued by some fishy disputes, unreasonable deductions, too many un-returned phone calls or "unknown issue" accounts there is no better (or cheaper) way to clean up your A/R and bring all the legitimate disputes to the surface than to announce to your clients, very politely, that you will soon be reporting to a national credit bureau, and that you hope to be able to report them in a positive light. You'll typically get three responses: "Wait - don't report me as past due... the reason we have not paid yet is...", "Wait - don't report me past due! I am sending my payment today!" - or simply no response at all, which usually means they have no intention of paying you, so go ahead and report them.

You may be amazed at the positive response from many of your clients. They have the desire to show their company in the best possible light and will help you to accurately portray their company. Their assistance will increase the accuracy of your information and insure that accurate information is reported to bureaus. Is this just another crazy idea from those people at the bureaus who just want your data? Not at all. This is a real life tactic that has been created and successfully utilized by credit managers across the country for years. Your bureau representatives should be able to provide several examples of actual letters used, along with some other creative approaches. It costs nothing, and has continually proven to be effective.

Technical Concerns

Maybe you have finally come to the conclusion that the "pros" of trade tape reporting outweigh the "cons" and it's now become one of your top priorities. Unfortunately, it's probably not the priority of your technical team. This has been the most common obstacle over the years, so the bureaus have been working diligently behind the scenes to keep your IT department stress-free by getting them off the hook for writing data extract programs.

Many of today's accounts receivable software packages already come equipped with the credit reporting module built right in: JD Edwards, Infinium, Lawson, Woodware, ADP, Distinctive Solutions, Ontario Systems, Columbia Ultimate Business Systems, Great Plains, Peachtree, SAP, Oracle, RealWorld and MAS 90 are just a few. Many others have simple extract instructions to pull your summary aging data out in a fixed length file, which you can e-mail or FTP - with the bureaus doing all the work. Typically, a team of experienced programmers partners with you to accommodate virtually every situation or special customer.

Making the standard data extract formats more readily available in A/R software packages is the real long-term solution for all parties. What is considered "standard" these days? Typically, commercial credit bureaus will readily accept NACM, Metro, Metro 2 and Experian Business. While the bureaus are continually trying to work with these A/R software companies, nothing makes those folks move faster than when enough of their "users" initiate the requests. If your accounts receivable software provider doesn't offer this basic functionality, ask for it!

OK, you've made it past the decision to do it, you've notified your customers, you've overcome the technical hurdles, but now someone suggests you talk to your attorneys. The typical concern: "Is this legal?" The answer: "Absolutely." What's illegal is knowingly reporting false information. Everyone will occasionally encounter special circumstances that may require removal from a credit report: disputes; data entry errors; transposition; etc. This hardly constitutes a malicious intent to harm your customer by purposely reporting false data. Disputes can be reported as such, or simply not reported or displayed. It's your call. With any credit bureau, removing data can be done easily by sending an explanation on company letterhead.

The answer to the trade tape debate is simple. It makes good business sense to report commercial and consumer information to at least one of the credit bureaus, if not all. Reporting ultimately allows you - and other credit grantors - to reduce risk and make more profitable credit-granting decisions. It's a continually proven fact that businesses, as well as individuals, are more likely to pay off debts to those creditors that report their credit performance. By sharing your customers' trade payment experience, you help to ensure the growth of your company and that of the business community at large. By encouraging your industry peers to also do their part in becoming a proactive member of the credit community, everyone benefits.

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One company, when it began submitting its payment information to a major credit-reporting agency, sent the following letter to all customers:

"Dear Customer -

We are proud to announce that we now contribute our accounts receivable information to a major credit reporting agency's National database. It is our way of thanking our customers who pay their bills on time. In this fast-paced economy, we believe it is critical to your success and growth to get products and services immediately. Our efforts to help you obtain a meaningful credit history help ensure the success and growth of your firm and ours. We appreciate your business and continue to strive for ways in which to help you grow!"

The company, a durable medical products manufacturer, reported that it mailed out 4,500 of these letters. Their DSO, at 42 days, was at the national average for their industry. Within 45 days their DSO dropped to 32 days and stayed there. They said that they were able to discontinue their line of credit at their bank, pay their own bills in a timely manner, and enjoy some wonderful capital growth.