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TECHNOLOGY MITIGATES RISK FOR THE RETAIL INDUSTRY

INDUSTRY VIEW

By implementing technology solutions that can leverage market information and deliver external intelligence, retail organizations can increase their tolerance to risk.

The right focus

It is well known that the banking and financial services industries are facing huge challenges with digital transformation, but outdated legacy IT systems are also adding to the woes of the retail industry.

You don't have to search hard to see the correlation between the sharp trajectory in eCommerce expansion and the drop in high street sales. According to a survey of medium-sized retail businesses carried out by accountancy firm, BDO, high street sales fell for the fifth month in a row in June. The company's data showed that it was the first time in 12 years that in-store growth had not topped 1% in a single month for the first half of a calendar year.

But while much of the blame for the demise of high street retail is being laid at the eCommerce door, combined with the increasingly high cost of business rates, it is also a fact that many retailers have not invested enough in their core IT systems. The focus has been on upgrading technology as part of an omnichannel strategy, connecting physical and online stores so customers receive a 'blended' shopping experience. What is lagging behind is investment in other technologies that improve operating efficiencies, lower costs and protect retailers against the vagaries of the market.

One of biggest issues for stakeholders in the retail landscape, which include banks, receivables finance, credit insurers and suppliers is that they are still working with systems that don't talk to each other. This miscommunication means that their exposure to risk across their entire portfolio can easily be miscalculated or misunderstood. How can they be expected to make crucial decisions about their level of exposure on a store or a group of stores in one part of the country if they don't have the full financial picture across the customer's entire network of stores?

Stakeholders need to be able to assess the financial risks they face in real-time, so they can take action immediately. They can start by implementing technology that gives them detailed analysis in order to gain informed risk assessments.

Leveraging dedicated intelligence platforms will transform processes. It could take time to implement but it will have a considerable impact, particularly where the efficiency of systems based on multiple mixed ledgers has long been questioned and found wanting.

The advantages of combining all the intelligence data that a stakeholder has on its retail creditors and debtors and the analysis that can be drawn from the data means that CFOs and credit managers have actionable insight. It might require a considerable change to IT systems but this challenge has to be weighed up against the increase in financial risk of using complex and in some cases discordant systems.

The problems that are facing stakeholders are considerable, but starting with small, manageable data and analytics projects that reveal easy ways to address financial issues, will reap rapid dividends. It is actually to the benefit of all operational employees, not just finance or credit managers to use intelligence as a means to make good financial decisions. The net result is that projects based on accurate intelligence are seen to have real value and those invested in the process gain board-level endorsement to extend them more broadly.

> *Get actionable insight to make good financial decisions.*

A 'smart-risk' culture

The woes of the high street have a knock-on effect. Suppliers to the sector are practiced at looking out for the warning signs and in recent years have implemented a wide range of credit risk assessments and procedures to guard against payment defaults and bad debts.

Cash flow problems and profit warnings leave suppliers feeling unsure about entering into trade credit arrangements and they are likely to want more reassurance as a result. Suppliers have to assess the risks of working with retailers and balance these against the opportunities.

They can start by implementing a culture of 'smart risk' at the heart of their financial processes. This is about using dedicated IT solutions to take control of outstanding debts, get organisational buy-in to reduce their risk of financial exposure, being more selective about their retail customers and, where relevant, controlling credit activities.

These tips might help:

*Manage debts. Monies owed, on average, amount to one third of the balance sheet. This is costly, in terms of the time spent chasing money and the effort to secure short-term financing. Look at adopting mechanisms that automate the credit management and control process with retail customers.

*Involve all levels of the organization. The only way to effectively implement processes for identifying, analyzing and managing exposure to risk is by involving all staff connected to the process from credit controllers through to the sales team (in other words, the order-to-cash cycle). The information they can provide on customers will be essential.

*Companies can be more selective about the retail customers they work with. This is where intelligence comes. Software that allows them to carry out detailed analysis will give them details on how long a retailer has been established, whether they are part of a bigger retail operation and the markets they operate in. Credit checks can be carried out and this will reinforce and support robust financial negotiations. Guidelines can be created that enable the supplier to decide between the benefits of a commercial relationship and the risks involved.

*By using technology to monitor retail customers, suppliers can track their financial health and implement a faster response to negative information to reduce exposure to risk. Equally, if the intelligence finds that their financial situation and credit rating has improved, credit terms can be relaxed.

*If appropriate, suppliers can consider transferring risk to a credit insurer or receivable financers. By purchasing a credit insurance policy, they will have access to data on the retail clients that will outline the potential risk exposure enabling informed business decisions to be easier to make. The recovery of past-due claims is in the hands of the credit insurer, and the supplier receives compensation regardless of whether the debt is finally paid to the insurer or not. If a supplier is already using technology to provide them with intelligence, this will also help with certitude of cover.

There's no doubt that the retail environment is changing. This will impact on all those involved but with a 'smart risk' culture and the implementation of technology solutions that can leverage market information and deliver external intelligence, an important degree of financial control can be kept within the organization, increasing its tolerance to risk. It's a balance worth achieving in these uncertain times for retailers, suppliers and any other stakeholder.

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